



aidsecpro
AIDING SOCIAL PROTECTION

The Political Economy of Externally Financing Social Policy in Developing Countries



European Research Council
Established by the European Commission

Global Redistribution and the Challenges of Externally Financing Social Policy and Development

The first international symposium of the [AIDSOCPRO](#) research project (Aiding Social Protection: The Political Economy of Externally Financing Social Policy in Developing Countries), funded by the European Research Council and based at the International Institute of Social Studies (ISS) in The Hague, part of Erasmus University Rotterdam.

16-17 February 2017 at the ISS in The Hague.

About the symposium: a concept note

The symposium will address a series of big thematic questions related to the [AIDSOCPRO research project](#) (see below for further details on this project). The principle aim is to stimulate critical reflexions on global redistribution as an imperative to deal with the fundamental issues facing the world in the twenty-first century and also in terms of its potential consequences on development. Within this, the symposium will have a particular focus on the evolution of social policy systems in developing countries.

Even before the current surge of right wing populism and its attack on redistribution, much of the recent debate and discussion on inequality has arguably perpetuated a narrow understanding of redistribution. There has also been lack of clarity on the precise processes by which global redistribution might actually take place, as well as on some of the dark sides of these processes. Moreover, recent recognition of inequality among major international organisations does not appear to have produced any significant change in the orthodox aversion towards bolder or more radical redistribution, as can be observed in the dominant trends of national and international policy making.

Rather, as argued by Andrew Fischer (the principle investigator of the AIDSOCPRO project) in a recent [paper for the UN-led consultation on inequalities](#) in 2012, the recognition of inequality has, to a certain extent, been co-opted into an orthodox narrative. Examples include the emphasis of labour market flexibility by the World Bank or the IMF in response to crisis in Europe or to the enormous employment generation challenges faced by developing countries worldwide. The advocacy of fairly conservative approaches of targeted social protection by international development agencies can also be understood in a similar light, in contrast to more universalistic and holistic approaches to social policy. Even the universal basic income agenda, which has recently received greater attention, does not necessarily escape this predicament to the extent that it does not address various supply-side dimensions of social policy, such as in health and education provisioning. The latter bear far greater weight in determining the dynamics of social stratification than social

assistance and, simultaneous to an expansion in social protection systems, could become subject to increased stratification, commodification and privatisation (e.g. see a debate on this last point with respect to health care in the [2016 Forum issue of Development and Change](#), in particular, [O'Laughlin 2016](#)).

In this respect, a focus on crude measures of inequality can often mask processes of intensifying social differentiation. Inequality in South Africa, for instance, was ironically lower under apartheid than it has become post-apartheid. Similarly, improvements to inequality in Latin America over the last decade have been at least partly attributed to cash transfer programmes, even though these programmes have often been implemented in ways that accentuate segregation and stratification in social policy systems, thereby reinforcing broader processes of social differentiation rather than alleviating them. The residual character of so many of these programmes, exclusively aimed at politically weak or disenfranchised populations, through technocratic, opaque and seemingly random targeting systems, has also implied that the retrenchment of these programmes has also proven relatively easy when politics shifts rightward, thereby undermining the long-term sustainability of many of the improvements in inequality. The fact that we are witnessing such an aggressive rightward shift in politics today highlights the importance of these potential tensions and contradictions.

Indeed, this current rightward shift in the balance of power in both the US and Europe, in particular the rise of so-called economic nationalism in the US despite the dominance of its corporate sector in the global economy, is bound to act as an enormous obstacle to the constructive use of aid in the immediate future. It also possibly threatens the very existence of the aid establishment, alongside existing organisations and conventions of international governance more generally. These trends will likely undermine the only significant, even if severely flawed, mechanisms currently available to carry out redistribution and regulation beyond national borders, even while transnational control over lucrative flows in the global economy becomes ever more concentrated. It is not clear whether the rapid rise of China on the international scene can compensate such trends, while the rightward shift in several of the major 'emerging economies' (e.g. Argentina, Brazil, India and Turkey) also puts into question the possibilities for progressive alternatives to emerge from what some have only just recently celebrated as the rise of multipolarity.

Broad themes to be discussed

In this light, the symposium starts with the normative (and increasingly idealist) position that a bolder and more radical scaling up global redistribution is urgently needed to confront the myriad challenges of contemporary development, as argued again by Andrew Fischer in a [recent HDR background paper](#) (also see [here](#)). Such scaling up arguably needs to go well beyond the meagre levels garnered by the current aid system, which in many respects has failed to induce any significant degree of global redistribution or, at worst, might have even contributed to broader processes that encourage reverse redistribution, towards wealthier rather than poorer countries.

From this starting position (which may be contested at the symposium), we will address the following thematic questions:

- 1) If we accept the need for large scale global redistribution, how might this actually occur, particularly in light of the evolution of global imbalances and international financial and trade flows in developing countries today? What are the precise processes by which

global redistribution could be implemented, their relation with national systems of redistribution, as well as some of the dark sides of these processes? As discussed in the [first working paper of the project](#), from a macroeconomic perspective, redistribution requires recipient countries to run trade deficits. How can this be achieved in light of the evolution of global imbalances, as discussed, for instance, in the seminal work on imbalances by [Kregel \(e.g. 2008\)](#) or [Akyüz \(e.g. 2015\)](#). Is there an alternative to such macroeconomic patterns of redistribution? A focus on purely national development might suggest that global inequality can be addressed through raising the floor in poorer countries rather than through global redistribution. However, this presumes a conception of nationally-contained economies, which ignores how even successful experiences of post-war development relied on aid and external finance, as well as the contemporary context whereby national economies are increasingly subordinated within transnational corporate networks that are very effective in syphoning value away from poorer countries. If we therefore accept redistribution as an imperative to support development and to counteract reverse redistribution, how can this be achieved in a manner that does not further reinforce the dependency and subordination of recipient countries, or else further provoke the already mounting momentum of populist right-wing reactions in wealthier countries?

2) Related to the first point, could the current aid system be fit for the purpose of scaling up of global redistribution despite its limited redistributive impact today, or should other modalities of global redistribution be conceived?

3) Should global redistributive flows be directed towards social expenditures in poor countries, e.g. social protection, or towards productive sectors and economic infrastructure? This relates to the relation of redistribution with productive strategies of development, which can be explored at both global and national levels. As explained in the [first working paper of the AIDSOCPRO project](#), aid and official debt played crucial roles in South Korean development by relaxing the external constraints that could have otherwise stifled or subverted many of the well-known domestic factors that contributed to its rapid industrialisation. In this sense, the South Korean experience confirms a symbiosis between global redistributive flows and domestic industrial policy and developmentalism, even though the case is not usually understood in this manner. However, as noted by Yusuf Bangura in a [recent blog](#), what is notable in the South Korean case is that aid was primarily focused on productive sectors and economic infrastructure rather than social programmes. This observation runs counter to current aid agendas, particularly under the MDGs and now SDGs, that have given prominence to social infrastructure and services, whereas aid to productive sectors collapsed in the early 1990s as a proportion of total aid flows and never recovered (see Fischer 2017).

4) What are the implications and consequences of directing aid towards social spending, in particular social protection, on the evolution of social policy in recipient countries and on development more generally? Here we are concerned about two aspects:

One is on the struggles over the nature of social and development policies, between those lobbied by donors and IFIs versus those favoured by recipient governments. A key example of the former is the aggressive promotion of residualist models of cash transfers by donors and IFIs, often through pilot projects that can be contentious in local politics. This contrasts with IFI pressures to eliminate price subsidies despite resistance from

governments and populations to remove such benefit systems, which generally cover much wider sections of the population, result from long and hard fought distributive struggles, and often include important cross-class dynamics that, in the social policy literature, are considered to be beneficial for the cultivation of more universalistic approaches of welfare and citizenship. Subsidy policies also often contribute to more production-oriented development strategies, although this runs against orthodoxy in the IFIs, which continue to insist that subsidies represent an inefficient and ineffective use of resources that would be better targeted to the poor, and hence their emphasis of refining targeting systems rather than broadening and unifying publically funded social protection systems (e.g. see discussion of this in the seminar paper by [Mkandawire 2005](#); for an alternative consideration in the case of Iran, see [Meskoub 2015](#)).

The other aspect is subtler, concerning the perverse dynamics that are engendered when aid is directed towards sectors that, in principle, do not need aid. As suggested by Bangura (op cit.), social services and protection are central to the building of effective revenue bargains between governments and citizens and, as such, should be the exclusive preserve of domestic politics. The funding of these sectors with aid therefore risks short-circuiting this domestic bargain building and thereby 'the construction of effective state capacity in advancing the project of economic transformation.' [Armando Barrientos \(2013\)](#) similarly emphasises that aid should not be used to finance regular expenditures within social assistance programmes in developing countries given that this encourages a situation whereby such programmes do not become regular expenditure items on government budgets, undermining their long-term sustainability.

The AIDSOCPRO project underscores these points by noting that the option of not financing these social expenditures through aid or other external resources is possible precisely because they are mostly denominated in domestic currencies. Aid, by contrast, is denominated in foreign currency and effectively can only be used for foreign expenditures. Directing foreign currency towards domestic expenditures therefore implicates what we call a 'monetary transformation dilemma' (again, see Fischer 2017). This sets up aid relations to much confusion and contention, and exacerbates the already thorny political tensions between donors and recipients regarding a range of issues, from expectations regarding monetary and fiscal policy, and current and capital account management, to the course of domestic policy that is notionally associated with aid.

Indeed, this final point brings us full circle to the first theme of the symposium, insofar as global redistribution needs to contend with this transformation dilemma in the transfer of net resources to poorer countries, particularly within the contemporary context of global imbalances that favour the reverse.

Keynote sessions and plenary panels

The symposium will be run as a series of keynotes and plenary panels with about 30 invited international experts from across the fields of social policy and finance and development. The gathering is purposely eclectic in order to encourage new insights on the issues discussed. To this effect, panel presentations will be short and the time for debate and discussion will be privileged, both among the participants and with the general audience.

Confirmed keynote speakers are:

- Jayati Ghosh, Professor of Economics, Jawaharlal Nehru University, New Delhi, India; 'The impact of monetary policy on social protection in developing countries.'

- Jan Kregel, Director of research at the Levy Economics Institute, Head of the Institute's Monetary Policy and Financial Structure program, and Professor of Development Finance at Tallinn University of Technology; 'tba'
- Thandika Mkandawire, Professor of African Development, London School of Economics, and former Director of the United Nations Research Institute for Social Development; 'The importance of bringing back functional income distribution in discussions about globalisation and inequality, and its relation to global/national redistribution.'

Other participants include:

- Jimi Adesina, Professor and DST/NRF SARChI Chair in Social Policy, University of South Africa, Pretoria
- Getnet Alemu, Director, Institute of Development and Policy Research, Addis Ababa University
- Aysa Bugra, Professor of Political Economy and one of the founders of Social Policy Forum research centre at Bogazici University, Istanbul
- Lavinia Barros de Castro, Planning and Research Department, BNDES (Brazilian National Development Bank)
- Ana Celia Castro, Professor of Economics, Universidad Federal de Rio de Janeiro
- Amrita Chhachhi, Associate Professor, Institute of Social Studies, The Hague
- Sarah Cook, Director, Office of Research Innocenti, UNICEF, Florence.
- Geske Dijkstra, Endowed Professor of Governance and Global Development at Erasmus University Rotterdam
- Gary Dymksi, Professor and Chair in Applied Economics at the Leeds University Business School
- Rolph van der Hoeven, Professor on Employment and Development Economics, ISS, The Hague
- Katja Hujo, Senior Research Coordinator in the Social Policy and Development Programme of UNRISD and member of the Institute's Senior Management Group
- KS Jomo, former Assistant Secretary General for Economic Development in the United Nations system during 2005-2015
- Huck-Ju Kwon, Professor at Graduate School of Public Administration, Seoul National University
- Tom Lavers, Lecturer in politics, governance and management at the Global Development Institute, University of Manchester
- Lena Lavinias, Professor, Economics Institute, Federal University of Rio de Janeiro
- Manuel Montes, Senior Advisor on Finance and Development, South Centre, Geneva
- Isabel Ortiz, Director Social Protection, International Labour Organization (ILO)
- James Putzel, Professor of Development Studies and Director of the Crisis States Research Centre, London School of Economics
- Joel Rocamora, Former Co-Director of Transnational Institute, former Secretary/Lead Convenor of the National Anti-Poverty Commission, Philippines.
- Diego Sanchez-Ancochea, Director of the Latin American Centre; Associate Professor in the Political Economy of Latin America, University of Oxford

- Jeannette Sánchez Zurita, Professor of Macroeconomic and Economic Policy, Central University of Ecuador; Adviser of the Vice-Presidency on Economic Affairs and Productive Transformation, Ecuador
- Charlotte Harland Scott, Fund Direct of Mwabu, former Chief of Social Policy and Economic Analysis for UNICEF Zambia and former First Lady of Zambia
- Verónica Serafini Geoghegan, Research Director, Centro de Análisis y Estudios de la Economía Paraguaya; former Coordinator, Social Economy Unit, Ministry of Finance, Paraguay
- Alejandro Vanoli, Associate Professor of International Economics, University of Buenos Aires, former Chairman of the Central Bank of Argentina and Vice Governor from Argentina at the International Monetary Fund
- Rob Vos, Director, Agricultural Development Economics, Economic and Social Development Department, Food and Agriculture Organization of the United Nations (FAO)

Acknowledgement

The contributions of ISS and, within ISS, the [Political Economy of Resources, Environment and Population research group](#) (PER) are gratefully acknowledged.

Background

AIDSOCPRO (Aiding Social Protection: The Political Economy of Externally Financing Social Policy in Developing Countries; grant no. 638647) is a research project funded by the [European Research Council \(ERC\) Starting Grant scheme](#). The project officially started in May 2015 and runs for five years, led by [Andrew M. Fischer](#), Associate Professor of Social Policy and Development Studies at ISS, and supported by a team of three PhD researchers ([Ana Badillo Salgado](#), [Emma Dadap-Cantal](#), and [Benedict Yiyugsah](#)) and one postdoctoral researcher ([Charmaine Ramos](#)).

It examines the tensions between the increasing emphasis by large bilateral and multilateral donors of directing aid towards social expenditures, in particular social protection, versus the political economy factors involved in donor-recipient relations that constrain and arguably undermine both global redistribution and national development, and how these influence the trajectories of social policy in developing countries. The objective is to re-orient our thinking towards a deeper appreciation of the systemic political and economic challenges facing global redistribution towards poorer countries.

Examining these tensions is urgent given the tightening financial cycle currently facing developing countries, which reinforces the leverage of donors as strategic providers of concessional foreign exchange to countries facing resurgent balance of payments constraints, even in situations where aid might only amount to a marginal addition to overall external financing needs. In such contexts, donor influence over policy making in recipient countries is enhanced in the name of redistribution, even when very little if any net redistribution might actually prevail.

The various financial and political quandaries involved in directing external financing towards social expenditures denominated in domestic currency (such as cash transfers) might also exacerbate ongoing tensions between donors and recipients regarding policy autonomy and so-called ‘national ownership’ of development policies. The confluence of

these dynamics could quite possibly result in a variety of perverse and unexpected consequences for development in poorer countries, as explored by the project in relation to the social protection agenda currently favoured by donors, based on case studies in seven countries (Ecuador and Paraguay in Latin America, Ethiopia, Ghana and Zambia in Africa, and Cambodia and Philippines in South East Asia).



Set up in 2007 by the EU, the **European Research Council** is the first pan-European funding organization for frontier research. It aims to stimulate scientific excellence in Europe by encouraging competition for funding between the very best, creative researchers of any nationality and age. It operates according to an investigator-driven approach, allowing researchers to identify new opportunities in any field of research, without thematic priorities, and with the aim to support up-and-coming research leaders to establish a proper research team and to start conducting independent research in Europe. Since 2007, the ERC has funded over 4,000 projects throughout Europe and across all scientific fields.