Aid's impact on Social Protection in low- and middle-income countries
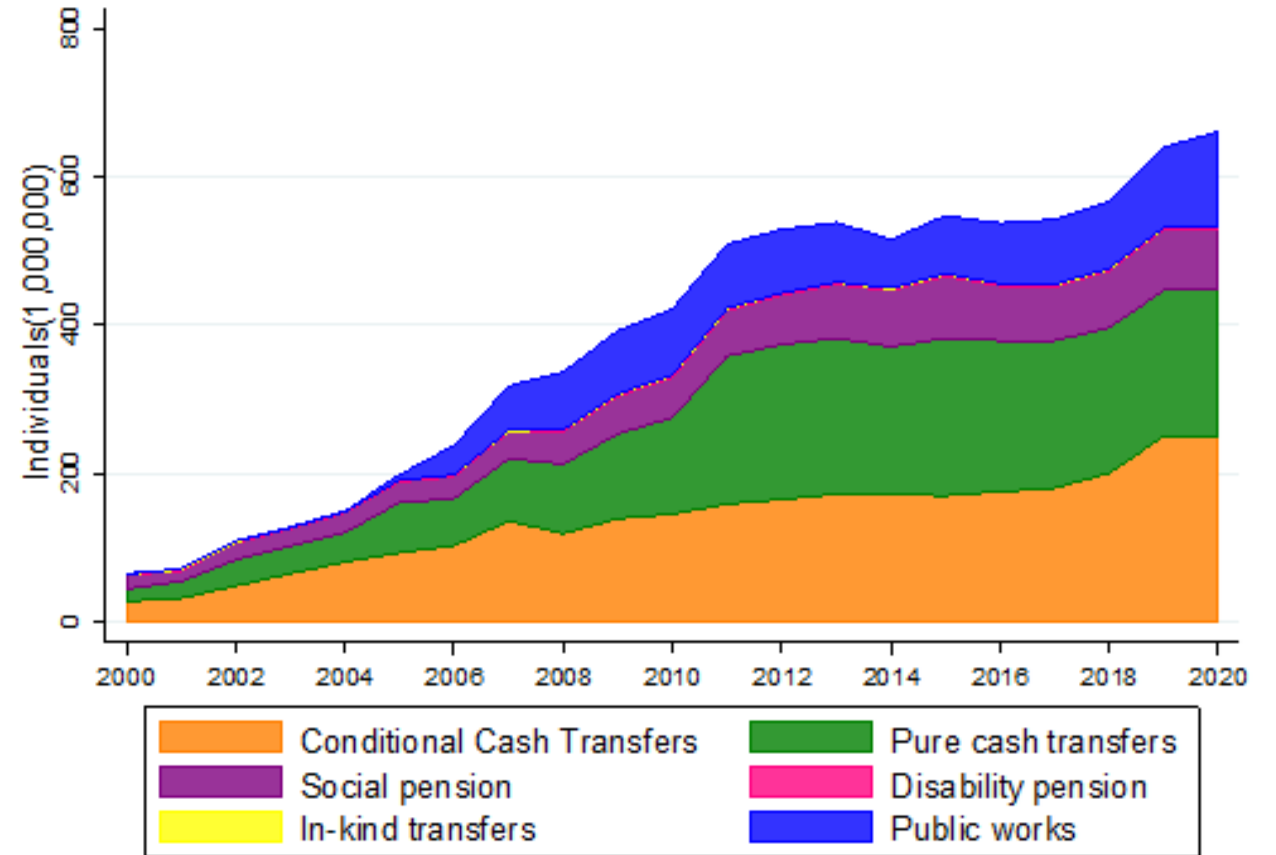
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The Rise of Social Protection in the Global South

Number of beneficiaries (in millions) by type of program

Legend:
- Conditional Cash Transfers
- Pure cash transfers
- Social pension
- Disability pension
- In-kind transfers
- Public works

Source: SAPI database

Marked differences in social protection coverage across world regions and vulnerable populations

Region	Population covered	Children	Mothers and newborns	Persons with severe disabilities	Unemployed	Older persons	Vulnerable groups[1]
Arab States	n.a.	n.a.	n.a.	6.46	9.80	24.15	n.a.
Central and Western Asia	44.38	29.64	40.93	66.43	11.57	52.98	24.38
Eastern Asia	69.12	51.10	57.56	53.82	27.33	90.10	31.11
Eastern Europe	89.41	91.44	96.13	100.00	27.65	95.83	53.70
Latin America and the Caribbean	58.45	50.23	47.94	28.56	21.54	53.99	33.30
Northern Africa	36.88	n.a.	55.60	4.37	n.a.	37.10	n.a.
Northern America	87.97	39.73	100.00	83.62	33.95	100.00	65.00
Northern, Southern and Western Europe	95.34	98.38	99.84	95.43	50.50	89.41	82.17
Oceania	74.32	100.00	n.a.	90.14	42.00	36.75	31.37
South-Eastern Asia	42.50	21.09	18.07	11.82	44.10	41.49	8.87
Southern Asia	25.93	29.44	30.96	14.93	n.a.	31.94	7.58
Sub-Saharan Africa	15.01	13.03	5.39	13.03	4.33	28.55	8.19

Note: The colour scale captures the distribution of coverage, from dark green capturing the highest values to dark red capturing the lowest values. Vulnerable groups include those living in extreme poverty, people living with HIV, orphans and vulnerable children, households headed by older persons, and food-insecure households.
Source: authors' calculations, based on the ILO's WSP database (ILO, 2021).

Paper's contribution

Prior to the recent expansion of social protection, many LICs and MICs witnessed important political and political economy developments that reshaped both state-society relations and interactions with domestic and external actors, institutions, and donors.

We ask:

- Has foreign aid contributed to the development of social protection systems in LICs and MICs? If so, how? Under what conditions does it work?

- What other determinants have contributed to (or hindered) the recent evolution of welfare institutions in the Global South?

Existing Literature

- The literature that examines the contribution of aid to the expansion of social protection in LICs and MICs is scant.

- Econometric studies rely primarily on cross-sectional variation. The main challenge remains the identification of the causal aid–social protection relationship.

- Qualitative studies also face trade-offs between in-depth process tracing and the number of cases studied. Overall, the literature highlights the following:

- Multilaterals and bilaterals seem to have contributed to the expansion of social protection in certain regions—World Bank, DFID, UNICEF, ILO, EU and WFP in SSA—(Cherrier 2016; Ulriksen 2016; Simpson 2018; Ouma 2019; Abdulai 2021) and SEA (Dadap-Cantal et al. 2021) and at the global level (Dodlova 2020).

- The hypothesized channels are either direct through funding and conditionalities, or indirect, through persuasion, promotion of resource mobilization, and capacity building.

Existing Literature

- Different donors have distinct preferences for specific types and designs of SP policies, e.g. the World Bank's inclination for CCTs and conditionalities (Simpson 2018; Dodlova 2020).

- International agencies tend to resort to successful models from other latitudes to promote policy models (Béland et al. 2018; Saguin and Howlett 2019); the consequences of conflicting preferences among donors are not fully understood.

- Donors appear to be more persuasive when they frame their policy preferences according to the interests of national elites (Abdulai 2021; Ulriksen 2016; Wanyama and McCord 2017).

Existing Literature

Niño-Zarazúa and Tiburcio-Manon (forthcoming) also identify other determinants that are highlighted in the literature as underpinning the expansion of social protection:

  i) historical legacies and path dependence,

  ii) the role of institutions, in particular democratic institutions, political settlements, and the judiciary system,

  iii) economic and demographic factors,

  iv) the role of ideas,

  v) covariate shocks.

We rely on this evidence to control for these factors in the econometric analysis.

Measuring Aid to Social Protection

Activities under the 'narrow' definition (CRS code 16010)

1. Social protection or social security strategies
2. Legislation and administration
3. Institution capacity building and advice
4. Social security and other social schemes
5. Support programmes
6. Cash benefits, pensions, and special programmes for older persons, orphans, persons with disabilities, children, mothers with newborns, those living in poverty, those without jobs, and other vulnerable groups
7. Social dimensions of structural adjustment

Activities under the 'broad' definition

Activities 1–7, plus

8. Employment creation (CRS code 16020)
9. Special programmes to mitigate the effect of HIV/AIDS (CRS code 16064)
10. Labour rights (CRS code 16070)
11. Social dialogue (CRS code 16080)

Source: authors' compilation based on the OECD-DAC CRS code classification.

Aid to social protection by type of donor and aid definition
## (in US$ million at constant prices)

| Source of aid	Aid definition	1995–99	2000–04	2005–09	2010–14	2015–19
Global aid	Total developmental aid	106,482	127,722	195,470	230,048	304,889
	Broad (%)	3.81	3.64	2.82	2.47	2.16
	Narrow (%)	3.42	3.05	2.26	1.92	1.65
Top five donors	Total developmental aid	35,988	47,764	74,382	69,790	89,605
	Broad (%)	0.85	0.79	1.48	1.53	0.94
	Narrow (%)	0.50	0.36	1.16	1.27	0.61
Multilateral aid	Total developmental aid	47,547	44,319	63,835	93,804	133,173
	Broad (%)	7.14	8.54	5.66	3.95	3.60
	Narrow (%)	6.82	7.66	4.83	3.13	2.95
Bilateral aid	Total developmental aid	58,934	83,402	131,635	136,244	171,686
	Broad (%)	1.12	1.04	1.44	1.45	1.05
	Narrow (%)	0.69	0.60	1.01	1.08	0.64
OECD-DAC countries aid	Total developmental aid	52,803	71,643	111,703	112,533	138,959
	Broad (%)	1.09	1.00	1.37	1.29	0.86
	Narrow (%)	0.72	0.60	0.97	0.97	0.53

Note: Global aid is measured as the sum of total aid from OECD-DAC countries, multilateral donors, and non-DAC countries. Multilateral aid is measured as the sum of aid from multilateral organizations such as the World Bank, UNICEF, ILO, and FAO. Bilateral aid is measured as the sum of aid from DAC and non-DAC members, whereas DAC countries' aid measures exclusively aid flow from DAC countries. The top five donor countries for the *entire* period are the United States, United Kingdom, Japan, Netherlands, and Germany. From 2000, the top five donors in decreasing order are the United States, United Kingdom, Japan, Germany, and France

Aid to social protection by type of donors
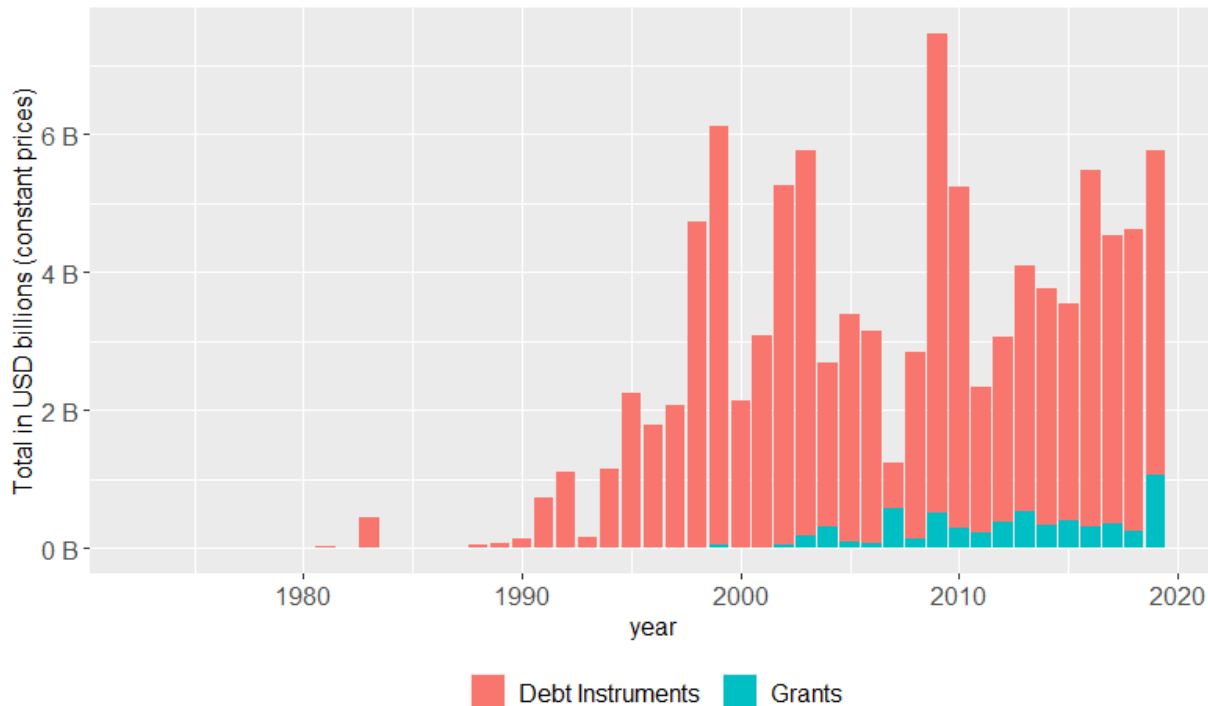

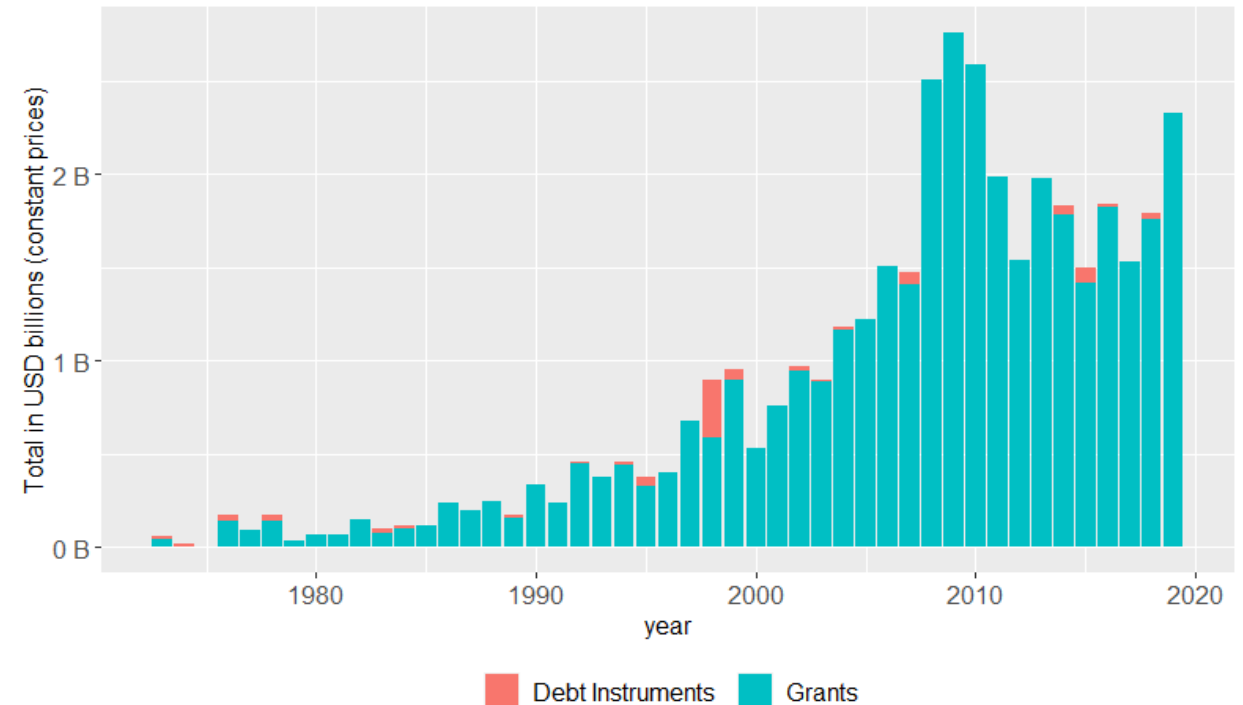**Global Aid to Social Protection**
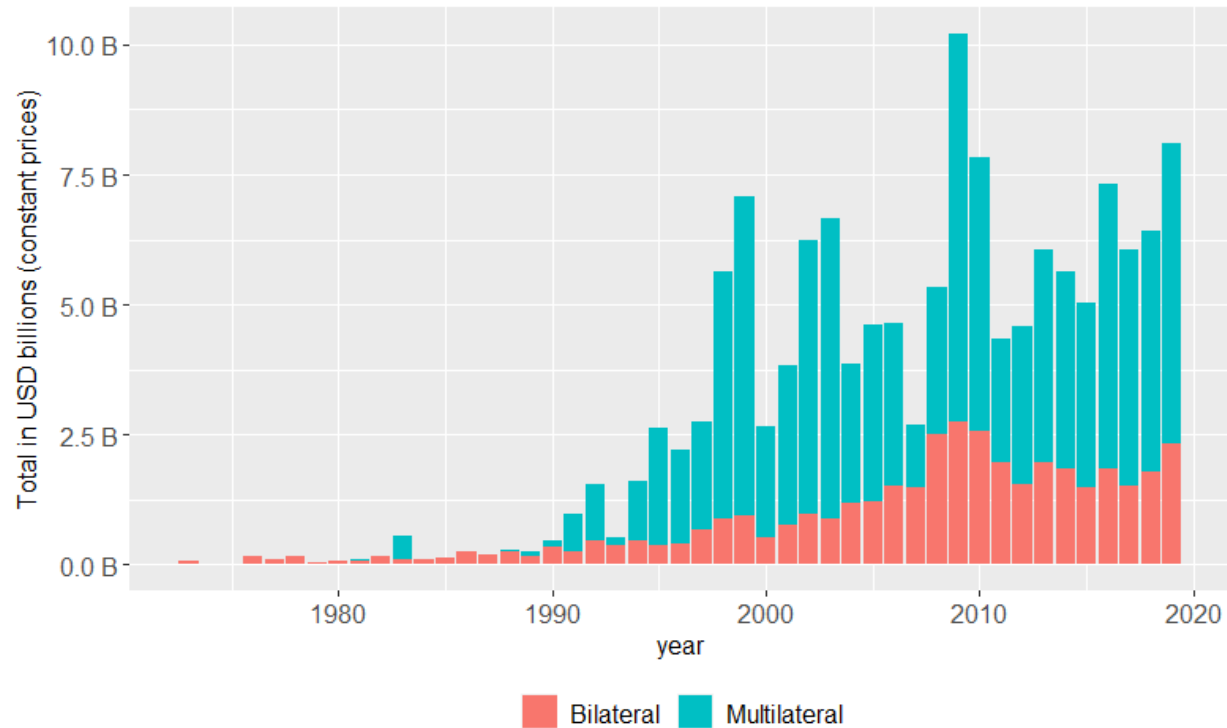
Global Aid to all Sectors
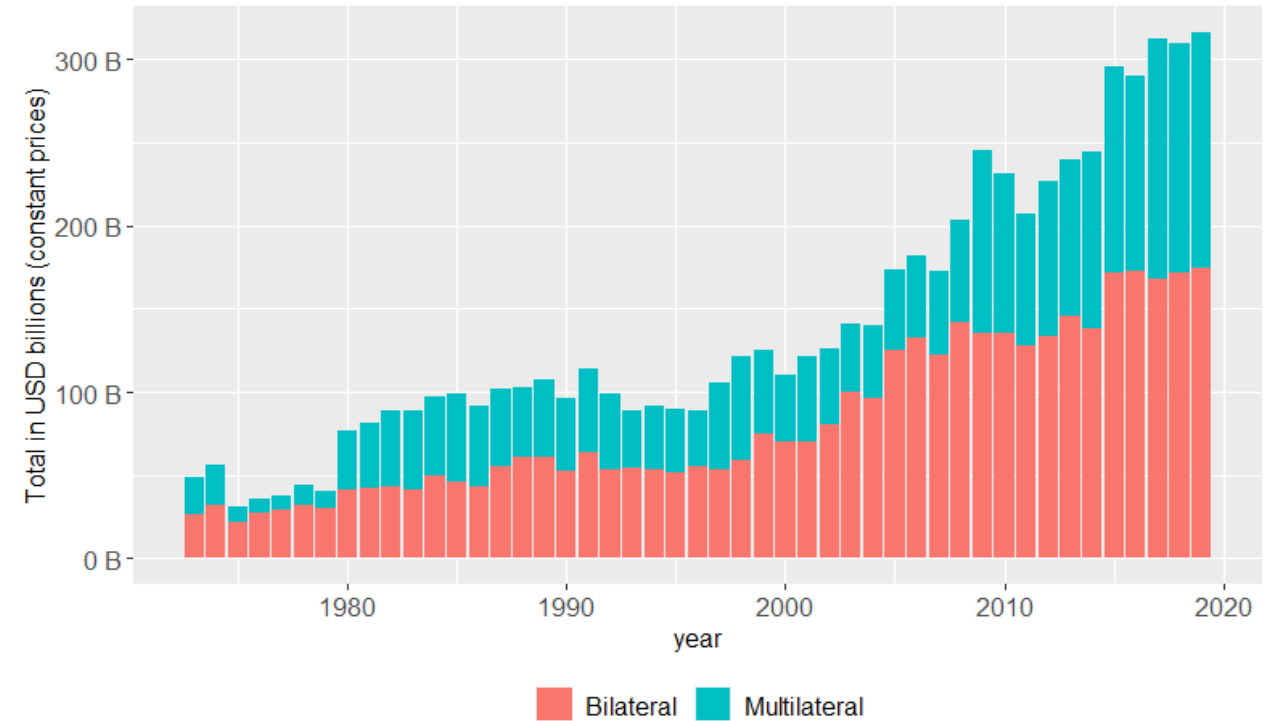
Source: authors' calculations based on OECD-DAC CRS

Aid to social protection by type of finance

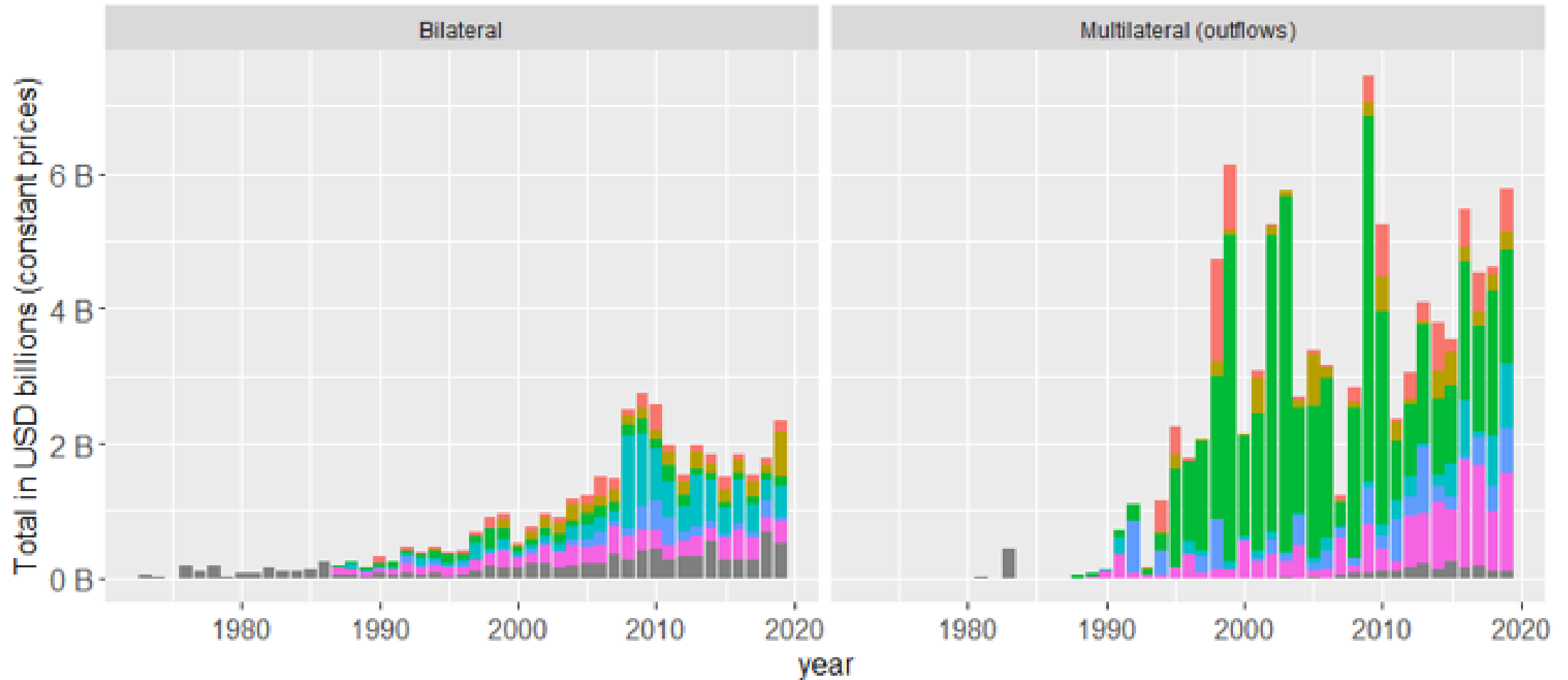**Global multilateral aid to Social Protection**

Global bilateral aid to Social Protection

Source: authors' calculations based on OECD-DAC CRS

Global aid to SP by type of donor across world regions

Source: authors' calculations based on OECD-DAC CRS

Methodology

Methodology

Since we suspect aid allocations to be endogenous and inversely correlated with the scale of social protection systems, we implement a Tobit model with endogenous regressors (IV-Tobit):

$$C^*_{it} = \beta X_{it-1} + \delta A_{it-1} + \lambda_t + u_{it}, \qquad (1)$$

where

$$C_{it} = max(0, C^*_{it}), \ i = 1, \dots N, \text{t= } 1, \dots, T,$$

and

$$A_{it-1} = \beta X_{it-1} + \gamma z_{it-1} + \lambda_t + v_{it}. \qquad (2)$$

Methodology

Our second empirical approach takes advantage of the scale of social protection coverage relative to countries' populations and adopts a fractional response model with endogenous regressors (IV-FRM):

$$E(C_i | \mathbf{z}_i, A_i, a_i) = \Phi(X_i \beta_i + a_i) \qquad (3)$$

$$A_i = \mathbf{z}_i \gamma_i + v_i, \qquad (4)$$

where

X_i is a nonlinear function of $\mathbf{z}_i$ and A_i, and a_i is an omitted variable that is correlated with donors' decisions to support social protection systems (A_i), but uncorrelated with the exogenous vector of covariates $\mathbf{z}_i$ and C_i.

The Instruments

We follow Niño-Zarazúa et al (2022) and include two different combinations of instruments.

1. The first combination uses (i) **inflation in donor country weighted by the trade intensity between donor and recipient countries**, and (ii) **the share of women in the parliament of a donor country weighted by a rainfall shock in the recipient country**.

2. The second combination uses (i) **inflation in donor country weighted by the trade intensity between donor and recipient countries but combines it with (ii) the left-wing government parties' seat share as % of all governing parties' seat share in donor countries weighted by a rainfall shock in the recipient country.**

Instruments rationale

1. Donors are more likely to give aid when their domestic economies are in an upswing, which is linked to higher inflation. This link would be stronger, the deeper a trade relationship is between donors and recipient countries.

2. Women in parliament, and left-wing government parties are more likely to give aid than their counterparts. Both instruments are weighted by rainfall shocks in recipient countries to proxy for an income shock that would trigger a need for financial assistance.

Data on donor inflation comes from the World Bank's World Development Indicators, data on parliamentary or government composition are from the Comparative Politics Dataset (CPDS), dyadic trade data come from Correlates of War Project, while annual rainfall data come from the Terrestrial Precipitation, containing Gridded Monthly Time Series over 1900-2020 period.
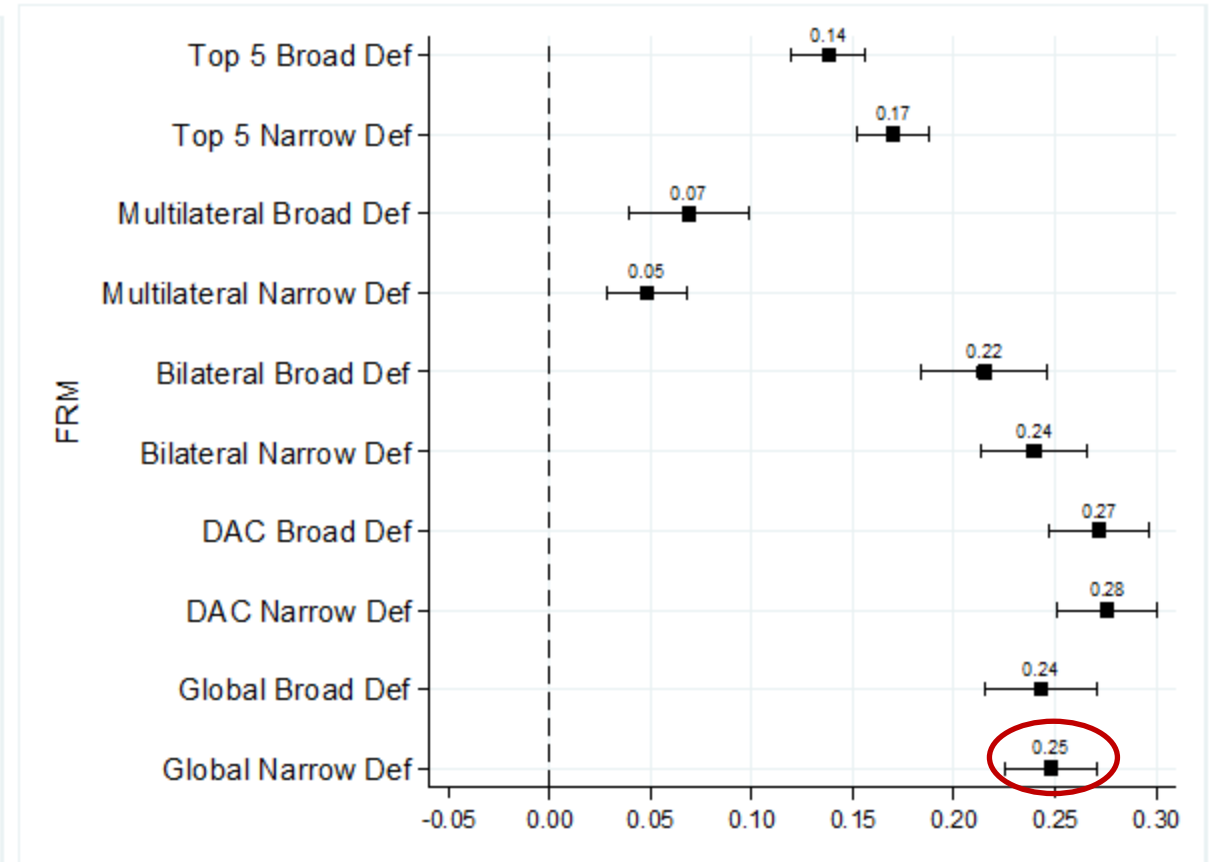
Results

Effects of social protection aid on coverage by type of donor
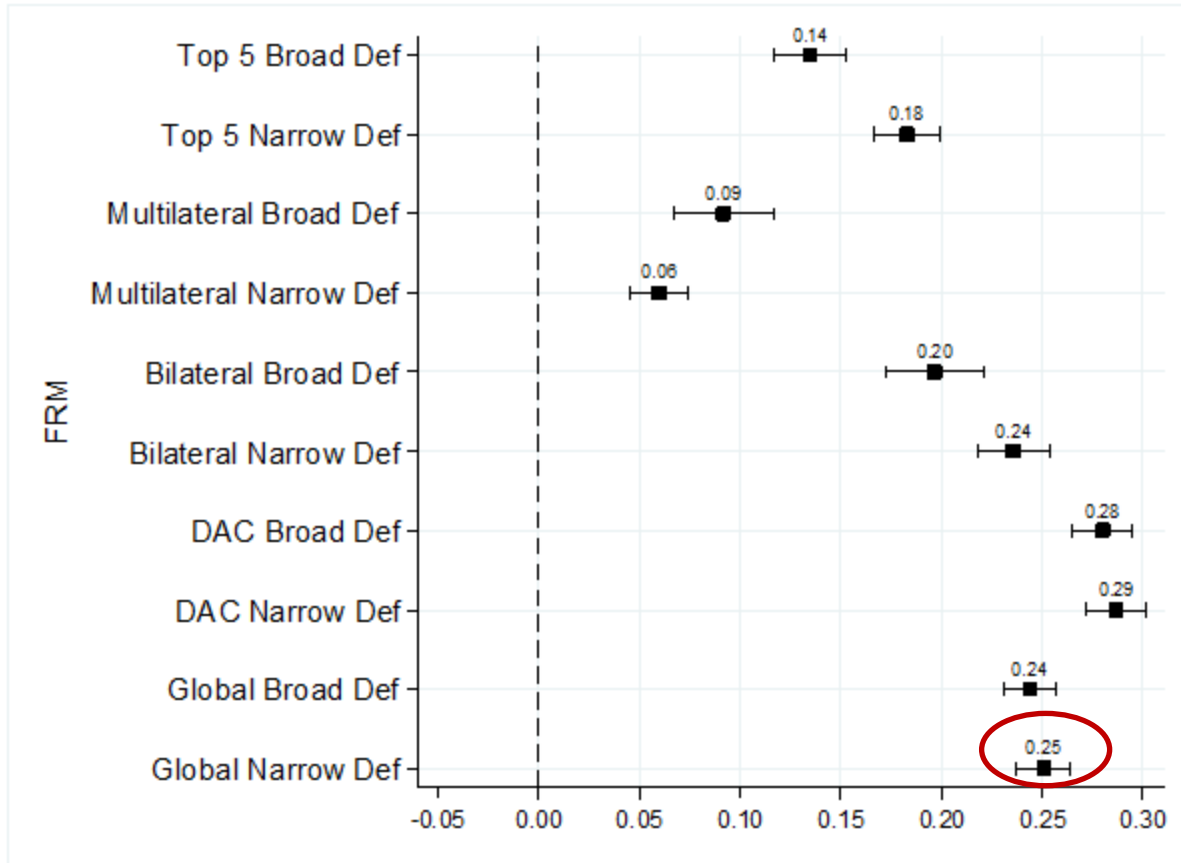
The rope-ladder plot shows markers for point estimates and spikes for confidence intervals at 90% levels. Spikes crossing the reference line at zero show coefficients that are significantly different from zero.
Note: IV-FRM estimates with log functional form. The log of aid is lagged by one period.

Regional heterogeneity

In SSA, the effect of aid is significant for global aid and multilaterals, which is not surprising given the sphere of influence of multilaterals.

Results from LAC (0.12%, p<0.1) and APAC (0.24%, p<0.1) support evidence of a positive aid effect.
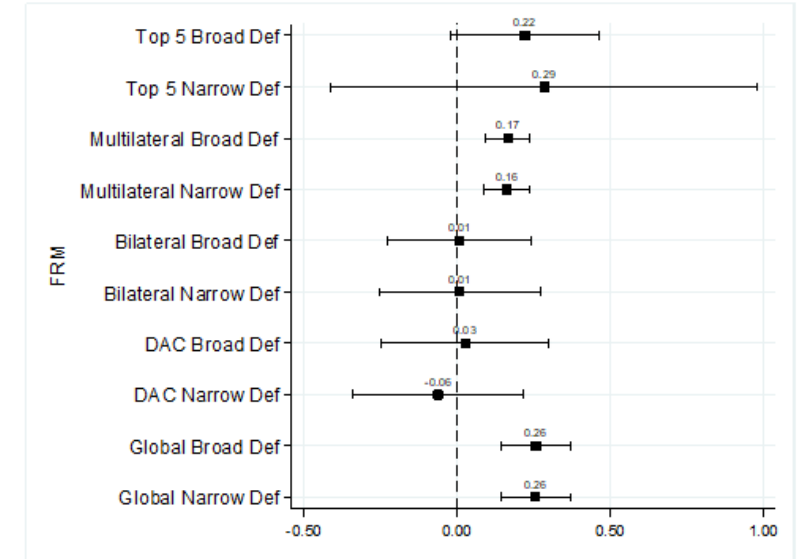
The insignificant effect of bilateral aid in SSA is associated with:

- Lagged aid effects reflecting shorter bilateral engagement in SSA
- A reliance on project aid and grants, which can reduce domestic resource mobilisation and crowd out public spending on SP.
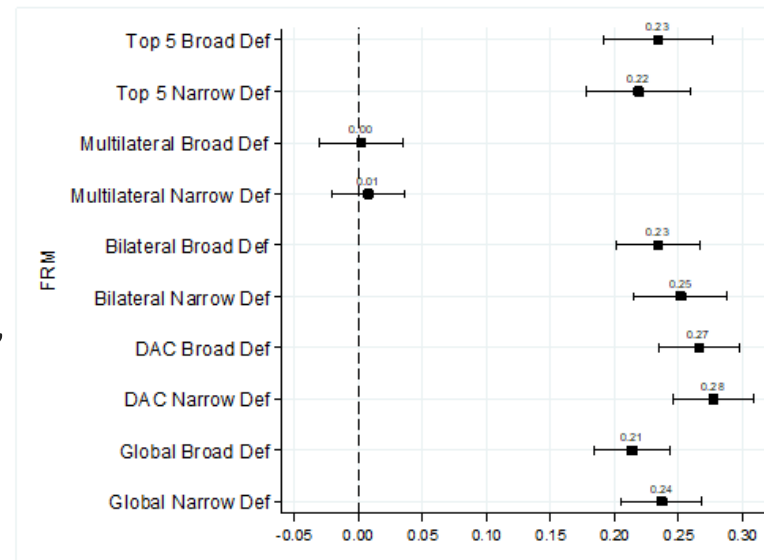

Latin America
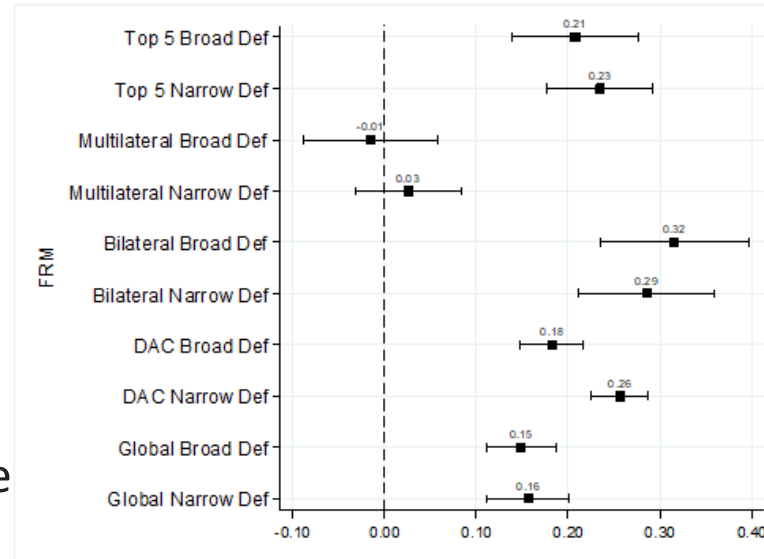
Sub-Saharan Africa

Asia-Pacific

The rope-ladder plot shows markers for point estimates and spikes for confidence intervals at 90% levels. Spikes crossing the reference line at zero show coefficients that are significantly different from zero.
Note: IV-FRM estimates with log functional form. The log of aid is lagged by one period.

How can we interpret the results?

Top five recipients of social protection aid	Average aid (constant US$ millions)	Average coverage (millions)	Coverage as % of population	Grants as % of total aid	Public social protection expenditure (% of GDP)	Contribution of aid to social protection expenditure (%)	Public social protection expenditure (constant US$ millions)	Effect of 1% increase in aid on social protection coverage
Sub-Saharan Africa								
Ethiopia	253.04	8.40	7.88	16.8	3.17	16.71	1,260	260,155
Nigeria	190.18	0.11	0.01	4.2	0.71	5.78	3,154	467,335
Malawi	82.72	0.91	5.11	71.2	0.99	37.82	63	43,203
Kenya	64.88	1.28	2.60	13.7	2.29	4.63	1,210	123,526
Uganda	64.13	0.67	1.61	68.1	2.19	2.89	707	98,622
Latin America and Caribbean								
Argentina	537.52	5.50	12.49	0.3	17.50	0.85	63,043	53,484
Colombia	192.84	7.48	15.36	10.7	14.07	0.42	41,282	58,926
Mexico	185.99	43.68	34.88	1.1	11.95	0.13	140,059	151,104
Panama	129.58	0.48	11.74	1.3	9.79	2.42	5,296	4,921
Ecuador	101.77	1.66	6.06	4.0	7.77	1.27	7,713	20,103
Asia and Pacific								
Bangladesh	190.23	22.31	13.91	24	1.65	4.49	3,219	370,327
Pakistan	135.25	35.36	16.88	5.6	0.17	27.94	457	472,642
Philippines	122.89	31.60	29.86	3.7	2.20	1.76	6,744	242,008
China	95.80	56.00	4.05	7.7	6.28	0.01	695,030	3,249,791
Mongolia	75.94	1.01	32.45	3.1	14.39	4.35	1,691	7,106

Testing other theoretical predictions

We test key theoretical predictions about factors that influence the expansion of social protection systems, as highlighted by the literature:

1. **External forces (foreign aid, donor influence and policy diffusion)**
2. Economic conditions
3. Socio-Demographics
4. Historical legacies and path dependence
5. Institutions
6. The role of ideas and ideology
7. Aggregate shocks.

Determinants of Social Protection expansion

Dimensions		Proxy indicators	Effect
External forces	**Foreign Aid**	Total aid to social protection t-1	+
	Donor influence	Number of years since introduction of ILO conventions	NS
	Policy diffusion	Average number of programmes in neighbouring countries	+
Economic conditions		Log GDP per capita in constant US$ (PPP)	+
		GDP growth (annual %)	+
		Total natural resources rent (%GDP)	-
		Trade openness	-
		Revenue excluding grants and social contributions	NS
		Unemployment rate	NS

Determinants of Social Protection expansion

Dimensions	Proxy indicators	Effect
Socio-Demographics	Age dependency ratio (% of working-age population)	-
	Fertility rate	NS
	Prevalence of HIV (% of population aged 15-49)	+
	Child mortality rate	-
	Urban population	NS
	Population density	+
	Gini index	+
Historical legacies and path dependence	Years since independence	NS
	Former colony power: UK	+
	Former colony power: France	-
	Former colony power: Spain	+

Determinants of Social Protection expansion

Dimensions		Proxy indicators	Effect
Institutions	Democracy	Electoral democracy index	NS
	Political settlements	Quality of government	-
		Party institutionalization index	+
		Military expenditure (% of GDP)	+
	Judicial system	Compliance with judiciary	NS
Ideas / Ideology		Right political orientation	+
		Centre political orientation	+
		Left political orientation	+
Aggregate shocks		Years in financial crisis t-1	NS
		Rain shocks	-

Concluding remarks

Concluding remarks

- Evidence of a positive and significant effect of aid on social protection adoption and expansion

- No evidence of detrimental effects of aid, although exists an unequal distribution of aid budgets

- The composition of aid type and finance type seem to matter as well as the preferred channels for aid disbursement.

- The fact that 66% of SP aid in SSA has been channelled via multilaterals and executed largely through debt instruments and reimbursement grants greater engagement of national governments in SSA in the development of SP systems

- Bilaterals rely on project aid to mitigate the risk of regime capture of aid budgets in contexts of autocratic governance but at the cost of undermining resource mobilisation efforts.

Concluding remarks

While donors' influence and policy diffusion effects seem to have a positive effect on the expansion of social protection systems in LAC and APAC, these effects are weaker in SSA.

The economic dynamism of aid-recipient countries, their redistributive fiscal capacity, their prevailing terms of trade, and the level of income inequality are all positively associated with the recent expansion of social protection.

Political ideology of incumbent regimes seems to have played a role in influencing preferences for redistribution in LAC and APAC, but not in SSA; this is in part due to the limited variation in the political spectrum (and ideologies) in SSA.

Financial crises have triggered the expansion of social protection in LAC, but not in negative in SSA, denoting the region's limited capacity to use social protection as countercyclical instruments.

We conclude by highlighting the contribution of aid to building social protection systems, which could be combined with interventions that assist the development of tax collection systems, which are critical to achieving the long-term sustainability of welfare institutions in the Global South.