

Research Brief

Background Research Papers for Preparing the National Social Security Strategy of Bangladesh

International Best Practice in Social Protection: Implications for Bangladesh

Introduction: In the context of social protection policy, different ideologies are played out in the design of social protection schemes. These may be seen from various perspective such as the political economy of social protection, universal targeting versus poverty targeting, lifecycle approach to social protection, graduation from social protection schemes and food transfers versus cash transfers.

Objective: The paper has been prepared as a background document to support the development of Bangladesh’s National Social Security Strategy (NSSS). It discusses some of the key debates on social protection currently underway in Bangladesh, examining the historical and international evidence

Methodology:

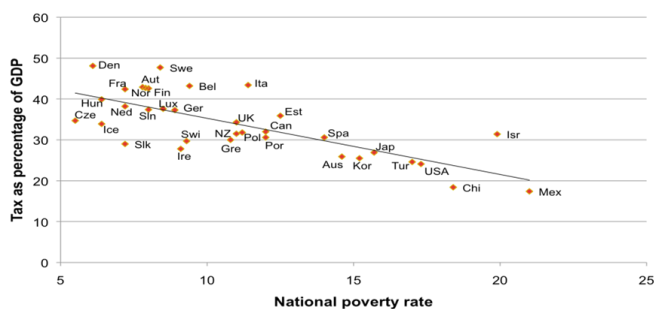
A comprehensive literature reviews and consultations with the experts, NGOs and related government, evidence from international experience.

Research Findings

Evidence on political economy of social protection

Figure below shows that countries with higher levels of taxation and, which are social democratic tend to have lower levels of poverty. The best examples are the Nordic countries where overall government revenues can reach over 50 percent of GDP.

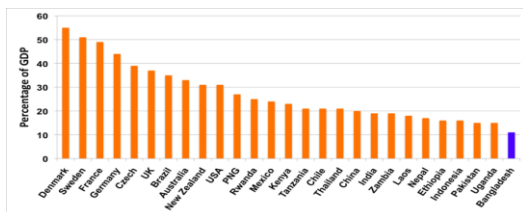
Correlation between tax and poverty rate in OECD countries (2008)



Tax-financed old age pensions in developing countries

Within the South Asia region, Nepal which offers universal pension coverage – invests significantly more in its tax-financed pension than either Bangladesh or India, both of which target those living in poverty. It is clear that, in countries with broad pension coverage, the value of the tax-financed pension is much higher than in countries with pensions selecting those on low incomes (with 70 percent coverage used as a cut-off)

Implications of evidence on the political economy of social protection for Bangladesh



Government revenues in Bangladesh – measured as a percentage of GDP is among the lowest in the world. In effect, Bangladesh has a classic neoliberal social protection system, which, as a result, delivers small budgets for social protection schemes. International evidence on the political economy of social protection would suggest that, if Bangladesh were to move to a more inclusive system of social protection that covers both people living in poverty and those in the middle-income deciles.

Impacts on community and social cohesion

There is a strong evidence that selecting people for programmes based on their poverty can undermine community cohesion.

Incidence of conflict and other challenges during Indonesia’s BLT Programme

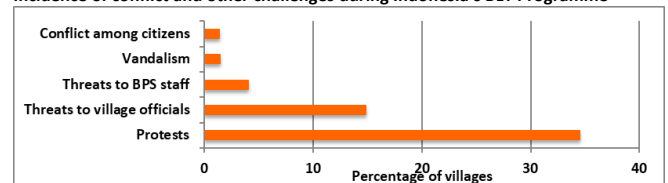


Figure above indicates, Widjaja (2009) found significant challenges in Indonesia when the Bantuan Langsung Tunai (BLT) programme – which used a proxy means test – was rolled out. Protests about the selection process took place in around 30 percent of villages. Evidence, however, does suggest that universal schemes are popular within communities, even when specific categories of the population are chosen.

Overview of the pros and cons of universal and poverty-based selection

Pros

- The inclusion of the poor is much higher.
- Administrative costs are lower.
- Fiduciary risk is less.
- Perverse incentives are lower.
- People are not rewarded for deceiving the state and
- Social cohesion is more likely to be strengthened.

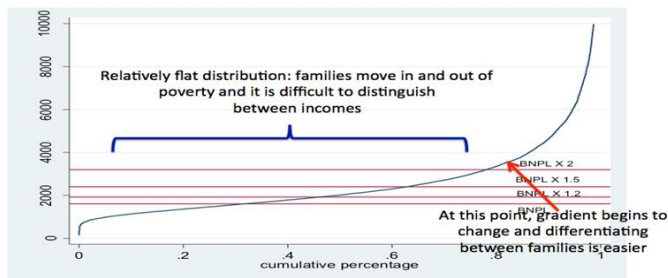
Cons

- Programmes for families living in poverty require less investment due to lower coverage thereby reducing taxation.
- Schemes have smaller budgets than universal schemes and, as a result, necessarily generate less consumption.

The implications of the evidence on targeting for Bangladesh

Figure below shows the distribution of household consumption and the proportion of people who could be considered as living in poverty according to different poverty lines. It also indicates that at around the 80th percentile the gradient of household consumption begins to steepen (which corresponds to more or less the US\$2 per day poverty line). At this point, it will be easier to differentiate between households and exclude the more affluent from schemes.

Distribution of consumption across households, indicating the potential for affluence testing



Adopting a mix of selection approaches and increasing coverage would begin a move to a more progressive national social protection system, which will, necessarily, increase the access of the families living in poverty.

Implications for Bangladesh of a Lifecycle approach to social protection

Bangladesh is already beginning a move from Poor Relief – based approach towards lifecycle approach.

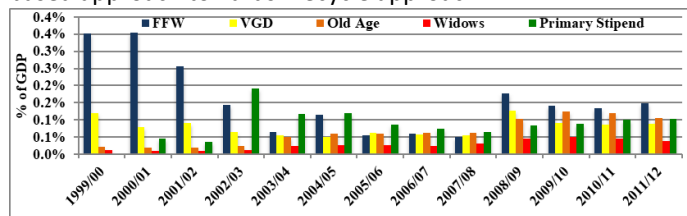


Figure above shows gradual increases in the budgets of core lifecycle schemes, such as the Old Age, Widows' Allowances and Stipend schemes. However, the budgets for any individual scheme remain low, as a result of low transfer levels and low coverage. The overall budget invested in core lifecycle schemes is just under 0.8 percent of GDP, which is like spending in Nepal, a poorer country with a more recent history of investment in social protection

Implications for Bangladesh of the discussion on “graduation”

As Bangladesh develops its social protection policy, the term “graduation” should be removed from social policy discourse. The concepts of supporting people to engage in the labour market and exit from social security schemes should be kept separate.

The term “graduation” encourages a belief that families on low incomes who receive a social security benefit should be given support to engage in the labour market and, after a pre-determined period, have their benefit removed

Summary of the discussion of food versus cash transfer

There is general acceptance that, in national social protection systems – in particular those addressing lifecycle risks – the default transfer should be in the form of cash, because it offers a number of proven advantages that have been substantiated by international experience, such as:

- Easier administration;
- Reduced risk of dependency and disincentives;
- Greater individual choice;
- More positive effects on income and employment;
- Greater stimulation of markets by increasing purchasing power.

Mechanisms should always be found to make cash transfers inflation-proof, so that they retain their value even if prices rise. Indeed, as economies grow and wages increase, it is preferable for many social protection schemes to be increased beyond the value of inflation, so as not to lose their value relative to wages.

Implications for Bangladesh on the form of transfer (cash or food)

Bangladesh still has a number of food transfers, but these continue for three main reasons. The first is a strong lobby from organisations wedded to food (both national and international); the second is historical inertia, since the political will to make a rationale transition to cash has not yet been realised; and, the third is a need to renew the food reserves held by the government.

Conclusion

It is the time for Bangladesh to consider adopting alternative approaches if it is to increase the cost-effectiveness of its significant level of investment in social protection. The international evidence indicates that attempting to provide transfers of low value to families living in poverty is not the way to transform society. A move to an inclusive social protection system that benefits all those who are living in or vulnerable to poverty – with schemes tailored to their particular needs, depending on where they are in the lifecycle – would mark a paradigmatic shift for Bangladesh.

