The role of social protection in inclusive structural transformation
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CONTENTS

ACKNOWLEDGEMENTS ........................................................................................................... v
ABBREVIATIONS AND ACRONYMS ................................................................................ vi
ABSTRACT ........................................................................................................................... vii
INTRODUCTION .................................................................................................................. 1

1. Conceptual framework ...................................................................................................... 4

2. The role of social protection in structural transformation ............................................. 7
   2.1 Human capital (human capacities) .............................................................................. 8
   2.2 Labour mobility ......................................................................................................... 11
   2.3 Reallocation of household labour .............................................................................. 12
   2.4 Productive capital, technical efficiency and technology adoption ............................. 14
   2.5 Indirect impacts of social protection ........................................................................ 16
   2.6 Distributional impacts ............................................................................................... 17

3. Country experiences of structural transformation and social protection ................. 19
   3.1 Mexico ......................................................................................................................... 24
   3.2 Viet Nam ..................................................................................................................... 26
   3.3 Zambia ......................................................................................................................... 27
   3.4 Key messages from the country examples ................................................................... 29

4. Development of social protection systems and programme design ............................ 31

5. Conclusions ...................................................................................................................... 33

References ............................................................................................................................ 35
BOXES, FIGURES AND TABLES

BOXES

Box 1. Defining structural transformation ................................................................. 2
Box 2. Defining social protection ............................................................................... 2

FIGURES

Figure 1. Interaction between social protection and structural transformation ............ 6
Figure 2. Structural transformation and share of GDP to social protection (countries by region) ...... 22
Figure 3. Structural transformation in Mexico ............................................................ 23
Figure 4. Structural transformation in Viet Nam ......................................................... 23
Figure 5. Structural transformation in Zambia ......................................................... 24
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ABBREVIATIONS AND ACRONYMS

ADB  Asian Development Bank
AfDB  African Development Bank
ALMP  Active labour market programme
CFPR/TUP  Challenging the Frontiers of Poverty Reduction – Targeting the Ultra Poor
CODI  Core systems diagnostic instrument
DFID  Department for International Development
FAO  Food and Agriculture Organization of the United Nations
FISP  Farm Input Subsidy Programme
GDP  Gross domestic product
IFAD  International Fund for Agricultural Development
ILO  International Labour Organization
ISPA  Inter-agency Social Protection Assessment
ISSA  International Social Security Association
LEWIE  Local economy-wide impact evaluation
NSPP  National Social Protection Policy
OECD  Organisation for Economic Co-operation and Development
PWAS  Public Welfare Assistance Scheme
SCT  Social Cash Transfer
UNDP  United Nations Development Programme
UNICEF  United Nations Children’s Fund
WDI  World development indicators
ABSTRACT

A successful structural transformation involves the reallocation of resources from less to more productive uses. It entails growth in agricultural productivity and generation of higher-productivity jobs in other sectors. In addition, in the longer term, it can result in poverty reduction. However, the transition process and its outcomes are frequently challenging – especially among poor and vulnerable households, given the economic and social forces that pressure them to adapt to realities faster than they are able.

The objective of this paper is to show how social protection policies and programmes can contribute to structural transformation, smooth out the transition for the poor and vulnerable, and facilitate changes in their livelihoods such that they are able to actively participate in the process of structural transformation. Social protection interventions help households to engage in new economic activities generated by structural transformation, allow them to better manage the risks of such transitions, and provide a safety net for those who are not adequately equipped to adapt to the changing circumstances.

The paper draws from an extended review of the literature to assess how social protection influences human capital, labour mobility, reallocation of resources, productive capital and access to technology. It shows that while the potential for major benefits from social protection in smoothing out transitions and transforming the income-generating activities and livelihoods of individuals and households is significant, the actual impacts are ultimately smaller than desired or expected.
The successful structural transformation of economies involves the reallocation of resources from less to more productive uses. More elaborate definitions incorporate demographic changes in societies, including reduced birth and death rates and increased migration to cities (Timmer, 2017).

Often, but not always, this transformation involves growth in agricultural productivity (“push” factors) and generation of higher-productivity jobs in other sectors (“pull” factors)1 (see Box 1). There is a large degree of heterogeneity in the speed and inclusiveness of structural transformation across and within developing countries as well as in the quality of the new employment opportunities created.

From the perspective of rural individuals and households, structural transformation means: (i) relatively rapidly changing livelihoods; (ii) in some cases, movement both across economic sectors and across space; and, hence, (iii) either opportunities for income growth or increased risks of marginalization.

Relatively swift changes in demand for human capital can lead to rapidly changing returns to skills and increasing incomes for those with the appropriate skills, but also to more inequality as income differences between skilled and unskilled workers increase (Ray, 2010).

Similarly, returns to, and the distribution of, productive capital tend to change over the course of transformation and inequality in asset ownership can accentuate inequalities in incomes. The opportunities for income growth, such as relocation to another region or changing the sector of employment involve a significant degree of uncertainty and risk for individuals.

In these circumstances social protection plays a number of roles. First, social protection acts as a safety net for those who have suffered a loss of income due to sectoral shifts, and who do not have the means to gain from the new opportunities offered by structural transformation. It also helps people to deal with shocks, uncertainty and the risks associated with exogenous changes in income, employment and livelihoods.

Second, social protection can make structural transformation more inclusive. This happens by redistributing additional income generated through structural transformation towards those who are not able to gain from it directly. This can also occur through the positive impacts on human capital accumulation.

Another major role for social protection, relaxing credit and liquidity constraints and easing risk-taking, can enable people to take up emerging (and sometimes risky) income-generating

1 Push factors commonly refer to lack of opportunities in rural areas, or – expressed in a more positive light – increasing productivity in agriculture resulting in rural labour reallocated to other uses. Pull factors usually refer to the emergence of non-farm sectors, typically associated with industrial development but more recently also growth in services, around urban centres. Both types of factors, through the mechanics of structural transformation, lead to increases in productivity.
opportunities in growing sectors, for example by developing or deploying new skills and resources, engaging in farm and non-farm activities, or through migration and changing their sector of employment.

Potentially, a virtuous cycle between economic and social development can accompany structural transformation processes. Economic growth can generate the fiscal space needed for developing more comprehensive and integrated social protection systems. These in turn enable people to contribute to further economic growth. Structural transformation and growth are then able to facilitate formalization and further strengthen social protection.

Nevertheless, social protection may also hinder people’s ability to take advantage of the opportunities offered by structural transformation. Social protection policies with poor or inadequate design and targeting mechanisms, and without clear planning, can undermine transformation processes. In addition, if social protection is not available everywhere, or if having access to benefits requires individuals to effectively remain in their current locality, this can result in disincentives to migration or blocked mobility across sectors.

**Box 1. Defining structural transformation (FAO, 2017; Fox, Thomas and Haines, 2015)**

There is not a wide consensus on a comprehensive definition of structural transformation. Typically however, a working definition (in terms of economic mechanics) refers to structural transformation as a rather continuous process of:

- Changes in the economic structure and increases in output produced;
- Reallocation of labour across economic sectors; and
- Increases in productivity in all sectors.

Historically this coincided with an increasing contribution of manufacturing and declining contribution of agriculture to GDP. It also coincided with declining shares and absolute numbers of people employed in agriculture. During recent decades, the transformation seems to be headed towards the provision of services instead of industry.

**Box 2. Defining social protection**

Social protection refers to the set of policies and programmes aimed at preventing or protecting all people against poverty, vulnerability, and social exclusion throughout their life cycles, with a particular emphasis on vulnerable groups. Social protection can provide universal, categorical or poverty-targeted benefits, in cash or in-kind, through non-contributory (e.g. social assistance) or contributory schemes (social insurance being the most common form), and by developing human capital, productive assets, and access to jobs (ISPA/CODI).

Social protection comprises three broad components:

- Social assistance: non-contributory transfers that can be provided in kind (e.g. food) or in cash. These include interventions such as cash transfers, school feeding, food transfers, fee

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2 Considering high population growth rates, urbanization trends, the increasing role of technologies and automation as well as changing lifestyles and dietary patterns, it is not certain that historical transformation paths will be replicated in the future. Presumably an upscaled role for agriculture and related subsectors could be recognized. In addition, the future transformation paths will need to incorporate concerns about the environment and the sustainable use of natural resources.
waivers and public works programmes.

- Social insurance: contributory insurance to mitigate the effects of shocks. This includes measures such as health insurance, crop insurance, unemployment insurance and contributory pension schemes, among others.

- Labour market protection: protection for labour, such as unemployment benefits and active labour market policies or other similar programmes to improve employability.

In addition, in order to reduce exclusion and achieve effective protection and the full impact on economic and social development, such programmes need to be complemented with access to basic services of adequate quality, such as health and education.

To the best of our knowledge, there is no literature on the links between social protection and structural transformation. The existing research that can be relevant is found in three distinct strands of literature. Structural transformation has largely attracted the attention of macroeconomists or agricultural economists, and most microlevel studies touching upon the subject concern non-farm rural employment. Social protection instruments, on the other hand, have been subject to a large number of evaluations and social policy literature. This paper aims to bring these strands of literature together.

The paper reviews and discusses the different roles that social protection can play in structural transformation, and identifies existing knowledge gaps. The emphasis throughout is on cash transfer programmes and other non-contributory schemes, with some reference to labour market and livelihood programmes. There is less discussion of contributory social protection schemes, for which there is limited relevant evidence (such schemes are still mainly confined to the formal sector, which is small in most developing countries). This, however, is not to imply that contributory social protection is less important.

Section 1 outlines a generic conceptual framework. Section 2 discusses the key channels through which social protection influences and shapes transformation. Section 3 uses three country examples (i.e. Mexico, Viet Nam and Zambia) to show how social protection programmes have responded to structural transformation and the challenges it presents. The final section provides concluding remarks and summarizes the paper.

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3 Contributory social insurance schemes are usually actually a mixture of contributory and non-contributory elements to attain outcomes that are more equitable. The non-contributory elements are financed by other contributors or by the State.

4 In the poorest countries, contributory social insurance schemes still have limited coverage, largely due to widespread informality, which obstructs the expansion of compulsory insurance, whereby contributions are deducted from salaries. In some countries efforts have been made to expand contributory health insurance or pension insurance to the wider population, or to merge contributory and subsidized schemes (see Giedion, Alfonso and Díaz, 2013; ILO, 2014). Expansion of voluntary contributory schemes also involves specific challenges relating to, among others, adverse selection and moral hazards as well as setting the right contribution rates and benefits. These issues would merit a more detailed discussion than is possible within the scope of this paper, and are hence not discussed in detail.
Conceptual framework

Successful structural transformation is a process whereby the economy grows and welfare improves, as a result of the accumulation and reallocation of inputs and resources. Efficiency improvements occur at the aggregate level because of this accumulation and reallocation of inputs (labour time, physical capital and human capital) between activities or sectors from less to more productive activities, and within sectors from less to more productive units of production (creative destruction) (Mortensen and Pissarides, 1994).

Labour productivity within sectors in turn is determined by physical capital (such as machinery), human capital and skills, productive efficiency and technology. Innovation, adoption of new technologies and capital accumulation are key for sectoral productivity growth.

Social protection has preventive and protective roles as a form of insurance against life risks and for those living in deprivation. In addition, increasing emphasis is currently being placed on its promotive and transformative roles. This approach stresses how social protection enhances peoples’ ability to
generate income and to further address inequalities within their society and households (Devereux and Sabates-Wheeler, 2004). Through these roles, social protection operates to both promote inclusive growth and contribute to the process of structural transformation by enabling productivity growth, resource reallocation and accumulation (Figure 1).

Accumulation of human capital, relaxed credit constraints in the presence of imperfect financial markets (to allow more investment), and risk-taking capacities are particularly important for social and economic transformation. The means by which households can improve their incomes and resilience — i.e. taking up emerging opportunities and changing livelihoods by migrating, starting business activities in new sectors, as well as improving agricultural productivity with new methods and products — all require the ability to bear some risk. These undertakings, with their potential to increase household income, constitute the reallocation process.

The link between social protection and structural transformation is bidirectional. During structural transformation government revenues tend to increase due to growth, making it easier to expand government expenditure, including for strengthening of social protection systems and expansion of related programmes. Growth also contributes to the formalization of employment and, in turn, both the broadening of the tax base and the expansion of contributory social protection that are necessary for the development of a comprehensive social protection system. Structural transformation thus provides opportunities to strengthen social protection, which further contributes to inclusive growth.

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5 The implications of government policies for structural transformation and its inclusiveness depend on the overall structure of taxation as well as subsidies, together with social protection and other government-funded services and benefits. Hence, though in this paper we concentrate on the impacts of social protection alone, ultimately the whole system of taxes, subsidies and benefits needs to be considered as a whole. Social assistance programmes are usually funded from tax revenues. Taxation and subsidies overall can be progressive or regressive, and they can also distort the incentives to work and produce. Social insurance is similarly funded by tax-like contributions, though there is usually a link between individuals’ contributions and benefits. The exceptions to this are taxes on negative externalities such as pollution, where they are used to correct for distortions.
Figure 1. Interaction between social protection and structural transformation

Social protection
- Social assistance
- Social insurance
- Labour market programmes
- Supporting services

Protective role: provides relief from deprivation
- Protects those who do not gain from structural transformation directly
- Reduces the need for informal insurance or negative coping strategies

Promotive role: aims to enhance real incomes and capabilities
- Allows individuals to upscale or change their productive activities and contribute to structural transformation
- Promotes individual productivity and adaptability during structural transformation

Preventive role: seeks to avert deprivation
- Improves ability to take risks and participate in structural transformation
- Improves risk management and ability to cope with shocks

Transformative role: seeks to address concerns of social equity and exclusion
- Contributes to inclusive structural transformation
- Helps to overcome microlevel barriers to productivity growth
- Stimulates resource reallocation (diversification, specialization, migration) and productive investment
  - Slows down reallocation, disincentivizes change through distortions

Pathways

Structural transformation
- Changing returns to skills
- Changing returns to capital
- Reallocation of resources: mobility of labour and capital
- Growth in agricultural and sectoral productivity
- Growth in output and average income

Economic and social development
The role of social protection in structural transformation

This section discusses the pathways through which social protection can smooth out and enhance structural transformation. Empirical evidence is necessary to affirm conjectured positive and possible negative correlations. In subsections 2.1 to 2.5 we discuss the existing evidence on overcoming these barriers as well as the impacts on the long-term outcomes.

The role of social protection as a safety net for dealing with uncertainty and risks arising from structural transformation, such as destruction of jobs or decline in demand for goods and services that they supply, is perhaps obvious.

But social protection can also make structural transformation more inclusive by facilitating participation in the transformation process – specifically, by easing a number of constraints (e.g. poor skills, liquidity or credit constraints, lack of insurance, behavioural biases, and risks and shocks) that may hinder individual, household or firm-level productivity growth in agriculture and other sectors. These constraints may curb investments in human or physical capital or reallocation of resources, such as migration or establishing small businesses, even in the presence of significant returns to these factors.

Social protection schemes provide additional income subject to eligibility conditions and/or actions (for example conditional cash transfers). Conditionalities may, however, discourage households from
making reallocation decisions, such as the decision to migrate. Reallocation does not always increase productivity or incomes but can be driven by, for example, the need for better risk management.

Structural transformation leads to redistribution of income and changes in poverty patterns. Thus there is an increased need for conscious inclusion of those groups of the population that are left behind because they lack skills or assets. In addition to overcoming the aforementioned barriers, social protection has a role in mitigating the distributional impacts arising from changing returns to assets, such as human capital (see Section 3.6).

Though conceptually we have so far discussed social protection in general, in the following the main focus is on cash transfer schemes, with a few pieces of evidence on other types of social protection such as labour market programmes and social pensions. However, we do refer to social protection overall when relevant. The evidence is also somewhat geographically biased: there is much more from Latin America than from Africa and Asia. Moreover, the only long-term evidence concerns Latin America, due to its longstanding schemes.

### 2.1 Human capital (human capacities)

High-quality human capital (human capacities), developed through education, skills and health, is essential for the process of structural transformation, as it increases productivity. Adequately skilled labour is needed for the growth of high-productivity employment in services, industrial sectors and agriculture. Skills are complementary to technology\(^6\) and necessary for accessing higher-paid jobs.\(^7\) Hence, improvements in human capital are conducive to structural transformation, both in terms of enabling growth itself as well as ensuring better outcomes for the population.

Cash transfer schemes aim to among other goals develop human capital primarily by increasing children’s school attendance. Many of them, especially in Latin America, are explicitly conditional: school attendance is required to receive the transfer. The cash transfers provide additional income that reduces the need of credit-constrained households to send their children to work instead of school (effectively lowering the relative price of education). However, cash transfers may also reduce school attendance if they are used to obtain productive capital that improves returns to child labour (De Hoop and Rosati, 2014).

Cash transfers can also increase human capital through improved nutrition and health. It has been shown that improved nutrition in early childhood improves cognitive outcomes and learning (Behrman, 1993; Rao et al., 2014). Similarly, health and nutrition are linked to higher labour productivity (Bloom and Canning, 2000; Schultz, 2003, 2005). Cash transfers can improve health and nutrition outcomes by allowing for consumption of more and better quality food and increased use of health services, especially among children and mothers (de Groot et al., 2017).

In addition to the direct impacts, cash transfers can have indirect impacts on child health and nutrition through better control of resources on the part of caregivers (mothers), especially if the transfer is paid directly to them. Similarly, by improving caregivers’ physical and mental status cash

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\(^6\) There is a large body of literature on skill-biased technological change. See for example Acemoglu (2002), who argues that technical change has been skill-biased for at least the last 60 years.

\(^7\) A common misconception is that job creation is a process separate from the availability of labour. However, though mismatches can occur, typically production and technology choices also reflect the amount and type of labour available.
transfers can have a further indirect impact on child health, for example if the transfers are used to improve access to clean water or sanitation (de Groot et al., 2017).

Though evaluations of cash transfers rarely measure individual productivity or skill levels, it is well proven that, whether conditional or unconditional, they lead to increased school attendance among children in beneficiary households. However, evidence on the long-term impacts on educational outcomes is so far relatively scant, as is also the evidence on the intergenerational impacts of cash transfers on human capital accumulation. One rare study, on Ecuador, actually shows that there is little impact on post-secondary education of those young adults whose families received cash transfers when they were children.

Undoubtedly, further evidence will be forthcoming when the existing cash transfer schemes mature. However, the evidence accumulated so far allows some inference on which factors are significant in ensuring positive long-term outcomes. Evidence on education interventions shows that increased school attendance does not necessarily translate into better learning outcomes (Ganimian and Murnane, 2016; Kremer, Brannen and Glennerster, 2013), though if attendance is very low, increasing it is necessary to improve learning outcomes (Glewwe and Muralidharan, 2015). The use of information campaigns, improved instruction methods and teacher incentives can have positive impacts on outcomes (Ganimian and Murnane, 2016; Kremer, Brannen and Glennerster, 2013). It is acknowledged that in order to fully realize the potential human capital gains of social protection, investing in the quality of education services is essential (UNICEF, 2015; UNESCO and UNICEF, 2015).

As for the short-term impacts of cash transfers on health, nutrition and education, these have been widely studied. There is clear evidence, in some (though not all) instances, of cash transfers improving nutrition and increasing the use of health services (Gaarder, Glassman and Todd, 2010; Lagarde, Haines and Palmer, 2007; Manley, Gitter and Slavchevska, 2013; Ranganathan and Lagarde, 2012). Supply-side restrictions, such as availability of health services and programme design and implementation issues, are likely to play a role in determining the impacts on health and nutrition outcomes (Lagarde, Haines and Palmer, 2007). Alderman (2015) argues that as of today, impacts of social protection on nutritional status have in fact been smaller than expected.

For improved educational outcomes to generate inclusive growth, they also need to result in improved labour market outcomes for the beneficiaries. As for subsequent positive impacts of cash transfers on labour market outcomes, the studies reviewed by Molina-Millan et al. (2016) provide a mixed picture of labour market successes of past beneficiaries of Latin American cash transfer programmes.

It has to be noted, though, that in most instances the set-up of the scheme itself makes it difficult to carry out long-term impact evaluations with a valid comparison group. For example, Rodríguez-Oreggia and Freije (2012) find that even in the presence of improved schooling, the labour market outcomes of the beneficiaries of the Oportunidades programme in Mexico are not significantly improved. On the other hand, evidence from Nicaragua’s Red de Protección Social programme suggests a more positive impact on labour market outcomes of young adults ten years after the start of the three-year cash transfer programme.

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8 For reviews of evidence on impacts, see for example DFID, 2011; Bastagli et al., 2016; UNICEF, 2015; Baird et al., 2014; Davis et al., 2016.
9 For a review, see Molina-Millan et al., 2016.
10 For a review, see Araujo, Bosch and Schady, 2016.
11 Molina-Millan et al. (2016) find that the external validity of the study is weak due to high attrition and non-random selection of the beneficiaries studied.
It is essential to fill this gap in knowledge so as to better understand the conditions necessary for translating the receipt of cash transfers during childhood into better labour market performance later in life. A study of the Bono de Desarrollo Humano cash transfer programme in Ecuador shows that low initial education and lack of physical capital constrain overall social mobility (measured in terms of change in the Registro Social welfare index), but that receiving the cash transfer increases it (Mideros and Gassmann, 2017).

Improvements in basic education are not the only means to improve participation in employment and generate high-wage income. Labour market programmes can be aimed at increasing the recipients’ level of human capital through training or work experience. These programmes are generally aimed at youth or adults who do not have access to employment due to lack of adequate skills or the mismatch of their skills to demand. Such programmes are established as so-called active labour market programmes (ALMPs) in developed countries and have been piloted in some developing countries. In the presence of unemployment or underemployment, ALMPs designed to help adults or youth gain work experience or develop skills can produce significant gains by providing labour-market relevant skills and additional income. Such programmes can also involve employment services such as job search assistance.

A systematic review of youth labour market programmes worldwide shows that the impacts are generally mixed. The programmes have actually been more effective in achieving the desired outcomes, typically employment and earnings, in middle- and low-income countries (Kluve et al., 2017). This may be due to better targeting of the most vulnerable populations. The observed impacts are also higher if they are measured at least one year after the intervention. Explicit evidence on very long-term impacts of labour market programmes in developing countries is, however, not yet widely available.

Attanasio et al. (2015) and Kugler et al. (2015) have evaluated long-term impacts, three to ten years after implementation, of a training scheme in Colombia; and likewise Ibarrarán et al. (2015), six years after a programme in the Dominican Republic. Their findings point to improvements in the desired outcomes, though Kugler et al. indicate that the impact of the intervention has strong complementarities with baseline formal education.

In developing countries self-employment is often considered a better route to employment than formal salaried employment, which is scarce and likely to remain so in the short to medium term. Entrepreneurship programmes that provide training and other assistance such as access to finance also usually aim to directly create jobs.

Grimm and Paffman (2015) provide a systematic review of job creation impacts of entrepreneurship programmes in developing countries. They find that job creation is more likely to be achieved by establishing new enterprises than by increasing employment in existing companies. Hence, in the absence of formal job creation, they favour training aimed at establishing microenterprises. In a similar review, Cho and Honorati (2014) find that the most typical vocational and business training needs to be combined with financial support to achieve the strongest impact. Business training typically has an impact on learning outcomes, but less so on actual business activities. Cho (2015) in fact considers correctly identifying the beneficiaries and the type of businesses and activities to support, as well as the means to support them, as crucial to the success of entrepreneurship programmes.

In sum, social protection instruments such as social cash transfers, skills training for the labour market or entrepreneurship have the potential to improve human capital, increase employability or directly...
create jobs through self-employment. Reviews of the evidence\textsuperscript{12} help to identify the type of assistance (for example, training, job search assistance, subsidized employment, promotion of self-employment, or combinations of these elements with supporting services such as access to credit) that is most efficient in each context. It is notable, though, that the lack of formal job creation may prove problematic for the establishment of extensive social protection systems and taxation as well as the quality of jobs. This emphasizes the need to consider policies concerning formalization, enterprise regulation and taxation jointly with social protection.

### 2.2 Labour mobility

Sectoral shifts associated with structural transformation also induce geographical mobility of people, as manufacturing and services tend to be concentrated in cities and towns. Especially in sectors where labour is in excess supply, the expectation is that reallocation will directly increase productivity. Availability of remunerative employment opportunities, better living conditions with fewer risks, and the possibility of matching existing skills with those demanded trigger labour mobility. The existence of well-functioning labour markets would ideally be a prerequisite for smooth mobility, but in a typical developing country environment this is usually not the case.

Social protection encourages migration by protecting those who take the risk of moving away from their dwellings to other rural areas, secondary towns or larger cities. Such schemes may help finance job searches, and may also provide a regular income stream and income security to those left behind. They reduce the need for ex ante risk management, which can stop people from taking the potentially beneficial but risky decision to migrate.\textsuperscript{13}

Migration requires an initial investment for travel and resettlement costs. For credit-constrained households, cash transfers can provide the funds to invest in the migration of the household or its members. At the same time, the existence of social protection can also reduce the need for distress migration (a suboptimal coping mechanism) in case of economic shocks, such as crop failures, and thus may also enhance household welfare.

Evidence shows that income constraints do impede migration (Bryan, Chowdhury and Mubarak, 2014; Angelucci, 2015; Bazzi, 2012). By loosening these constraints, social protection facilitates migration, thus allowing the beneficiaries to take up opportunities for a better standard of living. As before, a large share of the existing evidence discussed below concerns cash transfers or social grants. There is limited evidence on social insurance and it concerns international migration, though social insurance could potentially also have impacts on internal migration as well.

Disincentivizing migration is not necessarily the goal of social protection schemes, although in certain cases it may be, but it may have such implications. For example, cash transfers that are only available in certain areas or that use targeting methods that effectively require continued residence in the area, such as community targeting,\textsuperscript{14} force the beneficiaries to weigh the risky benefits of migration against the certainty of cash transfers (Stecklov et al., 2005).

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\textsuperscript{12} For further review, see Betcherman, Dar and Olivas, 2004; Blattman and Ralston, 2015; Brown and Koettl, 2015; Card, Kluve and Weber, 2015; Cho and Honorati, 2014; Kluve et al., 2016 and 2017.

\textsuperscript{13} For a discussion on ex ante risk management and coping strategies, see for example Macours, 2013.

\textsuperscript{14} Universal social assistance programmes, and often social insurance as well, are by definition not associated with specific geographical areas.
The presence of informal insurance networks in places of origin may also disincentivize migration, as it often results in the loss of such networks and the weakening of social ties. Munshi and Rosenzweig (2009, 2016) show that in India strong informal insurance networks in villages, which provide access to loans to cover consumption expenses and for meeting contingencies, act as a deterrent to migration for the poorest, even in the presence of substantial income gains. They conclude that in such circumstances the introduction of a formal insurance or safety net would remove these barriers and allow more migration, especially for the poorest households.

There is some evidence that cash transfers with residence requirements can reduce migration. For example, Gonzalez-Konig and Wodon (2005) find that Mexico’s transitional PROCAMPO programme that provided farmers fixed payments to help them adapt to the new conditions created by the North American Free Trade Agreement did actually decrease migration. Nonetheless, in the model formulated by Angelucci (2012) of conditional and unconditional cash transfers and migration, the conclusion is reached that conditional cash transfers can decrease current migration, but increase future migration.

It should be noted that even residence requirements for social protection benefits do not necessarily reduce migration, either because they do not prevent all members of the household from migrating or because benefits from migration are expected to be much larger. The overall impact is hence essentially an empirical question, and to date there is fairly limited evidence on such impacts. A comprehensive review of evaluations of the migration effects of various types of social protection (Hagen-Zanker and Himmelstine, 2013) shows that it can encourage, discourage or have no impact on migration.

Social protection benefits may trigger migration by some members of the household, even if most of them stay in their original location. There is a fair amount of evidence that in South Africa the receipt of old-age grants in the household increases migration and subsequent employment of younger household members. Hence, even in cases where receiving the grant is conditional on the household remaining in a certain locality, they can indirectly induce migration.

The above are consistent with the view that there are opposing impacts of different magnitude, the overall impact depending on contextual factors and the relative magnitudes of the two opposing impacts. Indeed, for Mexico’s Oportunidades both positive (Angelucci, 2004, 2012; Azuara, 2009) and negative (Stecklov et al., 2005) impacts have been documented, the results overall suggesting that in the short run the scheme impedes migration but in the long run increases it, perhaps due to higher levels of schooling and improved work opportunities.

### 2.3 Reallocation of household labour

As structural transformation generally involves a reduction in the share and eventually the number of people employed in or dependent on agriculture, over the long term there will be a reallocation of resources (not only labour, but also land and capital) between sectors and units of production. Reallocation aims at moving resources towards more productive uses, and typically contributes to

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15 For further review, see Ardington et al., 2016; Ardington, Case and Hosegood, 2009; Posel, Fairburn and Lund, 2006; Sienaert, 2007.
overall productivity growth. For households in developing countries, labour is the main factor of production that can easily be reallocated to different activities.

Livelihood strategies in rural areas of developing countries are often diversified, with household members working in different agricultural and non-agricultural activities. There is not, however, a straightforward relationship between wealth and diversification or specialization. Both poor and wealthy households can diversify their incomes depending on available opportunities, but the reasons and implications of diversification vary.

Research shows that there are different types of diversification and heterogeneity in access to “good” rural non-farm jobs (De Janvry and Sadoulet, 2001; Ruben, 2001). Wealthier households often have more access to wage labour that may generate significant income. Low-wage seasonal agricultural labour or informal self-employment are poorer households’ means of diversifying their activities when their own agricultural production is low or risky (Davis, Di Giuseppe and Zezza, 2016; Davis et al., 2010).

For poor households, diversification can hence act as a means of ex ante risk management. It does not necessarily increase overall productivity but rather improves their ability to cope with adverse shocks and smooth consumption by providing an additional source of income. By preventing specialization, however, it may in fact reduce their overall productivity.

Whether diversification represents the first step to permanent increases in income depends also on the context. Haggblade, Hazell and Reardon (2010) point out that availability of employment in vibrant rural economies, as well as fundamentals such as health and education in rural areas, are essential for the poor to be able to take part in non-farm diversification in these areas.

These all point to the importance of accumulation of human capital and provision of further tools for households to improve their livelihoods. In India, where off-farm employment is growing rapidly, a detailed long-term study in one village shows that while initially off-farm employment mainly benefits those who are better off, over time the poor also gain from the expansion of the non-farm sector (Himanshu et al., 2011; Lanjouw, Murgai and Stern, 2013). Also, in Ethiopia, evidence indicates that off-farm activities essentially provide returns to households’ human and physical capital (Bezu, Barrett and Holden, 2012), while panel evidence from Senegal shows that having employment in the non-farm sector increases the probability of climbing out of poverty, but not as much as having a higher level of education (Dang, Lanjouw and Swinkels, 2017).

Social protection in such instances can improve and speed up the ability of people to gain from such opportunities through relaxed credit and liquidity constraints and improved skills. From the resource reallocation perspective, it may be more optimal that some farmers specialize completely in agriculture, while successful off-farm employment or business ultimately leads others to leave agriculture entirely.

Social protection programmes can help poor households make optimal decisions on diversification or specialization that may have been previously impossible due to high risks or credit constraints. In

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16 The context is not static either, as human capital accumulation affects the availability of income-enhancing opportunities.
addition to these immediate effects, the aforementioned long-term impacts on human capital provide further opportunities for reallocation of household resources to more profitable uses.\(^{17}\)

There is evidence from rural Africa that cash transfers impact the allocation of household labour.\(^{18}\) In many instances cash transfers have been found to reduce casual wage labour or increase on-farm effort, but generally there is no consistent pattern found across all evaluations. Evidence on changes in labour allocation also exists for Latin American cash transfer programmes. A study on Mexico’s PROGRESA programme shows that exposure to a conditional cash transfer programme decreases participation in agricultural work, particularly for youth between 19–21 years old, as it is replaced with non-agricultural employment (Behrman, Parker and Todd, 2011). Similarly, evidence from Nicaragua’s Red de Protección Social reveals increases in off-farm work and income (Barham, Macours and Maluccio, 2016, cited in Molina-Millan et al., 2016). There is also explicit evidence from Nicaragua on a combined cash transfer and training intervention that improves households’ risk management and increases total household income (Macours, Premand and Vakis, 2012).

However, the evidence has not yet established the role that diversification or specialization triggered by cash transfers plays in the transition of individuals or households from subsistence farming to higher-income activities over time. It is not generally known whether the changes in labour allocation triggered by cash transfers represent more efficient resource allocation, higher income and long-term transitions to different livelihoods, or simply improved risk management.

A recent study, however, shows that in Zimbabwe cash transfers trigger “opportunity-led” diversification into farm and non-farm activities among those households initially involved in low-wage agricultural labour. The choice of livelihood also leads to increased consumption expenditure, suggesting that it increases overall productivity and improves labour allocation (Pace et al., 2017). There is no impact of specialization in on-farm activities, though cash transfers seem to encourage diversification towards cash crops among those specialized in agriculture, which also increases household income. It is notable, though, that the impacts are heterogeneous: similar impacts do not occur among female-headed households.

### 2.4 Productive capital, technical efficiency and technology adoption

Productivity growth for a certain activity means essentially the ability to generate more outputs from the same amount of inputs. Increased amount of inputs naturally increase production whereas productivity growth or improvements in the ability to generate value added are attained through improved production technology or more efficient use of all available inputs.

By easing credit and liquidity constraints, cash transfers make it easier to obtain inputs such as seed and fertilizers or physical assets or, as explained in the previous section, increase the amount of labour used in agriculture. However, though such changes yield an increase in production, they do not as such necessarily improve productivity, or outputs in relation to inputs. Relaxing liquidity and credit constraints also facilitates access to information and the adoption of new technologies, thus allowing

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\(^{17}\) For agricultural productivity growth and the growth of other sectors, it is also essential to know whether the diversified activities are substitutes for or complements to farm activities, or perhaps a means of accumulating gainful skills to be used in the future.

\(^{18}\) For further review, see Asfaw et al., 2014; Boone et al., 2013; Covarrubias, Davis and Winters, 2012; Daidone et al., 2014a and 2014b.
more risky investment and experimentation with production methods. In other words, social protection can promote structural transformation through the “push” effect. In addition, these productivity effects amplify the direct welfare-enhancing impact of cash transfers.

There is a fair amount of evidence showing that many cash transfer recipients use some of the additional income to expand their production. In addition to obtaining tools or inputs, they have been shown to also increase their land cultivation. For example, Mexico’s PROGRESA has been shown to trigger land use for households that initially did not have any assets, though no similar impact could be found for expanding existing activities (Gertler, Martinez and Rubio-Codina, 2012). In Zambia, the country’s cash transfer scheme increased operated land area significantly (Handa et al., 2015), though this does not necessarily imply increased ownership of land or tenure security of the operated land. And in Bangladesh, an evaluation of the CFPR/TUP (Challenging the Frontiers of Poverty Reduction – Targeting the Ultra Poor) multiple components scheme, which includes cash stipends, asset transfers, skills training, increasing awareness and enhancement of networks, shows that it slightly increases land ownership among the recipients, though the increase in access to cultivable land owned by others is more significant (Rabbani, Sulaiman and Prakash, 2006).

The evaluations of cash transfer schemes, however, rarely involve measures of productivity. Though better quality inputs or productive assets generate improvements in land or labour productivity, an essential element in agricultural productivity growth is total factor productivity growth, arising from modernizing technology and improving efficiency in the use of inputs (Fuglie, 2008; Fuglie and Wang, 2012). In order to be able to deduce whether cash transfers lead to total factor productivity growth, one should explore if social protection either makes farming households more efficient or changes the production technologies they use. This suggests that interventions aimed at promoting productivity (e.g. extension services, training, access to technology, etc.) are needed to complement social protection interventions.

The few examples of evidence on productive efficiency (an element of productivity) are contradictory. Lovo (2011) finds that pension eligibility in South Africa increases both overall household technical efficiency as well as farm efficiency for those households that are only engaged in farming. Her interpretation of the results is that relaxing liquidity and credit constraints allows farm households to operate more efficiently.20

On the other hand, Tiwari et al. (2015) find exactly the opposite result. Cash transfers in Zambia slow down increases in technical efficiency compared to the control households, and this inefficiency is accentuated in low-income households. The authors’ conclusion is that advisory services are needed to complement cash transfers. Similar conclusions have been reached by Hoddinott et al. (2012) in the case of the Ethiopian Productive Safety Nets Programme, where public works have been complemented with productive support through the Household Asset Building programme. Hence, it seems likely that cash transfers alone are not adequate in all circumstances to increase productivity through gains in efficiency.

So far there is little evidence on the direct impacts of social protection interventions alone on changes in production technologies. Research on technology adoption in general shows that more educated (see Knight, Weir and Woldehanna, 2003) and less vulnerable farmers (see Dercon and Christiaensen, 2011) with larger farms are likely to adopt technologies first. Clearly there are barriers to technology

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19 For further review, see Daidone et al., 2017; Gertler, Martinez and Rubio-Codina, 2012; Handa et al., 2015; Pellerano and Barca, 2014.
20 In another paper she shows that liquidity constraints also guide a farming household’s labour supply choices; see Lovo, 2012.
adoption for poorer farmers that need to be overcome. These include financial barriers, but also those relating to access to the necessary information and the ability to make use of it. Cash transfers may help in overcoming some of these barriers, such as liquidity and credit constraints or the need to avoid risky decisions.

However, it seems reasonable to state that technology adoption cannot happen through cash transfers alone. The agricultural sector has a crucial role to play in ensuring that adequate technologies are available and that there is access to information on these and associated advisory services to facilitate their uptake. Soares et al. (2017) have reviewed the evidence from combined agricultural and social protection interventions. For most outcomes, such as investment in productive assets and land, diversification of crops, savings, and access to credit and income, evidence shows that combined interventions have a greater impact than single interventions. Technology adoption, however, is rarely among the directly measured outcomes, and long-term productivity impacts are largely unexplored.

2.5 Indirect impacts of social protection

Social protection can have impacts on non-recipients both through its role as insurance and through multiplier effects on local economies. For non-recipients, the knowledge of the existence of reliable social protection can enhance the ability and willingness to take risks. This is because social protection effectively serves as formal insurance against negative shocks. In the presence of informal insurance networks it also reduces the need to insure such risks for other households through the network. Hence, for example, a cash transfer scheme that has impacts described in previous sections could influence in a similar manner those not actually receiving the transfer, because they know that in case of future shocks they would qualify for a transfer and the members of their networks would receive formal assistance – thus reducing the need for ex ante risk management.

This could be particularly important in the circumstances of structural transformation, where the ability to bear risk may be essential for taking advantage of emerging opportunities. To date, little empirical evidence exists for this type of indirect impact, even from evaluations of cash transfer schemes. One of the few empirical studies exploring the indirect impacts of social protection in developing countries on non-beneficiaries (see Angelucci and De Giorgi, 2009) finds that Mexico’s PROGRESA had positive impacts on the consumption of non-eligible households in the villages studied. The authors associate the impacts with positive income shocks within risk-sharing networks, i.e. through reduced need to insure the risks of the poor in the same network and transfer money to them.

The lack of evidence is perhaps understandable, given that for such impacts to occur it is necessary to have a predictable and rapidly responding system with adequate benefit levels and institutional trust. Pilots or programmes in their initial stages, where there is no certainty of continuation and from which evaluation data is usually collected, do not necessarily satisfy these criteria.

Indirect impacts of social protection are also seen in the multiplier effects resulting from the injection of cash into local economies. In these economies, for example, cash transfers can stimulate local demand for goods and services and increase agricultural production. For structural transformation,
these impacts can be significant in stimulating local production in farm and non-farm sectors and further contributing to local economic development, helping to trigger a virtuous circle of increasing economic activity.

The impacts occurring through the local income multipliers are not usually studied in the context of impact evaluation. Methodologically, it is difficult to disentangle such impacts by using the standard impact evaluation method of comparing outcomes in a control and a treatment group within the same community. In fact, they can contaminate the control group outcomes and influence the impacts estimated in randomized controlled trials.

However, simulations using local economy-wide impact evaluation (LEWIE) models can provide an estimate of the effect on the local economy (Taylor, 2012). Such models take into account the interlinkages between eligible and ineligible households, the links of the local economy with the rest of the country, and wage and price changes following from the increased consumption. For example, when considering an expansion of the programme, they take into account how the scale of the programme influences the impact – something which is impossible to observe in an impact evaluation done on a limited scale. By using these simulation exercises, local economy impacts have been found to be significant for example in the cases of cash transfer schemes in Ethiopia, Ghana, Zambia, Lesotho and Malawi.

2.6 Distributional impacts

Growth does not necessarily benefit the poorest, and can in fact accentuate inequality (Bourguignon, 2004; Kanbur, 2000, 2001; Ravallion, 2001, 2013). Economic transformation by no means guarantees that all regions or segments of the population will gain equally at all stages of the process. Reducing inequality can have a positive impact on growth, hence redistributive policies such as social protection are also necessary for sustaining this growth (Aghion, Caroli and Garcia-Penalosa, 1999; Ostry, Berg and Tsangarides, 2014). This emphasizes the importance of establishing social protection to guarantee minimum standards of living also for those who do not gain from economic growth.

Structural transformation involves changing demand for labour across sectors, which leads to changing returns to different skills, hence impacting the distribution of wages and income. Skills required by manufacturing and services are generally different from those required in agriculture. Changing the educational level of the population is a slow process and even with an expansion of the education sector, relatively swift changes in demand can lead to rapidly changing returns to skills (Ray, 2010). Furthermore, segmentation of labour markets into the high-productivity formal sector

22 In other words, LEWIE models allow calculation of the general equilibrium effects of a programme.
23 For further review, see Filipski and Taylor, 2012; Kagin et al., 2014; Taylor et al., 2013; Taylor, Thome and Filipski, 2014; Taylor et al., 2014; Thome et al., 2014, 2015.
24 Once extended beyond a community level to concern countrywide programmes, such models need to take into consideration the funding of the programmes. For example, transfers of income such as cash transfers, together with changes in taxation to fund them, generate impacts through the redistribution of income, the reallocation of consumption across commodities, and the distortions created by taxes. The impacts also depend on the structure of the economy (Coady and Harris, 2004).
25 Skill-biased technical change which leads to polarization of labour markets and accentuates income inequality is also a global concern and subject to a large amount of economic research; see for example Acemoglu, 2002.
and informal sector is yet another source of inequality if the share of formal employment does not grow with the economy.

Overall, increases in inequality can arise from changing returns to education and from changing the distribution of employment opportunities when matching the skills demanded with those supplied. For example, increasing returns to education have been a major contributor to income inequality during China’s transformation (Luo and Zhu, 2008). Easterly (2007) emphasizes the differences between inequality caused by market forces (such as in China) and that arising from structural differences in factor endowments (such as in South Africa). Pre-existing inequality in educational attainment or access to education can lead to accentuated inequality.

These factors stress the importance of social protection in contributing to evening out the opportunities to accumulate human capital and, as the human capital impacts take a long time to fully materialize, to providing protection for those for whom structural transformation reduces the returns to their skills or assets.

Returns to, and the distribution of, productive capital also change over the course of structural transformation. In particular in terms of rural poverty, land ownership and inequality in asset ownership are factors that can maintain or accentuate income inequality even if agricultural productivity grows.

Depending on the speed of agricultural productivity growth and the respective growth in productivity of manufacturing and services, regional disparities may also deepen during the process. In the beginning of the transformation process, income inequality between rural and urban areas typically worsens (Timmer and Akkus, 2008). Hence, rural poverty cannot be neglected even when some of the population are able to escape through migration.

During structural transformation the emergence of precariously employed urban populations and rural informal working poor will also present a challenge. This is particularly the case if social protection schemes are largely based on the assumption that the majority of the poor come from labour- or land-constrained rural households that generate their income from agriculture. In Africa, the “youth bulge” combined with limited creation of formal jobs is a source of concern. Such challenges call for social protection that, in addition to encouraging human capital accumulation, responds to the changing needs of the population. Specific labour market programmes, for example ones with an emphasis on self-employment, could be at least a partial solution to the issue of job creation and youth unemployment (AfDB, 2015; AfDB, OECD and UNDP, 2012).

It is clear that structural transformation does not reduce the need for social protection. On the contrary, the changing structure of income and employment may even accentuate the need for social protection interventions – adapted to the changing needs of the population and the economy – to ensure inclusiveness of the process. At the same time, economic growth also makes the expansion of social protection feasible.
Country experiences of structural transformation and social protection

Generally, higher gross domestic product (GDP) is accompanied by a higher share of spending in social protection, though there is large heterogeneity within regions (World Bank, 2015). The degree of structural transformation (measured by the share of non-agricultural production) does not have a straightforward correlation with the level of spending on social protection within each region.

In sub-Saharan Africa and South Asia, however, the countries with the highest share of non-agricultural production also have the highest share of spending on social protection (Figure 2). In regions where the share of non-agricultural production is already high throughout the region (Near East and North Africa, Europe and Central Asia, and Latin America and the Caribbean), the level of spending on social protection nevertheless varies.

These observations illustrate that although there are most likely underlying relationships between structural transformation and social protection, country-specific factors and conscious political decisions play an important role in determining the outcomes. Generally, higher GDP is accompanied by a higher share of spending on social protection, though there is large heterogeneity across countries. Over the last decades, spending on social protection has gone through adjustments, as it is increasingly perceived that poor countries can also afford it, and indeed require it (Barrientos and
In this section we review regional experiences and discuss three cases (Mexico, Viet Nam and Zambia) that face different challenges but have similar goals in creating comprehensive social protection systems.

Countries and regions are at different phases of structural transformation and have taken diverse approaches in expanding social protection to ensure inclusiveness and contribute to economic growth. The timing of expansion of social protection vis-à-vis structural transformation varies: as shown by the example of Mexico, it can take place as a response to increasing inequality, after a significant shift towards urban and non-agricultural production has already occurred, whereas in Viet Nam, it can largely coincide with structural transformation, with economic growth playing a large role in allowing the expansion. In Zambia the establishment of social protection seems to precede major structural transformation, but social protection is also yet to reach a large scale and its role in structural transformation remains to be seen. The case studies also highlight the difficulties faced in creating a system of social protection that matches with the process and needs of economic and social development.

At the regional level the picture is significantly more mixed. Latin America went through significant structural transformation over the second half of the 20th century and as seen in Figure 2, the economies are now largely non-agricultural. Overall productivity growth in the region has, however, been relatively disappointing recently (IFAD, 2016). The transformation process has in many ways followed the traditional path of structural transformation, with strong urbanization and a steeply declining share of agriculture in employment, but the countries are also currently experiencing “premature deindustrialization” (see Castillo and Martins, 2016; Rodrik, 2016) which partly explains the sluggish productivity growth. Latin American countries have managed to reduce some of the extreme inequalities that persisted pre-2000 at significant fiscal costs. This has been partly due to the expansion of non-contributory social protection, social pensions, health insurance and conditional cash transfers.

The development of social protection systems occurred in response to the growth of inequality during the debt crises of the 1980s and the subsequent structural adjustment measures, rather than preceding or coinciding with the transformation of these economies. The dual structure of social protection – extensive non-contributory social protection coexisting with contributory systems – together with high levels of informality present a challenge to expanding and deepening the system in a fiscally sustainable way (Levy and Schady, 2013).

Structural transformation has progressed rapidly in the Asia and Pacific region (especially East and Southeast Asia) during the last four decades, resulting in decreasing poverty trends (Briones and Felipe, 2013; IFAD, 2016). Social protection spending in Asia as a percentage of GDP has also increased over the past 20 years in most countries of the region (OECD, 2014). There was major pressure to expand social protection in Southeast Asian countries after the Asian financial crisis in 1997–1998, which hit the Asian Tigers’ worst. Thailand, Malaysia and Indonesia had also experienced very steep growth without, however, establishing any significant social safety nets. As in Latin America, social protection emerged as a priority following crises, rather than a by-product of

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26 Movement of labour into relatively low-productivity (though higher than productivity in agriculture) and typically informal services instead of sectors with the highest productivity levels and growth, such as manufacturing or high-productivity services.
27 The contributory social insurance system in Latin America is often, if anything, regressive; see Ferreira and Robalino, 2010.
28 For further review, see Barrientos, 2014; Ferreira and Robalino, 2010; Lustig et al., 2016.
29 Singapore; Taiwan Province of China; China, Hong Kong SAR; and the Republic of Korea.
economic growth. Moreover, since 1990 economic growth has not been particularly inclusive, with inequality increasing in the largest countries of the region (Jain-Chandra et al., 2016).

The progress of structural transformation across Africa has been heterogeneous. Some countries have experienced an earlier shift in employment away from agriculture, while others have experienced it late, if at all (Enache et al., 2016). The level of agricultural productivity as well as agricultural productivity growth are on average low compared to the other regions. In both Western and Central Africa as well as Eastern and Southern Africa, countries that have managed to generate agricultural productivity growth have generally also decreased poverty (IFAD, 2016). The pattern of productivity growth in Africa also involves “premature deindustrialization” (Rodrik, 2016).

Social protection has gradually taken root in Africa over the past 15 years. The trend has gone from emergency assistance to development of more sustainable solutions and towards widespread recognition of social protection as a right, and as a guarantee of inclusive growth and poverty alleviation.

There is a variety of programmes trending towards the gradual expansion of coverage and development of nationally owned social protection systems. Virtually every country in Eastern and Southern Africa has developed, or is in the process of developing, a social protection policy, and has a social transfer programme. Similar trends can be seen in West, Central and Northern African countries (AUC and UNICEF, 2014).

On average, Africa still lags behind other regions in terms of social insurance coverage (ISSA, 2014). Very high degrees of informality and low incomes among such population groups present a significant challenge. In addition to social assistance, there have been some efforts to expand the coverage of contributory social insurance to informally employed vulnerable groups, for example with social health insurance, either through expansions of the national scheme or through community-based social health insurance. There is, however, a need to create contributory social insurance that has a broader and more stable financing base than non-contributory schemes (ISSA, 2014).

Given the still lagging agricultural productivity and the poverty-reducing impact of agricultural growth, social protection in Africa also needs to be combined with policies that increase agricultural productivity and facilitate structural transformation. Though agriculture is central to the livelihoods of the poor, and relatively poor smallholders constitute a large share of farmers in sub-Saharan Africa, social assistance programmes have not usually been fully aligned with agricultural programmes (Dorward et al., 2006; FAO, 2016).
Figure 2. Structural transformation and share of GDP to social protection (countries by region)

Source: FAO, 2015b.
Figure 3. Structural transformation in Mexico

Source: Authors’ elaborations based on world development indicators (WDI).

Figure 4. Structural transformation in Viet Nam

Source: Authors’ elaborations based on WDI.
3.1 Mexico

The structural transformation process of Mexico in some ways follows a conventional path, with strong urbanization and declining shares of agriculture in employment and GDP (Figure 3). The country experienced a strong economic takeoff in 1950 followed by steep improvements in productivity during the next 30 years. These were associated with urbanization and declining employment as a share of agriculture. About 80 percent of the population lived in urban areas in 2016 (already 50 percent in 1960). The share of agriculture of GDP declined from 13.7 percent in 1965 to 3.5 percent in 2000, and has since stayed relatively stable, with the employment share currently at 12.6 percent.

From the 1980s until recently, however, productivity growth in Mexico was relatively disappointing, and today has not yet reached levels similar to developed countries (OECD, 2017; Padilla-Pérez and Villarreal, 2017). Agricultural productivity, mostly stagnant during the 1980s, has been increasing in the last two decades. It is still much lower than in other OECD countries, but at USD 5 500 per worker it is higher than in many Asian countries, and significantly higher than in regions that lag behind (namely sub-Saharan Africa). Social protection in Mexico has been essential to tackling the issue of increased demand for skills and growing skill premiums that have followed the structural changes in the economy. Despite structural transformation, there is still scope for improving agricultural and overall productivity, with social protection playing a role without deterring profitable reallocation.

Since the 1990s the Mexican economy has integrated into the global economy to a much greater extent than before. Exposure to the global economy has increased the demand for skilled labour but also widened wage differences (Hanson, 2007). Mexico provides an example of a country that used social protection instruments to combat poverty and inequality, which was accentuated by the
increasing demand for skills that typically follows structural transformation. The expansion of social protection entailed the introduction and expansion of social assistance, namely the conditional cash transfer programme Prospera in 199730 aimed at directly improving schooling and health outcomes.

Inequality in the country showed a downwards trend from 1996 until 2008, and this has contributed to decreasing poverty. The decline in inequality is to a large extent attributable to falling skill premiums, mostly due to an increased supply of skills (Lustig, Lopez-Calva and Ortiz-Juarez, 2013; Campos-Vázquez, Esquivel, & Lustig, 2014). After 2008, however, inequality has again shown signs of increase31

Improving skill accumulation at the lower income levels is essential for generating inclusive growth. Indeed, the aim of the cash transfer programme is to interrupt the intergenerational transmission of poverty by improving human capital accumulation of children rather than directly redistributing income. In addition, government transfers have had an immediate impact by decreasing income inequality (Campos-Vázquez, Esquivel, & Lustig, 2014). The largest impacts of the programme through increased levels of education in numerous cohorts of population are, however, expected to materialize in the long run, and are largely yet to be analysed in detail.

Despite the relative success of the programmes, the availability of quality education services is an essential complement to the transfers that requires attention. The quality of these services has raised concerns: for example, OECD (2015b, 2017) and UNDP (2016) emphasize the importance of improving education in order to upgrade the skills of the population. Yaschine (2015) argues that if policies are not given further support, Oportunidades alone will have very limited impact on labour market outcomes and intergenerational mobility.

In addition to cash transfers, the Mexican social protection system has been expanded by introducing non-contributory pensions and universal access to health services for those outside formal employment (Bosch and Campos-Vazquez, 2014; OECD, 2017). These schemes were deemed necessary due to the high levels of informality. According to some researchers, however, the coexistence of asymmetric non-contributory and contributory social security with social protection for informal workers contributes to the low productivity levels by indirectly incentivizing informality (Busso, Fazio and Levy, 2012; Levy, 2009, 2010; Levy and López-Calva, 2016).

Reallocation of resources across sectors alone does not contribute to productivity growth when resources are moving towards slow-growing, relatively low-productivity sectors (Córdova and Padilla, 2016; OECD, 2017; Padilla-Pérez and Villarreal, 2017). Lopez-Calva and Levy (2016) argue that the misallocation of resources has also contributed to the aforementioned reduction in returns to skills, as high skills are less valuable in low-productivity sectors where informality is common.

Sluggish productivity growth, however, is mainly a result of market failures and frictions in the Mexican economy, such as the functioning of credit markets and inefficient regulation. According to Hanson (2010), social protection alone cannot be a significant contributor to high informality, as high rates of informality predate the introduction of social protection and the provision of non-contributory social security. Nonetheless, some of the efficiency losses are due to the implementation of coexisting schemes in formal and informal sectors. OECD (2015c) recommends a number of measures to improve both the benefit levels for the poor and coverage of contributory pensions, such as better alignment of the two systems and a lower withdrawal rate in the non-contributory pension.

30 Previously named PROGRESA and Oportunidades.
31 World Bank, GINI Index for Mexico [SPIOVGINIMEX], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SPIOVGINIMEX , April 24, 2019.
Agriculture’s share of employment in Mexico is among the highest in OECD countries. Parts of the sector are still traditional and labour productivity is lower than other sectors (OECD, 2017). Poverty is mostly rural and predominant within smallholder agriculture (Gordillo, Méndez and Ruy-Sánchez, 2016). Smallholders typically earn a large share of their income from other sources (including from public transfers), and any reduction in poverty is mainly attributed to growth in those incomes. Higher agricultural productivity and rural development have the potential to boost the incomes of poor farmers. Agricultural policies are, however, for the most part regressive, the least regressive being ProAgro that also targets smallholders (Gordillo et al., 2016).

3.2 Viet Nam

Viet Nam is an example of a country that is currently experiencing rapid structural transformation, as agriculture’s employment share in the country has declined steeply over the last 15 years (Figure 4). It has also managed to reduce poverty through economic growth. The Doi Moi economic reform process in 1986 started a period of high growth in Viet Nam, with poverty rates falling significantly during this period (Jain-Chandra et al., 2016; UNDP, 2016).

Urbanization has been rapid, and research shows that rural–urban migration has been a means to increase incomes in the face of lack of opportunities or shocks in areas of origin (Narciso, 2015; Nguyen, Raabe and Grote, 2015). Though growth itself has been poverty-reducing, some regions and population groups are still lagging behind. Ultimately, strong policies are needed to even out disparities (Klump, 2007). Recently productivity growth has been slowing, raising concerns about the inclusiveness of future growth and calling for a reassessment of policies.

It is worrying for rural-urban disparities that agricultural labour productivity growth has been slower (World Bank, 2016). This is partly due to the fact that options for improving productivity, such as expanding the area of cultivated land or increasing the use of fertilizers, are mostly exhausted (OECD, 2015a). Viet Nam is not abundant in land, hence agricultural labour productivity growth can mainly be achieved by efficient use of resources and technology adoption.

Off-farm activities have grown in importance, and microdata reveal a trend away from specialization in agriculture as well as the welfare-enhancing role of such diversification (Newman and Kinghan, 2015). However, only better-off households appear to have left agriculture. Without inclusive rural development, inequality may increase, though the shortage of land emphasizes the need to enable rural households to transition out of agriculture as a way of increasing their incomes.

Together with other policies such as structural reforms (in public administration, state and banking sectors, and the labour market), nurturing technology and innovation, and improving education and health care, social protection is needed for inclusive productivity growth (UNDP, 2016). Development and expansion of social protection in Viet Nam came after economic growth, but significant gaps remain. Despite the reduction in poverty, movements in and out of poverty are frequent, showing that vulnerability to poverty is still significant (Kidd, Gelders and Bailey-Athias, 2017). Some of the most disadvantaged population groups in Viet Nam include ethnic minorities living in remote areas and disabled people (UNDP, 2016).

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32 Previously PROCAMPO.
Social insurance was expanded in 1995 to cover employees in the private sector, and the system is largely life-cycle based. Social insurance, however, mainly applies to formally employed workers or to those with indefinite contracts in companies above a certain size (Kidd et al., 2016). Voluntary enrolment in some elements of social insurance is available for the informally employed, but enrolment rates are low. Heterogeneity of the informal sector further complicates the issue. As in many developing countries, the sector consists of employees working for survival and relatively well-off individuals who voluntarily choose to operate informally (Huong et al., 2016).

Access to social security in Viet Nam is guaranteed by law since 2013. However, social assistance for the poor remains limited, and its impact on poverty has been minimal due to low coverage and low expenditures (Kidd et al., 2016). Existing schemes include transfers to orphans, scholarships for poor and ethnic minority children, and transfers to people with disabilities. Direct cash support to the poor is limited (the only benefit granted is an electricity grant). Targeting consists of a mix of community selection and an objective assessment of well-being, which suffers from the usual targeting issues.

Yet another source of inequality and a potential barrier to labour mobility is the residence registration system Ho Khau, which effectively limits temporary migrants’ access to public services (i.e. schooling). The system has gone through some reforms, though the perception is that it still constrains mobility.33

Further modernizing the economy will also require increasing levels of skills. Provision of complementary services such as health and education has also been growing. Viet Nam spends a relatively large share of GDP on education and health compared to countries of similar income levels (UNDP, 2016). Educational attainment has improved significantly, as almost all children currently attend primary school. However, there is still a clear gap in educational opportunities between the rich and the poor at higher education levels.34

Viet Nam has, however, already made significant progress towards universal social protection by expanding health insurance. After the economic reforms of the 1980s, out-of-pocket health costs rose, resulting in the need to introduce health insurance schemes aimed at the poor (Somanathan et al., 2014). The Vietnamese Government’s aim was to have universal health insurance covering all citizens, and the coverage of social health insurance has indeed increased rapidly to 82 percent currently,35 though it still faces challenges in quality and service delivery (UNDP, 2016).

3.3 Zambia

The Zambian economy is an example of a natural resource-based economy that is suffering from both persistent poverty and low agricultural productivity, despite recent strong GDP growth (Figure 5). The majority of Zambians still rely on agriculture as nearly 60 percent of households are engaged in agriculture. The country is urbanizing, and according to projections, 45 percent of the population will live in urban areas by 2025 (AfDB, OECD and UNDP, 2016).

Structural transformation has not progressed much, and seems to lack the characteristics of rapidly transforming countries such as Viet Nam (that is, strong industrialization). This implies that economic growth may not be automatically poverty-reducing, and that reforms and policies are still needed to kick-start structural transformation and relief from poverty. The large role of agriculture emphasizes

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33 For further review, see World Bank and Ministry of Planning and Development, 2016; World Bank and Vietnam Academy of Social Sciences, 2016.
34 For further review, see World Bank and Ministry of Planning and Development, 2016.
the importance of providing production support to this sector, though policies should also be aligned with poverty reduction aims.

Economic growth has reduced poverty only marginally, as 41 percent of Zambians still live in extreme poverty. Poverty rates are much higher in rural as opposed to urban areas. Inequality is also high by international standards, and continues to rise. Zambia needs both to make growth more inclusive, in particular in rural areas, and to stimulate agricultural productivity growth with simultaneous creation of high-productivity jobs in other sectors.

Agriculture’s contribution to GDP growth has been small and the growth rate of agricultural productivity has not shown signs of acceleration; if anything, it is stagnating (Chapoto and Chisanga, 2015). The single most often cited obstacle for increasing agricultural production and productivity of poor smallholders in Zambia is “inadequate funds to purchase inputs” (CSO, 2016). This suggests the first step to increase smallholders’ production would be to relieve liquidity constraints.

Income diversification is linked to higher incomes, but endowments such as land, human capital and access to markets and finance are the gateways to diversifying into such high-income activities (Bigsten and Tengstam, 2011). A study of poverty dynamics indicates that in addition to improved agricultural production and education, migration provides a pathway out of poverty (Chapoto et al., 2011).

Interventions to support poor smallholders include the Farm Input Subsidy Programme (FISP), which consists of seed and fertilizer as well as institutional purchases of maize through the Food Reserve Agency (FRA). Though these programmes continue to take the lion’s share of the pro-poor budget, their poverty-reducing impacts are yet to be fully ascertained. So far, it seems that FISP is not generating large productivity gains in relative terms for those who receive it. The research attributes this to implementation issues and crowding out of private purchases (Mason, Jayne and Mofya-Mukuka, 2013a and 2013b; Mason and Tembo, 2015).

In urban areas the SCT scheme currently only covers households affected by disability. Though urban poverty is still much lower than in rural areas, increasing urbanization and a high degree of
informality, coupled with the lack of manufacturing employment, raises concerns for the future. For future job creation, the human capital-enhancing role of social protection is of major importance.

Increasing concerns about persistent poverty and income inequality led to the establishment in 2014 of the National Social Protection Policy (NSPP), which acknowledges the important roles of social protection. The NSPP outlined a plan to provide full coverage of social assistance for the poor and vulnerable, introduce nationwide social health insurance, expand pension insurance to the informally employed as well as reform and streamline the livelihood empowerment schemes. Its effectiveness and contribution have yet to be assessed.

3.4 Key messages from the country examples

A number of key messages emerge from the previous examples and overall discussion. First, it is evident that structural transformation processes are diverse and not necessarily benign in terms of productivity, income growth and social change. Second, the paths of transformation depend on the context and initial conditions, and can be shaped by strategic policy choices but also the external environment. Third, there is no conclusion to the paths of transformation, but rather they are mechanical processes of continuous change in the productive structure of economies and societies. Fourth, while these can accommodate welfare objectives in terms of poverty reduction and reduced inequalities, this is not automatic or straightforward.

In terms of social protection, there are four key messages, which are discussed further below. First, it is of major importance to expand social protection earlier rather than later to prevent marginalization of those left behind, even when overall poverty rates are decreasing. Second, the role of agriculture cannot be downplayed for countries where it is still a source of income for a significant part of the poor population; hence agricultural policies need to be aligned with social protection. Third, as incomes grow it is also important to pay attention to formalizing employment. Fourth, social protection needs to adapt to mobility.

Income disparities due to differences in access to education or productive activities can persist, accentuate or even emerge during structural transformation, such as the rural-urban divide, the gap in access to services between migrants and locals in cities, or the lagging welfare of ethnic minorities. The reasons for such differences can be institutional or based on gaps in initial endowments of skills or capital. It is important to anticipate these issues and start evening out fundamental differences such as access to quality education before transformation speeds up.

Agriculture should not be downplayed, even as the number of people dependent on it diminishes during transformation. Rural populations are at risk of being marginalized in countries undergoing rapid structural transformation and urbanization processes if they turn out to be dualistic. Often those least able to make a successful transition to the industrial and service sectors remain dependent on small-scale, often low-productivity agriculture. At very early stages of structural transformation, this is the situation for the majority of the population. A widespread increase in agricultural production is needed, even with the looming urbanization. Such improvements can be supported, for example, by combined input support and cash transfers.

In countries where natural resources are already under considerable pressure, a significant expansion of agricultural activities through increased use of inputs is not possible. Any assistance provided would need to be based on improving efficiency and production technologies. In countries where
transformation is well under way and off-farm activities are already of high importance in increasing household income, gaining access to more lucrative off-farm sources of income is an important route out of poverty.

The formalization of jobs is necessary for the expansion of social protection schemes. Formal employment facilitates the creation of social protection systems with high coverage and fiscal sustainability. In less transformed countries, significant rates of formality are still a long way off. For more transformed countries, the issue of reconciling non-contributory social programmes and contributory social insurance is imperative, and the discrepancy between the two may impede resource reallocation towards more productive uses. Hence, formalizing employment along with structural transformation is not only desirable, but necessary.

Mobility of people can take off rapidly with structural transformation, and can be a way out of poverty. Though poverty may remain higher in rural areas, the lack of consideration for mobile populations can leave significant gaps in the coverage of social protection. Creation of universal systems is important, and social assistance should also ultimately cover urban areas, as there is no guarantee that poverty will remain a rural phenomenon.

Opportunities for building human capital should be provided in rural areas to allow for gainful mobility. Potential institutional barriers to accessing services, such as residence registration systems, should be designed to accommodate circumstances and allow access to those who decide to move.
Development of social protection systems and programme design

In this section, we discuss how the design of social protection can be used to reinforce structural transformation and make it more inclusive. We also outline some of the choices to be made when building social protection mechanisms.

Generally, structural transformation generates changes in the demand for skills, leading to unemployment for some people, and increasing the need to accumulate human capital at all stages of the life cycle. In turn, social assistance\(^\text{36}\) for the poor not only provides relief from poverty but can enhance risk-management ability, as well as contribute to inclusive growth and redistribution of income. However, social assistance programmes aimed only at the poor may, in practice, have features that are not always consistent with high levels of mobility. The social protection approaches that focus on identifying those most in need can be problematic, as identifying the poor is somewhat arbitrary when a large share of the population has low income or consumption and the differences between poor and non-poor are small. Identification can be based on some predefined criteria or on

\(^{36}\) There are two basic approaches to social protection. A comprehensive life-cycle approach aims to provide benefits using a mix of non-contributory (social assistance) and contributory (insurance) social protection at all phases of the life cycle, as well as active labour market policy (e.g. training, public employment services, employment subsidies) to facilitate labour reallocation. At the other end, the poverty relief approach aims to identify those defined as poor and provide them with some form of social assistance to improve their risk-management capacity and provide relief from extreme poverty and food insecurity. In practice, social protection systems often fall somewhere between the two extremes.
a simple categorical approach, such as selecting individuals of a certain age group irrespective of their income or having other characteristics such as disability, or a combination of the two. Programmes can also be made available in geographically limited areas, usually ones that have the highest level of vulnerability.

Especially in the context of structural transformation, the methods used to identify the poor may limit the potential positive impacts of social protection interventions on both beneficiaries and non-beneficiaries and, in the worst instances, provide perverse incentives. There may even be explicit requirements to the grant that hinder actions or provide disincentives for diversification or transformation (Samson, Van Niekerk and MacQuene, 2010; Sedlacek, Ilahi and Gustafsson-Wright, 2000). For example, many targeting mechanisms give, by design or because of their implementation, incentives to remain in a specific area or below a certain income or consumption threshold.

Optimally, social protection would ease the transition to different types of activities, sectors or areas.

Poverty as a demographic tends not to be static: at the same time that people are escaping poverty, there are a number of other people falling into it. It is conceivable that major changes in an economy, such as those resulting from structural transformation, can result in more turnover or at least higher perceived risks, emphasizing the need for preventive instruments in addition to those dealing with chronic poverty (i.e. protective measures).

Implementation of social protection also requires systems for managing data collection on potential beneficiaries, selection of recipients and delivery of actual benefits. The development of efficient management information systems or registries, verification of and validation of data, and mechanisms to deliver the benefits are essential for the purpose of portability and effective universality of social protection. This requires a high level of institutional capacity and should be seen as a long-term goal, rather than something that can be attained in the short term in the poorest of countries.

Structural transformation and economic growth make it feasible to expand social protection. Historically, the systems initially based on the “poor relief” approach have moved towards a life-cycle approach as incomes have grown. In most developing countries, programmes exist for the formally employed, though with relatively low coverage. Indeed, several middle-income countries have recently effectively introduced universal health and social pension schemes (Ortiz, Schmitt and De, 2016a, 2016b).

Institutional and human capacity constraints, insufficient political will and limited amount of tax revenue are often among the barriers to the establishment of comprehensive and extensive social protection systems. As Pritchett (2005) points out, social protection budgets are also endogenous to the design of such programmes.

Programmes that are broader in coverage or that serve effectively as insurance for a larger share of the population may generate more political support, when the majority of the population is not poor. Systems with inadequate coverage are still, however, the reality in many developing countries. Limited institutional capacity is also an issue that needs to be resolved in many countries to allow for the expansion of social protection (Niño-Zarazúa et al., 2012).
Conclusions

Social protection interventions have been shown to generate a range of impacts on their beneficiaries. Within the process of structural transformation they may play a role in preparing households and individuals for livelihood changes by strengthening human capital accumulation and allowing investments in more risky but potentially more profitable activities. In turn, human capital improvements and labour mobility may support structural transformation dynamics directly or indirectly, both within and across generations.

In terms of their protective role, given that not everybody is able to gain from structural transformation, social protection may provide protection against poverty for those who cannot participate. There is also scope for social protection to contribute to increasing agricultural productivity. There is, however, still little evidence on its contributions, if any, to technology adoption or increasing productive efficiency. Nevertheless, social protection will need to be complemented with agricultural interventions that improve technical skills and access to improved technologies to fully produce such gains.

Equally important for structural transformation and its inclusiveness is the building of human capital to allow access to high-productivity jobs outside agriculture, both through education and improved health and nutrition. Cash transfers or grants such as child grants, as well as fee waivers and school feeding programmes, can make it easier to improve human capital, but to reap the maximum gains they need to be complemented with efficient service delivery in health and education. It should also be noted that there are still knowledge gaps on how improved school attendance in childhood can be best converted into better labour market outcomes in adulthood and ending the intergenerational transmission of poverty.
To fulfil their potential, social protection systems need to be flexible enough to allow geographical and sectoral mobility to fully exhaust the gains from improving households’ risk-bearing capacities during structural transformation. Programme design and targeting mechanisms need to adapt by creating transferable benefits or social protection floors that provide a minimum income in specific circumstances, or better still, that respond to vulnerabilities at all stages of the life cycle. These require a high level of institutional capacity, which is yet to be developed in many countries. In the future, targeting and delivery mechanisms also need to be developed to respond better to mobile populations’ needs, including better information systems. Financing needs of more comprehensive systems and higher benefit levels also most likely require expansion of contributory social insurance, together with tax-financed benefits. In effect, this goes hand in hand with formalization of employment.

This does not, however, mean neglecting the fact that poverty in developing countries is still largely concentrated in rural areas. In addition to agricultural support programmes, carefully designed labour market and income generation programmes may encourage creation of employment outside agriculture and accumulation of the skills needed for changing circumstances.

Particularly problematic are those countries for which both transformation and inclusion are lagging behind. They are faced with the difficult task of achieving both goals – increased inclusiveness and productivity growth – simultaneously, or balancing the redistributive and economic efficiency goals. It is unlikely that social protection alone can generate productivity growth in agriculture or create the jobs or opportunities needed in other sectors. The need for other policies, however, does not undermine the importance of social protection to support inclusive growth.

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37 For example, Atkinson (2015) recommends universal taxable child benefits coupled with a broad tax base and progressive tax rates to combat inequality.
References


Paris, UNESCO.


Structural transformation involves the reallocation of resources from less to more productive uses. It involves growth in agricultural productivity and generation of higher productivity jobs in other sectors. In the longer-term, it can also support poverty reduction.

However, the transition process and its outcomes are frequently challenging – especially among the poor and vulnerable people and households, given the economic and social forces that pressure them to adapt to realities faster than they are able to.

This paper demonstrates how social protection policies and programmes can contribute to structural transformation, smoothen the transition for the poor and vulnerable and facilitate changes in their livelihoods such that they are able to actively participate in the process of structural transformation.