

Social Protection: The Impact on Inequality in Ethiopia, India, and Peru

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MESSAGE

Three large-scale social protection schemes – the Productive Safety Net Program (PSNP) in Ethiopia; the Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGS) in India; and the Juntos conditional cash transfer program in Peru – contribute to reduced consumption inequality between and within socially and culturally constructed groups. New research that analyzes data from Young Lives, finds a strong correlation between living standards and the coverage of these social protection programs, suggesting that the schemes are generally well targeted at the most needy. Further analysis shows that within-group inequality accounts for a large proportion of total inequality.

CONTEXT & MOTIVATION

A growing body of research is documenting the effects of public works programs like NREGS on labor market responses, risk-sharing networks, household consumption or risk management. Similarly, inequalities along ethnic, gender, and other social and cultural lines, and their determinants are also relevant

to the debate. ‘Horizontal inequality’ between ethnic groups has major socio-economic implications, potentially leading to conflicts and under-provision of public goods.

Few social protection policies evaluations however have used a distributive lens, maybe due to the fact that social protection programs are, by design, targeted at the poor. This restricts findings from distributional analysis to the lower end of the consumption distribution.

This study fills some evidence gap by evaluating the role of social protection programs on horizontal inequality. It examines changes in consumption inequality between and within culturally and socially defined groups in Ethiopia, India, and Peru over the period from 2006 to 2016, analyzing the impact of participation in PSNP, NREGS, and Juntos.¹

METHODS

The data used come from four survey waves tracking the lives of young people between 2006 and 2016. The outcome variables used are household consumption data and a wealth index composed of

households’ assets and amenities, including materials used for housing construction and access to services.

The study focuses on five dimensions of horizontal inequality that capture the most relevant aspects of between-group inequality: gender, ethnicity, region, place of residence, and religion. These group types constitute a relevant subset of all potential circumstances available in the data. Ethnicity is at the centre of Ethiopia’s political structure under the country’s ethnic federalism system. In India, the caste system is still very important in various social, cultural, and political spheres.

Different measures of inequality are estimated to determine whether there is unequal access to basic services across different groups (‘between-group’) and across members of each group (‘within-group’). Decomposing inequality by components can help to shape economic policies that will be effective in reducing inequality and poverty. The researchers consider different approaches and decompose overall inequality into between- and within-group components.

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Geography Ethiopia; India; Peru

Find out more about this project: <https://www.afd.fr/en/carte-des-projets/investigating-distributional-impact-social-protection-short-and-longer-run-inequalities>

Key words Social protection; Horizontal inequality; Decomposition analysis.

Themes Economics, Inequality, Finance.

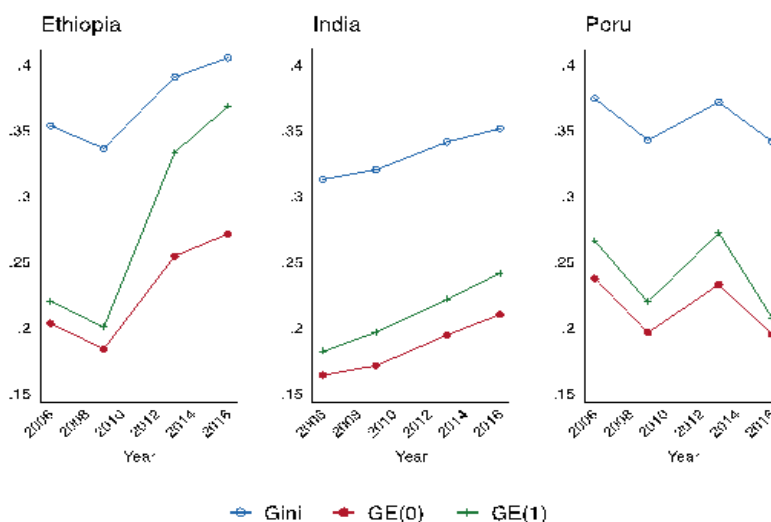
RESULTS

The study documents the evolution of between-group and within-group inequality among ethnic, religious, gender, and regional groupings.

There is a strong correlation between living standards and social protection program coverage, indicating positive targeting efficiency. Rough calculations indicate that the 'exclusion error' (the proportion of people eligible for a social protection program who are excluded) is high in the sample. This is partly due to the oversampling of poor households in the survey design. At the same time, the 'inclusion error' (the proportion of people receiving transfers despite not being poor) is very low in the sample. In India, for example, the coverage rate is favorable to the historically disenfranchised groups of 'scheduled castes' and 'scheduled tribes'.

Inequality among program participants is also much lower than among non-participants. A decomposition of total inequality shows that within-group inequality consistently accounts for a larger share of total inequality for all groups considered. But the lower contribution of between-group

Trends in consumption inequality by year



inequality does not imply that redistribution in favor of disadvantaged groups is not important. The policy significance of this finding should be qualified with a closer examination of the patterns of inequality, the policy instruments at hand, their impacts, and their costs.

The results from decompositions of consumption gaps between groups show that the social safety nets of these programs did not lead to an automatic reduction in the average differences between groups.

In India, factors other than the program are far more powerful in driving differences between groups,

implying the need for dedicated policy initiatives in support of marginalized communities. Restrictive targeting of Ethiopia's program appears to be one factor limiting the ability of PNSP to play a larger role in reducing inequality.

The decomposition exercise quantifies the contribution to inequality of a set of factors such as household demographics (the education level of the head, the proportion of children), access to basic services (electricity, sanitation) contributing towards the explained part of within-group inequality.

RECOMMENDATIONS

- ▶ Evaluation of local inequality based on socially and culturally constructed boundaries should inform policy-makers on the potential of social protection programs for outreach to marginalized groups.
- ▶ Despite the success of public works programs in Ethiopia and India in fighting extreme poverty, it is important to note that they have only had a modest impact in reducing inequality.
- ▶ In Ethiopia, differences in participation in PNSP explain only a minor part of the total consumption gap due to the restrictiveness of program targeting. Horizontal expansion of the outreach of the program might be warranted.
- ▶ Addressing inequality within and between groups through policy calls for a closer examination of the patterns of inequality, the policy instruments at hand, their impacts, and their costs.

¹ Borga L, Cottin, R. & D'Ambrosio, C. (2020). Social Protection and Inequality: Evidence from Ethiopia, India and Peru. [AFD Research Papers N°139](#).