

Consultation on Australia's New International Development Policy

Investing in, and strengthening, social security in the Indo-Pacific region

Introduction

In 1948, the Universal Declaration of Human Rights recognised that everyone has the right to social security – often known as social protection – as a means of guaranteeing income security for all and as a core strategy in tackling poverty and inequality. Since then, many high-income countries have invested in building strong social security systems alongside investments in other core public services such as health and education. Australia is no exception and, in recent years, the nation's annual investment in its social security system has reached around 8 per cent of GDP. This investment has helped transform Australia. For example, the OECD has estimated that the poverty rate in Australia would double in the absence of a national social security system.¹ Investments in social security have brought other benefits to Australia, such as lower inequality, a stronger labour market, dignity for citizens in old age, the empowerment of persons with disabilities and greater social cohesion while also contributing to sustainable economic growth. Australia's social security system played a key role in building the resilience of many of the most vulnerable members of society during the recent COVID-19 crisis.

In the past 20 years, there has been a growing recognition that low- and middle-income countries must also build effective social security systems if they are to sustainably tackle poverty and ensure prosperity for all. The COVID-19 pandemic further strengthened the global consensus that all countries should invest in strong social security systems: some low- and middle-income countries with more comprehensive social security systems in place found it relatively easy to provide income support to many of their more vulnerable citizens by increasing the transfer values of existing schemes (for example, Mongolia increased the transfer value of its child benefit by five times, reaching immediately over 60 per cent of households in the country). In contrast, those without effective social security systems found it more challenging to offer support, often rushing to build temporary programmes that excluded many of the most vulnerable members of society.

The benefits of investing in social security

Global evidence indicates that investments in social security have – alongside investments in other public services – contributed to countries tackling many of the key challenges that Australia would seek to address through its new Development Policy. Social security offers families and individuals higher and more secure incomes, which can have a transformative impact at both family and national levels.

Some of the benefits **at a family level** include:

- **Higher standards of living.** Families often invest their social security income in goods that enhance their standards of living and wellbeing. They are able to enjoy higher quality diets, which can improve nutrition, in particular among children. There are many examples of access to social security resulting in reduced rates of stunting and micro-nutrient deficiency which, in turn, strengthens the cognitive development of children. Children are more likely to attend school and perform well in their studies. When older people and persons with

¹ OECD's Social Expenditure Database.

disabilities receive pensions and disability benefits, they can experience increased dignity and exercise greater control over their lives.

- **Improved resilience:** In the event of shocks, families with access to regular and predictable income from social security transfers are more resilient and can maintain a minimum level of support to their children while being protected from the need to sell their assets, which means that they can recover more quickly from crises.
- **Enhanced labour market engagement.** There is good evidence that, when families receive social security benefits, they are more likely to invest in income-generating activities and access employment. This can further increase family incomes. Persons with disabilities can use their benefits to address the additional costs that they face due to their disability, which can also help them access jobs.
- **Reductions in domestic violence.** The increases in family incomes from social security can alleviate income-related tensions within families and reduce the risk of domestic and gender-based violence.
- **Women's empowerment.** When women access social security transfers – such as child, disability, unemployment and old age benefits – they gain greater control over their lives. There is evidence that their decision-making power within households is strengthened. Old age pensions are particularly important for women, who, in the absence of a pension, can find themselves at greater risk of poverty and social exclusion. There is evidence of grandparents using their pensions to support their grandchildren, in particular girls, to enjoy improved diets and attend school, while they are in a better position to care for their grandchildren during the day, which enables mothers to return to the labour market. The ageing of the population in the Indo-Pacific region will mean that increasing numbers of women will face challenges in old age unless robust and comprehensive old age pension systems are established.

Social security also offers a range of **national level benefits**. Some examples are given below.

- **Reductions in poverty.** Investments in social security are a key driver of reductions in national poverty rates, although the greater the investments, the higher the reductions.
- **Reductions in inequality.** Well-designed social security systems have contributed to significant reductions in inequality: for example, the Gini Co-efficient in Mongolia has fallen by over 20 per cent due to its investment in social security. Lower inequality can further enhance wellbeing across society,² while also strengthening social cohesion and building more peaceful societies.
- **Greater economic growth.** Social security contributes to stronger economic growth through a number of pathways. For example: as indicated earlier, by enabling families to invest in their children, the nation's human capital can be strengthened which results in a more productive and competitive labour force; as indicated above, it can provide entrepreneurs and farmers with the income security and confidence to encourage greater investments in more risky and more productive activities; it can facilitate people's access to employment; and, by injecting cash into the economy, it can stimulate spending, providing entrepreneurs with markets into which they can sell their goods. The IMF has also indicated that lower levels of inequality are associated with greater levels of economic growth.³
- **Stronger national social contracts.** When social security is provided on a fair and equal basis, trust in government can grow and the risk of political instability can fall. As the social contract becomes stronger and citizens see that governments invest their taxes in high

² Kidd et al (2022). Inequality and social security in the Asia-Pacific region. UNDP

³ Grigoli, F. (2017). A New Twist in the Link Between Inequality and Economic Development. *IMFBlog: Insights & Analysis on Economics & Finance*.

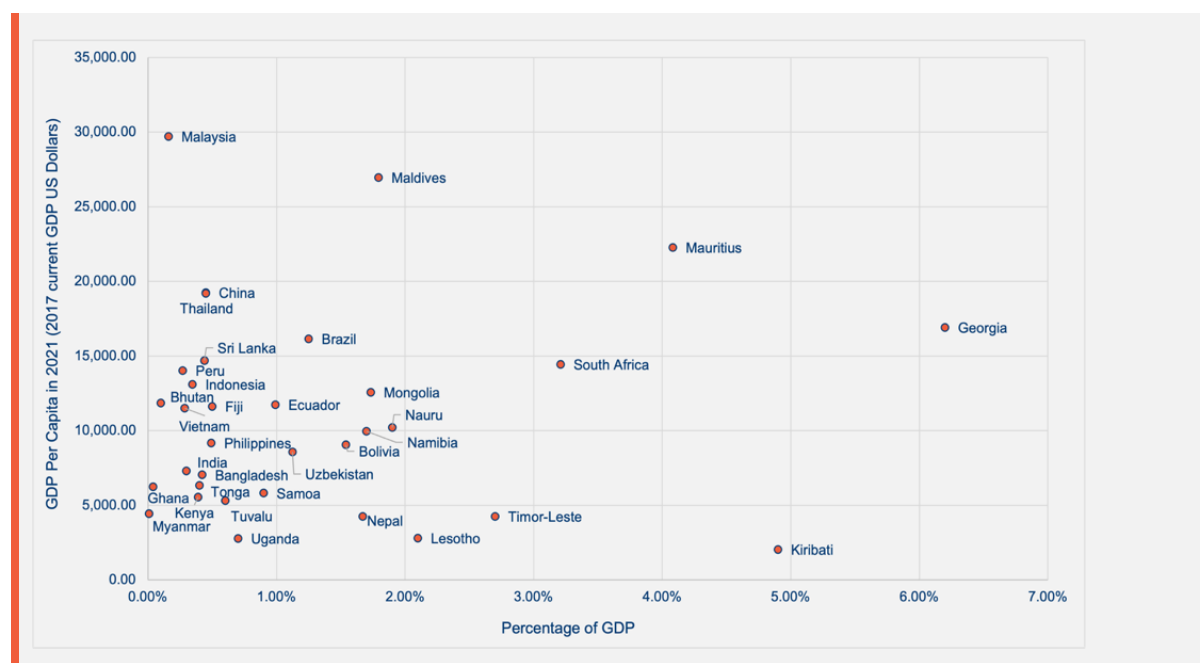
quality, universal public services – including social security – they will be willing to pay more taxes, which further enables governments to deliver high quality services and build a more prosperous society. Strengthening national social contracts and reducing the risk of social unrest and political stability is critically important in the Indo-Pacific region.

- **An effective national response to shocks and greater resilience to climate change.** As indicated above, if countries have comprehensive, national social security systems in place, they will be much more effective in responding to large-scale shocks through the provision of emergency cash support to those who are affected. This will be important in the event of economic and natural shocks, which, with climate change, are likely to become more frequent and severe. With comprehensive social security systems, nations will be much more resilient to the impacts of climate change. They will also be able to recover more quickly from economic downturns as a result of their ability to deliver an effective fiscal response by stimulating the flow of cash into the economy as and when needed.

Gaps in social security provision across the Indo-Pacific region

Some low- and middle-income countries have made good progress in building effective social security systems. Figure 1 compares the level of investment in tax-financed social security across a range of low- and middle-income countries with their relative wealth (expressed as GDP per capita in 2021). It shows that some countries are already investing more than one per cent of GDP in tax-financed social security, while a small number are investing more than 2 per cent. Across the Indo-Pacific region, some countries are beginning to build effective systems, in particular through the introduction of universal old age and disability benefits.

Figure 1: Levels of investment in tax-financed social security as a proportion of GDP, compared to the wealth of low- and middle-income countries



However, in most countries in the Indo-Pacific region, the level of investment is well below what is required. There are large gaps in income support across the lifecycle: even in most countries with old age and disability benefits, there are still no child, unemployment, sickness or parental benefits. In many countries in the Indo-Pacific region, social security systems are bifurcated, offering social insurance to those in the formal economy and poor quality social assistance to the poorest members

of society (most of whom remain excluded from these schemes due to the inability of countries to accurately identify ‘the poor’), while those on middle – but still low and precarious – incomes, who are in informal employment, are, by design, left without support. Yet, this ‘missing middle’ still requires income support if they are to invest in their children, be more resilient to shocks, enhance their productivity and experience dignity and comfort once they reach old age. Further, an absence of support to those on middle incomes increases the risk of social unrest and political instability. In most countries, the majority of persons with disabilities continue to be excluded from the social security system.

So, what can Australia do?

Australia has a strong track record in supporting the strengthening of social security systems across the Indo-Pacific region. For example, for over 10 years, it has provided technical assistance to the Vice-President’s office in Indonesia to support its engagement in social security policy dialogue and systems strengthening and, in 2021, it began a four-year programme of technical assistance support to the Pacific region and Timor-Leste (Partnerships for Social Protection programme, or P4SP). However, much more support is required across the Indo-Pacific region if social security systems are to become effective and offer income support to all members of society across the lifecycle.

Australia should, therefore, increase its support to social security across the region, with two main components:

- 1)** Australia should expand its provision of technical assistance to countries in the Indo-Pacific region, with the aims of:
 - a)** Building the understanding of governments – and populations – of the value of investing in social security, and;
 - b)** Strengthening the operational and delivery systems of those social security schemes that are in place.
- 2)** Australia should, in small and fragile island countries – in particular in the Pacific – subsidise the cost of some core schemes, which will be essential in enabling these countries to invest in their populations, in particular their children, and establish effective systems that will enhance their resilience to major shocks. Such investments will be simple and cost-effective for Australia to deliver, yet will generate tangible, inclusive and potentially lifechanging results for people across the region alongside significant goodwill.

Development Pathways

29th November 2022