

Policy
Papers
04

A black and white photograph of two young boys running along a waterfront. The boy on the left is wearing a plaid shirt and shorts, while the boy on the right is wearing a plaid shirt and pants. They are both smiling and running towards the left. The background shows a body of water and a distant shoreline with trees and buildings.

Investing in People

Social investments
for economic transformation

Published in 2026 by the United Nations Educational, Scientific and Cultural Organization, 7, place de Fontenoy, 75352 Paris 07 SP, France and 'la Caixa' Foundation, Palau Macaya, Pg. de St. Joan, 108, 08037 Barcelona, Spain

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ISBN: 978-92-3-100867

EAM: 9789231008672



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Cover photo: Safayet Hossain Shanto/ UNESCO Youth Eyes on the Silk Roads

Cover design: Ana Carrasco/Arbelaitz Creative Studio

Graphic design and typeset: Ana Carrasco/Arbelaitz Creative Studio

Typeset: UNESCO

Printed in UNESCO printshop, Paris, France

Short summary

Investing in people pays off

Investing in people is one of the most powerful and overlooked drivers of economic transformation. This publication suggests that social investments in education, health and especially social protection not only improve well-being but also generate substantial economic returns. Evidence across countries shows that each additional year of schooling raises earnings and productivity; that healthier populations drive national growth; and that spending on social protection stimulates local economies, increases employment and reduces poverty. Far from being 'unproductive', social investments create the human capital that underpins resilient and competitive economies.

Using recent global data, the report highlights how countries that prioritize social services benefit from stronger labour markets, higher GDP growth, and expanded fiscal revenues. It also shows how interventions, such as school feeding or child-care services, create multisectoral dividends from better education outcomes to increased women's employment and stronger local food systems.

By reframing social spending as a strategic, long-term investment, this publication invites policy-makers to rethink budget decisions, especially during periods of fiscal pressure, and to place people at the centre of economic planning.

The message is clear: sustained social investment is essential for inclusive growth, shared prosperity, and lasting development.



**Every \$1
invested
in school feeding
generates
\$16 in
returns**

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Acknowledgements

This policy paper was made possible thanks to the partnership between UNESCO and the 'la Caixa' Foundation within the framework of the Management of Social Transformations (MOST) Programme of the Social and Human Sciences Sector of UNESCO.

This work was carried out under with the overall supervision of Lidia Brito, Assistant Director-General for Social and Human Sciences a.i. at UNESCO and under the responsibility of Gustavo Merino, Director for Social Policies.

Special thanks go to the UNESCO team, composed of Mathilde Rodrigues, Programme Specialist, who led the coordination, editorial oversight and development of this publication, ensuring the coherence, quality and alignment with UNESCO standards. Appreciation is also extended to Nathalia Mineo and Tomás Austin for their dedicated support throughout the publication process.

UNESCO gratefully acknowledges the support and advice of Sergi Loughney, Josep Ollé Pous and Mònica Badia at the 'la Caixa' Foundation.

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Executive Summary

The perception that social investments generate lower returns than public investments in economic sectors explains why spending on education, health, social protection and other social services is susceptible to cuts during budget constraints, or during periods of fiscal austerity. This report argues that such perceptions are misguided, and cutting social investments is a short-sighted reaction that could have both negative economic and social consequences.

The first part of this report points out that social investments do in fact generate economic returns, either directly or in the longer term. Specifically, spending on education, health, food security and nutrition programmes are investments in human capital, especially children, which contributes towards building a healthy, educated and more productive workforce. Pathways from better health to higher GDP include fewer premature deaths, reduced illness and disability, expanded workforce participation, and increased worker productivity. These benefits accrue to both the individual (private returns) through higher incomes and the national economy (social returns) through GDP growth. Cross-country evidence across several countries (as discussed in this paper) has found positive correlations between improvements in education, health and life expectancy, and national and global GDP growth.

The second part of the report draws on ‘well-being economy’ thinking, which recognizes that social investments generate social returns in the form of happiness, security and purposeful work, which are intrinsically valuable, while also contributing positive economic outcomes. The ‘social investment life-course multiplier’ illustrates how sequential investments in early childhood nutrition and education, followed by labour market and work-life balance policies, and later, active ageing and lifelong learning, create virtuous cycles at both the micro-level (human well-being) and the macro-level (higher economic productivity, lower labour market gender gaps). It follows that maximizing well-being is impossible without substantial investments in social and complementary services.

This report includes a specific focus on social protection, which has expanded rapidly in the twenty-first century but still has low coverage in low-income countries where the needs are greatest. Even in high-income countries, casualization (casual work) has deprived millions of workers of any social protection. Social assistance and social insurance payments generate economic returns at the micro-level (spending on food, education and health care; investments in micro-enterprises and job-search); the meso-level (local economic multipliers from spending cash); and the macro-level (increased productivity, employment, and economic growth).

An econometric simulation exercise across eight countries found that increasing spending on social protection by 1% of GDP would increase employment (more for women than men), GDP and tax revenues, and reduce poverty and income inequality. Nonetheless, negative perceptions persist that social protection leads to dependency, encourages wasteful spending, and can inflate food prices. Evidence for these adverse outcomes is anecdotal or context-specific, and is outweighed by the many benefits of social protection. School feeding programmes, which reach one-quarter of all school-aged children globally, are analysed as a case study. School meals deliver economic returns in the domains of social assistance (food transfers to children, income transfers to their households), nutrition (dietary diversity, fortified foods), agriculture (structured demand for local farmers), and especially education (increased school enrolment, attendance, and educational attainment – more for girls than for boys – as well as enhanced lifetime earnings).

Introduction

There is no standard definition or consensus on what constitutes social investment. For the purposes of this paper, social investments can be defined as government spending on services that protect and promote the well-being of a country's citizens and residents. **Education** and **health care** are typically seen as core social services, along with **social protection**. Other examples of social investment include **social services**, which provide support and care for vulnerable groups, such as older persons, children in vulnerable situations, and people with disabilities; **water, sanitation and hygiene (WASH)** infrastructure and facilities; **community development**; and **environmental protection services**. While acknowledging the importance of all these social services and complementary interventions, this paper focuses on the three most important social services: education, health care and social protection.

Government spending on social services, such as education, health care and social protection, is often characterized as 'unproductive' expenditure, in contrast to spending on 'productive' sectors, such as agriculture, manufacturing and trade. The rationale is that spending on productive sectors is an investment in economic growth; returns on investment can be measured by their contributions to employment rates, household incomes and GDP. Conversely, spending on social services is characterized as supporting individual and household well-being, which is an intrinsic part of a government's responsibility to its citizens, but it is not necessarily evaluated in terms of economic returns.

However, this view has been challenged by evidence that social spending does in fact generate economic benefits, both to individuals and the national economy. For example, as will be pointed out, spending on children's education and health is not expected to generate immediate economic returns, but it is an investment in human capital that will likely boost the child's income-earning potential in adulthood. A healthy and educated workforce is more productive and can better accelerate economic growth. As noted by the Informal Working Group on Social Investment (IWGSI): 'The economic logic of social investment explicitly focuses on increasing the number (quantity) and

productivity (quality) of current and future employees' (IWGSI, 2024, p. 4).

This paper presents the economic case for social investments in general, and specifically for education, health care and social protection. It will show the several pathways that social protection can take in contributing to economic growth. This is a desk-based review of literature that synthesizes current thinking and empirical evidence on this issue. The intention is to provide inputs to public policy debates about spending choices so as to encourage increased spending on social services, and to resist pressures to cut these budgets under austerity measures.

This is particularly urgent now, in 2026, when governments are under pressure to increase spending on defence and other strategic priorities, which many are financing by drawing from education, health and social protection sectors. In the case of OECD member countries, this may derive from official development assistance (ODA) to low- and middle-income countries. This reflects a tendency to underestimate the importance of social policies by focusing on the short term while disregarding long-term benefits, as well as the long-term economic and non-economic costs of failing to invest adequately in human capital, essential infrastructure and services, and social development. Short-term pressures mean that, 'Political and financial systems often reward near-term gains over long-term resilience or equity' (World Economic Forum, 2025).

Section 1 of this paper suggests both theoretically and through a review of empirical evidence, how investments in social services can have positive economic benefits, with a focus on education and health care services.

Section 2 introduces social protection as a social investment, demonstrating that even 'welfarist' social assistance generates economic returns at micro-, meso- and macro-levels. School feeding programmes are analysed as a modality that generates multisectoral impacts.

The economic case for social investments

The argument that social investments can contribute to positive economic outcomes can be traced back 250 years to Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 1776). Smith recognized that an individual's knowledge, skills and abilities are vital productive assets that contribute to output, alongside physical assets like machinery and land. Logically, workers with better skills can operate machines and cultivate land more efficiently.

This insight provided the basis for the 'human capital theory', pioneered by economists in the 1960s, such as Gary Becker (1962) and Theodore Schultz (1961), who argued that investing in educating children and training workers will enhance their productivity, thereby contributing to economic growth. Schultz presented a human capital theory of economic growth, postulating that human capital is a prerequisite for the effective management of physical capital; that economic growth is only feasible if human capital and physical capital grow in parallel; and that human capital is the productive factor that is most likely to limit economic growth.

Breton (2014) tested and empirically confirmed Schultz's hypothesis. In the year 2000, 'the average schooling attainment of the adult population largely determined the stock of physical capital/capita and GDP/capita in 42 market economies' (Breton, 2014, p. 1).

A second essential component of human capital is good health. A healthy workforce is more productive and takes fewer sick days. Cross-country analyses across 50 countries have consistently found empirical support for the premise that healthier populations lead to higher economic growth. An analysis of historical data across these 50 countries found that, between 1965 and 1990, improvements in health contributed 11% to income growth, while improvements in education contributed slightly more, at 14%, with investments in physical capital contributing the most, at 67% (Jamison, Lau and Wang, 2005). Another study found that a one-year improvement in life expectancy is associated with a 4% increase in national output (Bloom, Canning and Sevilla, 2004). This is an important finding because it shows that

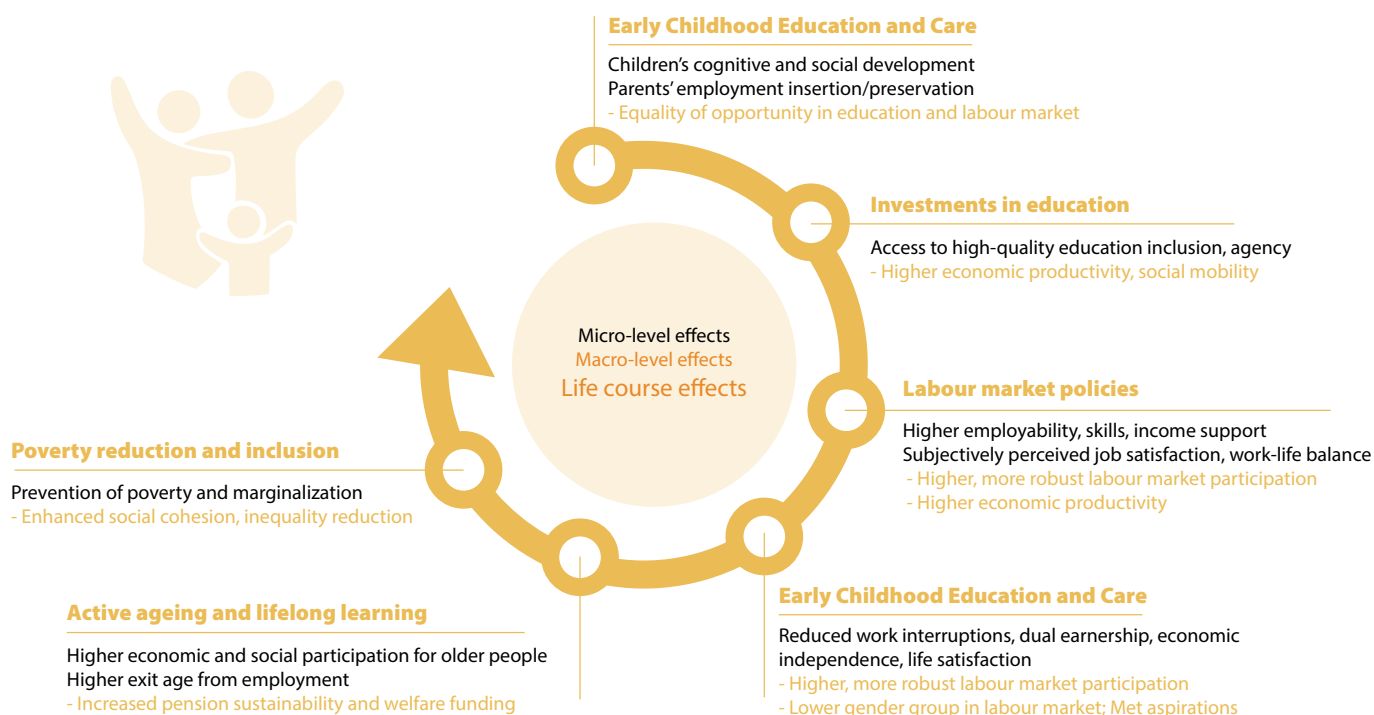
longer and healthier lives also generate non-economic benefits, such as reduced pressure on health services and more of the unpaid child care that older relatives provide, especially in low-income contexts.

Recent work on the 'social investment paradigm' builds on the idea of the 'life-course multiplier', which argues that public investments in child care, education and skills training can generate improvements in well-being throughout people's lives, even across generations, but also for national economies (growth in employment, productivity and national income). Figure 1 illustrates the life-course multiplier in the form of a virtuous circle. As highlighted by the IGWSI: 'Over the life-course, social investments reap well-being returns in a virtuous circle, in terms of employment opportunities, well-being, gender equity and the mitigation of intra- and intergenerational poverty' (IGWSI, 2024, p. 1). The economic returns to social investments can be measured and quantified (as discussed below).

The life-course multiplier starts with early childhood where the returns to social investment are especially high through its beneficial effects on human capital formation. Good quality and affordable child care services for pre-school children 'can play a fundamental role in eradicating child poverty and breaking the cycle of inter-generational transmission of disadvantage' (IGWSI, 2024, p. 5). The International Labour Organization argues that investment in child care services delivers economic and social benefits for families, especially for women, by increasing mothers' labour market participation and creating jobs in the care sector – both of which are beneficial for the national economy. Returns to social investment are also higher for children from disadvantaged socio-economic backgrounds (ILO, 2024, p. 221). It follows that targeting disadvantaged families is efficient and equitable.

An important complementary concept is the 'well-being economy' (Wellbeing Economy Alliance, 2025), which prioritizes quality of life (good health, happiness, security, purposeful work, etc.) beyond GDP growth, arguing that the relentless pursuit of economic growth is responsible for more sedentary and stress-filled lives,

Figure 1. The social investment life-course multiplier



Source: Hemerijck, Ronchi and Plavgo (2022)

unhealthy diets and rising non-communicable diseases (NCDs), especially – paradoxically – in the world's wealthiest countries (Candari et al., 2017; Noonan, 2023). Importantly, this is not necessarily a trade-off: a healthy, happy, purpose-driven workforce will be more productive and maintain higher material standards of living. Maximizing well-being requires investing in social services to ensure, for instance, universal access to good quality health care for all citizens and residents.

The Organisation for Economic Co-operation and Development (OECD) approach to well-being recognizes that measuring average income is important, but it advocates for a broader set of indicators that includes not just averages but also inequalities between groups as well as deprivations in multiple dimensions, such as health, housing, environmental quality, safety, work-life balance and civic engagement. It follows that spending on a full range of social services and community infrastructure is an essential investment in multidimensional well-being, in addition to contributing to improvements in material living conditions (OECD, 2025).

1.1. Returns on investment in education

Education takes many forms, including primary school, secondary school, tertiary (college or university), vocational training, retraining programmes and lifelong learning. Since the 1950s, the economic returns of education have been estimated based on the supposition that education enhances a person's employment prospects and lifetime earnings. As the future workforce of a country, investing in children's education, whether through families or the state, ensures higher future levels of both household and national income.

The social returns of education can be modeled as the contribution of a better-educated workforce to national productivity and economic growth.¹ Private returns are calculated by projecting an individual's earnings, over their lifetime, against the net present value of the costs

1 A rate of return analysis compares the monetary value of lifetime earnings of each individual (A) against their costs of schooling (B) plus (for tertiary education) earnings foregone while studying (C). Crudely, returns are positive if $A > B + C$. Education also has non-monetary social benefits, 'such as the number of lives saved because of improved sanitation conditions followed by a woman because she has received more education' (Psacharopoulos and Patrinos, 2018, p. 3), but these are more difficult to estimate.

The **social returns of education** can be modeled as the contribution of a better-educated workforce to national productivity and economic growth. Private returns are calculated by projecting an individual's earnings, over their lifetime, against the net present value of the costs of their education. If projected earnings are greater than education costs, the investment is economically justified.

of their education. If projected earnings are greater than education costs, the investment is economically justified. As primary and secondary education is accumulated in years, this formula also estimates the return on investment for each incremental year of schooling.

Psacharopoulos and Patrinos (2018) compiled a database of published evidence on the returns on investment in education from 139 countries, which included 1,120 observations by country and year. Key empirical findings from this review of global average trends are as follows:

- The global average years of schooling is 8, ranging from 5.2 years in sub-Saharan Africa to 9.5 years in Europe.
- Social and private returns on investment are highest for primary education. Every extra year of schooling generates an average return of 9%.
- The returns of higher education have risen steadily over time. In many countries, returns of secondary schooling and higher education exceed 10%.
- The returns of schooling are consistently higher for women than for men by 2 percentage points. The policy implication is that governments should prioritize investments in girls' education.

- The returns of education fall as national per capita income rises. Returns are greater in low-income countries, at 10.5% in sub-Saharan Africa against 7.3% in Europe, because baseline education levels are lower.

Youth unemployment (15–24-year-olds) is a particular challenge in many countries. In Southern Africa, the youth unemployment rate has risen from 36% in 2000 to 48% in 2025, affecting young women (53%) more than young men (45%) (ILO, 2024, p. 8). Youth unemployment has high economic costs (lifelong poverty at the individual and household level, GDP losses to the national economy), but it also has social consequences, such as marginalization and exclusion, criminality, and social instability (Cloete, 2015).

Anowor et al. (2023) analysed empirical evidence on the relationship between education spending and youth employment in sub-Saharan Africa using annual data from 1995 to 2017, with 920 observations from 40 countries. The findings confirm the supposition that investment in education increases the employability of learners when they enter the labour market. However, impacts – though statistically significant (except for secondary education) – are limited. Increasing education spending by 10 percentage points would increase youth employment by 0.15–0.18% and by 0.005–0.08%, for primary and tertiary education, respectively (Anowor et al., 2023).

This suggests that levels of human capital are not the only drivers of unemployment. Very often, the problems are structural: the economy is not generating sufficient, appropriate work opportunities. In such contexts, incremental investments in education are likely to be relatively ineffective and need to be carefully considered against potentially higher returns from other social investments, as well as economic investments in incentivizing job creation for young people (such as youth employment subsidies to employers).

One implication for policy-makers is that efforts to address high rates of youth unemployment in Africa, through investments in education, should focus on levels and types of education that are likely to generate higher impacts, such as primary schooling rather than secondary schooling. At the secondary and post-school levels, attention should shift towards education and training that equips learners and young adults with skills that are in demand by the country's labour market, including options such as vocational training, but also computer skills for economic sectors with lucrative home-based employment opportunities at the global level. Education, training and reskilling must also prepare young people for the artificial intelligence (AI) revolution and the transition to a green economy, both of which will trigger fundamental shifts in workforce composition and the skills demanded by labour markets in the coming years.

Tertiary education is increasingly important, especially in high-income economies. One study in the United States found that workers with a college degree will earn 75% more during their careers than a worker with only a high-school diploma (DeLucia, 2022). In OECD countries, workers who completed upper secondary school earn 18% more on average than those with lesser educational attainments, while workers with a tertiary qualification earn 56% more than those with only an upper secondary education. Across all OECD countries, the private or internal rate of return on investment in tertiary education averages 15% for men and 18% for women (OECD, 2024, p. 98).

These high rates of return on investment mean that subsidized or free tertiary education is economically rational and fiscally sustainable, as high-earning graduates will be more productive and contribute more to economic growth; they will pay more income tax, and thus boost national fiscal resources. A well-known case is Singapore, which transitioned from a low-cost manufacturing base to a high-value, knowledge-based economy, driven mainly by heavy investment in tertiary education to upskill the labour force. Across 83 countries

(from all income categories), a comparison of rates of return of tertiary education found that private returns (to the individual) averaged 12.4% while social returns (to the national economy) were almost as high, at 10.6% (Psacharopoulos and Patrinos, 2018).

1.2. Returns on investment in health care

McKinsey (2020, p. 5) estimates that ill health reduced global GDP by 15% in 2017, equivalent to the economy of China. They model the economic benefits of public investments in health, recognizing that this incurs substantial costs but also that a larger, healthier and more productive labour force will more than offset these expenditures.

According to McKinsey (2020, p. 88), there are four pathways from better health to higher GDP:

1. Fewer early deaths: preventing premature mortality (deaths before 70 years of age from noncommunicable diseases) to extend active life.
2. Fewer health conditions: reducing illness and disability in the labour force by addressing mental health disorders, diabetes, and other treatable conditions.
3. Expanded participation in the workforce: of older persons, persons with disabilities and informal caregivers.
4. Increased productivity: enhancing the productivity of the current workforce and improving children's health to boost their productivity as adults.

McKinsey (2020) modeled the returns on investing in health care through each of these pathways, drawing on data from almost 200 countries and projecting forward from 2020 to 2040. The data revealed that global GDP would rise by 8% (0.4% per annum) or US\$11 trillion, and that close to 250 million jobs would be created between 2020 and 2040. Every US\$1 invested in health would generate US\$2 to US\$4 – an economic return of 200–400%. The highest returns are in middle-income countries and emerging economies (~400%), where economic growth is fastest and workers have the most opportunities to maximize their income-earning potential (McKinsey, 2020, p. 20). The lowest returns (~200%) are in low-income countries where economies are weak and structural unemployment is high. Table 1 disaggregates the findings by each of the four pathways.

Table 1. Projected impacts on employment and GDP of investments in health, 2020–2040

Pathway	Additional employment	Contribution to GDP (US\$)
Fewer early deaths	60 million	1.4 trillion
Fewer health conditions	120 million	4.2 trillion
Expanded participation	60 million	4.1 trillion
Increased productivity	60 million	2.0 trillion

Source: Compiled from [McKinsey](#) (2020, p. 14)

As seen in Table 1, three-quarters of the additional employment created by investments in health would derive from reduced illness or disability, plus longer lives (180 million / 245 million = 73%). There would be fewer premature deaths due to cancers, cardiovascular disease, malaria and other health-related causes; and there would be less sick leave or involuntary unemployment due to diabetes, mental health disorders and other conditions. In terms of well-being, a particular concern is the rising levels of mental health conditions, such as depression and anxiety, associated with the changing nature of work – amplified by COVID-19 – such as casualization, home-based work and the gig economy. A report by the UN Special Rapporteur on extreme poverty and human rights, Olivier De Schutter, entitled, *The Burnout Economy: Poverty and Mental Health*, notes that mental health is a basic human right that affects personal well-being as well as economic development because of the impacts of mental ill-health on the participation and productivity of the labour force (De Schutter, 2024).

Expanded participation in the labour force would come from three main categories: older persons who choose to work longer while in good health (40 million people); persons with disabilities once workplaces have adapted to their needs (8 million people); and informal caregivers who no longer have to provide care because the population is healthier (12 million people) (McKinsey, 2020, p. 14). Lastly, labour productivity would rise because of reduced absenteeism and higher productivity.

The pathways from investment in health to higher GDP growth vary across countries and regions, depending on the initial disease burden and the labour market structure in each country. In high-income countries of Western Europe, for instance, the main contribution to additional GDP growth comes from the expanded participation in the labour force (53%), followed

by fewer health conditions (29%), then increased productivity (14%). In low-income countries of sub-Saharan Africa, fewer health conditions is the dominant pathway (41%), closely followed by fewer early deaths (36%), then increased productivity (19%) (McKinsey, 2020, p. 19).

A systematic review of public health interventions (such as vaccinations against measles and influenza) in several high-income countries found that such interventions generate a high return on investment (ROI)² averaging 14.3, meaning that for every US\$1 invested there is a return of US\$14.30 over and above the initial US\$1 investment. There is considerable variation across the scale of the intervention, ranging from the local level (median ROI = 4) to the national scale (median ROI = 46). The highest returns recorded were for legislated public health interventions, such as a ‘sugar tax’ on beverages (ROI = 55) and control of lead paint (ROI = 221) (Masters et al., 2017).³

These high ROI ratios are explained by the fact that legislation is relatively inexpensive (low cost) to implement but affects millions of people (widespread impact). The authors conclude that spending on health care can be justified as a sound economic investment owing to its beneficial impacts on labour productivity, and that ‘cuts to public health services are short sighted and represent a false economy, with substantial opportunity costs [...] They are likely to generate billions of pounds of additional costs to the health services and wider economy’ (Masters et al., 2017, p. 833). Spending on preventive health measures, such as vaccines, can free up public resources, which can be used for other social services and productive investments, spurring economic growth while also reducing health care costs in the long term.

2 ROI = (FVI–IVI) / (cost of investment); where ROI = Return on Investment, FVI = Final Value of Investment, and IVI = Initial Value of Investment.

3 One limitation of the systematic review, as compiled in these findings, is that the ROI is calculated inconsistently across studies, using different cost perspectives, time horizons and discount rates.

Tackling children's malnutrition could increase their wages as adults by 14% to 28% [...] interventions should start even earlier with adolescent girls and young mothers, not only for their own health and well-being but also to break the cycle of poverty across generations.

Finally, good nutrition is central to good physical health and the reduction of poverty. In low-income countries, in particular, poverty at household and national levels is driven by malnutrition, which limits the productive potential of a population throughout its life-course, from childhood to economically active adults. Good nutrition in childhood is a prerequisite for learning ('you can't teach a hungry child'), which is why the life-course multiplier starts with affordable child care and early childhood development (ECD) programmes. Every 1% decrease in height due to stunted growth in childhood has been estimated to reduce adult productivity by 1.4%. Overall, the estimated cost of malnutrition across countries ranges from 2% to 3% of GDP (McKinsey, 2020). Targeted investments in children's nutrition enhance their physical health and cognitive abilities both at school and once they graduate and enter the workforce. Tackling children's malnutrition could increase their wages as adults by 14% to 28%. In fact, interventions should start even earlier with adolescent girls and young mothers, not only for their own health and well-being but also to break the cycle of poverty across generations, as undernourished women face a high risk of having low birthweight babies. According to the World Bank (2025b): 'Every dollar invested in combating malnutrition yields a \$23 return through increased productivity and better health outcomes.'

Social protection

‘A well-organized welfare state is an asset, and not a liability to the economy, as it contributes to productive capacity of the economy and its stability in the face of adverse economic conditions’ (EU, 2024, p. 4)

2.1. What is social protection?

Some definitions of social protection emphasize its welfarist functions and declare it to be a human right. The implication is that social protection is not expected to generate economic returns.

‘Social protection is a set of policies and programmes aimed at preventing and protecting all people against poverty, vulnerability and social exclusion, throughout their life cycle, placing a particular emphasis on vulnerable groups’ (SPIAC-B, 2019).

Other definitions recognize that social protection has ‘promotive’ or developmental impacts as well as its core ‘protective’ or welfarist function. The World Bank (2025a) identifies three pillars of social protection: social assistance, social insurance and labour market programmes. The first pillar is welfarist, the second pillar refers to the safety net function, and the third pillar relates to strengthening linkages to livelihoods.

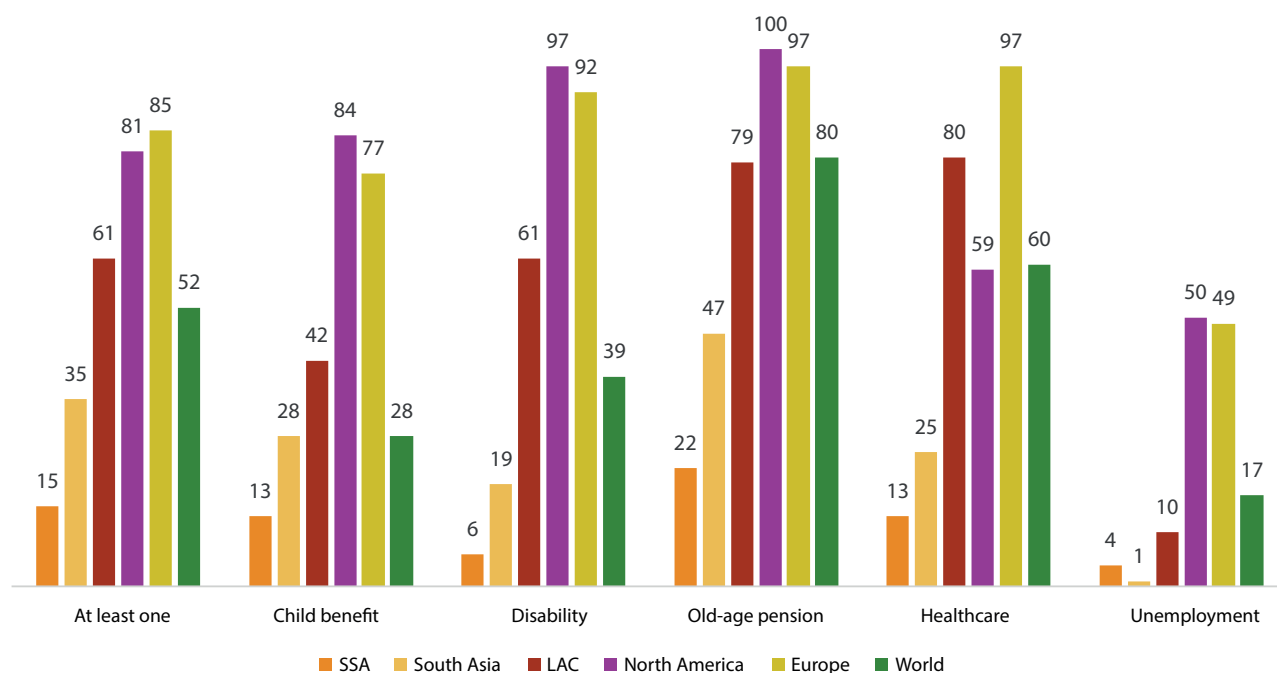
- **Social assistance** is defined as cash or in-kind transfers (e.g. food) by the state or non-state actors to people identified as vulnerable and in need. On a universal basis, it aims to alleviate poverty and provide protection against shocks.
- **Social insurance** schemes are employment related and provide protection against unemployment, illness (health insurance), retirement (pensions) and other risks. Unlike social assistance, social insurance is usually compulsory and contributory.
- Social protection interventions with linkages to **labour markets** include public works programmes, youth wage subsidies, unemployment insurance, ‘graduation model’ programmes, and economic inclusion initiatives.

Social assistance programmes have proliferated rapidly throughout the Global South in the twenty-first century and have had well-documented positive impacts across a range of desirable outcome indicators.⁴ However, coverage and benefits remain inadequate. Globally, at least one social protection instrument reaches about half (52%) of the population, but this means that almost half (48%) are excluded from all forms of social protection (**Figure 2**). Coverage varies across regions and instruments. In Europe, 85% of the population have access to at least one form of social protection, but this drops to only 15% in sub-Saharan Africa (SSA). Persons with disabilities (PWD) are almost universally covered in North America, but only 6% in SSA have access to disability benefits.

Countries’ spending on social protection increased during the COVID-19 response, with the largest rises occurring in higher-income countries (World Bank, 2025a, p. 54). Those with stronger pre-COVID-19 coverage and higher spending on social assistance and labour market programmes were also better positioned to expand both during the pandemic (**Figure 3**). This suggests that well-developed social protection systems in normal times provide the capacity to respond quickly and scale up support in times of crisis. Conversely, the variation in countries’ responses reveals a significant gap, which tends to be perpetuated and even reinforced during external shocks such as a pandemic.

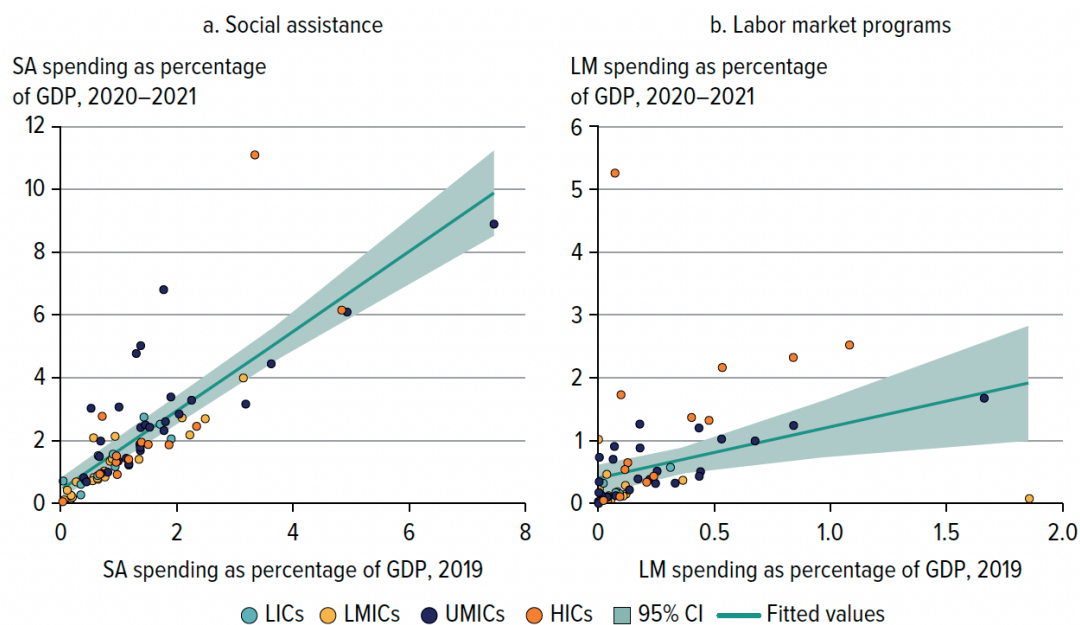
⁴ A rigorous review of the evidence base found that cash transfers reduce monetary poverty, increase school attendance and the use of health services, improve dietary diversity, reduce child labour, and increase women’s economic autonomy and decision-making power (Bastagli et al., 2016).

Figure 2. Coverage of social protection instruments, globally and by region (% of population)



Source: Compiled by the author using the most recent data available from the ILO World Social Protection Data Dashboard at the time of writing. www.social-protection.org/gini/gess/WSPDB.action?id=19 (Accessed 9 April 2026)

Figure 3. Countries with Better Pre-Covid-19 Coverage and Higher Spending Were Better Able to Expand Both



Source: World Bank, State of Social Protection Report 2025 (2025).

Social insurance is closely linked to formal employment, which therefore excludes vulnerable categories, such as informal workers (e.g. street traders) and self-employed smallholder farmers in low-income countries. Worldwide, two billion workers (61%) of the global workforce are in informal employment (ILO, 2021). Even in high-income countries, casualization and the ‘uberization’ of work have deprived rising numbers of workers of their rights to social protection. As seen in Figure 2, less than 5% of workers in South Asia and sub-Saharan Africa, 10% in Latin America, and 50% in high-income European and North American countries are currently covered by unemployment insurance.

There have been many initiatives, led by ILO and others, to extend social protection to informal workers, including:

- **Integrating** informal workers into formal systems for unemployment insurance, health insurance, pensions, etc. (UNRISD, 2014; ILO, 2015).⁵
- **Universalizing** existing schemes: delinking health insurance, pensions, etc. from work, e.g. the Universal Health Coverage (UHC) scheme in Thailand (WIEGO, 2019).
- Setting up **parallel** schemes for informal workers, e.g. the voluntary Mbao Pension Plan in Kenya (Kabare, 2018).

Most of these efforts have failed to scale up, partly because of informal workers’ low incomes and their unwillingness to make regular payments into state-run schemes (especially where trust in the state is low) for uncertain benefits at a future date. Levy and Cruces (2021) warned that attempts to bring informal workers into social protection systems could also create disincentives for employers and employees because they increase employment costs by requiring small businesses and workers to pay taxes and social insurance contributions. For this reason, universalizing access to social protection across formal and informal workers, and moving towards universal social protection for all (ILO, 2025), should be preferred to other approaches.

Labour market programmes have been the least effective of the three social protection pillars due to insufficient spending, lack of context-specific designs, and failure to coordinate with other social protection mechanisms (World Bank, 2025a, p. 77).

2.2. The investment case for social protection

The EU’s Informal Working Group on Social Investment (IWGSI) argues that, ‘well-functioning and inclusive social investment welfare states are a key component of a socially and economically resilient society’ (IWGSI, 2024, p. 1).

At the **micro-level**, individuals spend some of the resources they receive through social assistance and social insurance to meet their basic needs and those of their families. But they also use this incremental income to acquire productive assets (e.g. small livestock) – while preserving their assets following a setback – and to invest in their micro-enterprises (e.g. working capital for petty trading), as well as to build their children’s human capital through education, health and nutrition, which, as seen earlier, will generate substantial private and social returns during the child’s adult working life.

⁵ ILO Recommendation 204 concerning the transition from the informal to the formal economy, states: ‘Members should progressively extend, in law and practice, to all workers in the informal economy, social security, maternity protection, decent working conditions and a minimum wage’ (ILO, 2015, para. 18).

‘Extreme income inequality has been shown to limit economic growth. Therefore, reducing inequality through fiscal redistribution, but also by providing opportunities for the disadvantaged, is good for growth’ (Bourguignon, 2018)

These investments could lead to increased crop and livestock production for consumption and sale, higher earnings and profits from micro-enterprises, as well as higher projected lifetime earnings for children in these households. Therefore, even if people spend cash transfers only on consumer goods, this spending generates income for others. At the **meso-level**, across six African countries, evaluations of cash transfer programmes found a local economy income multiplier ranging from 1.3 (Malawi) to 2.5 (Ethiopia). In the same studies, secondary school enrolment rose by 16% after regular cash transfers (Handa et al., 2017).

At the **macro-level**, social protection can stimulate economic growth ‘by increasing aggregate household productivity, stimulating aggregate demand and thus increasing employment [...] and raising consumption and income tax revenues’ (IWGSI, 2024, p. 13). As noted by the International Trade Union Confederation (ITUC): ‘Thus, an investment in social protection is an investment in a country’s human capital development and productivity, which in turn improves the employability and productivity of a country’s future workforce and investments in other key sectors. [...] All of these lead to more inclusive economic growth’ (ITUC, 2020, p. 16). Further, at the macro-level, the ITUC simulated the economic impacts of a 1% GDP increase in spending on social protection using a social accounting matrix, a general equilibrium model and a microeconomic analysis for eight countries in Africa (Ghana, Rwanda), Asia (Bangladesh, India), Latin America (Colombia, Costa Rica) and Europe (Georgia, Serbia) (ITUC, 2000).

Scaling up social protection, especially cash transfers, creates a virtuous cycle, largely driven by the multiplier effects of higher household purchasing power and spending, which boosts domestic production and employment, national income (GDP) and government tax revenues to finance further social investments (ITUC, 2020). Social returns help to lower poverty and inequality.

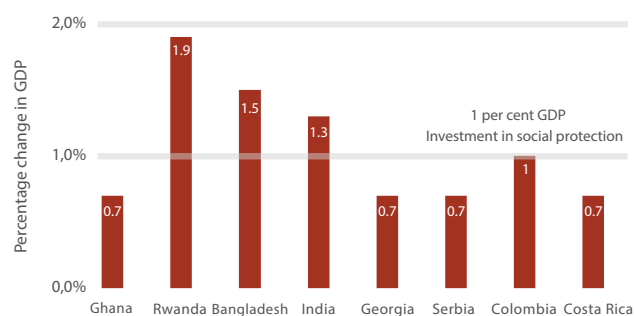
Extreme income inequality has been shown to limit economic growth. Therefore, reducing inequality through fiscal redistribution, but also by providing opportunities for the disadvantaged, is good for growth (Bourguignon, 2018). Inequality also undermines the broader aspects of well-being through its impacts on social cohesion and trust, social mobility, and physical and mental health, such as depression (OECD, 2021; Patel et al., 2018). Social protection addresses income inequality directly and other disparities indirectly, such as economic opportunities, as well as access to and outcomes of education and health care. Social protection contributes to reducing inequality **pre-production** (e.g. preparing people for work with access to education and training), **during production** (e.g. minimum wages and decent work policies), and **post-production** (e.g. fiscal redistribution through social assistance schemes) (Bauer et al., 2024).

Even though several major macroeconomic shifts have taken place since 2020 and global dynamics have evolved, **Figure 4** quantifies the economic returns associated with investments in social protection. Taking Rwanda as a case study, increasing social protection spending by 1% of GDP generates a 1.9% increase in GDP (i.e. a multiplier close to 2), a drop in the national poverty rate from 39% to 35%, a 1% increase in the percentage of employed men and women, and a 2.7% increase in tax revenues (**Figure 4**).

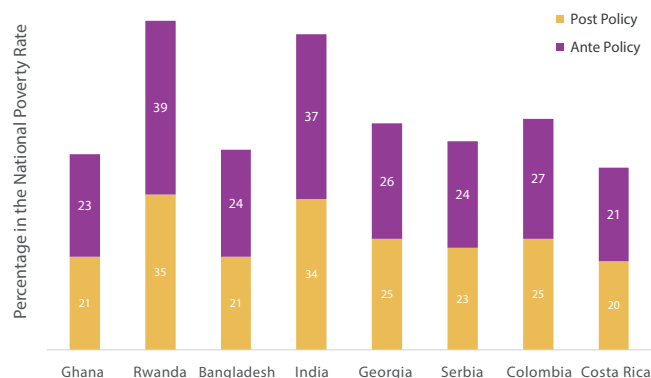
‘On average, a 1% increase in social protection investments produces a multiplier of 1.1% increase in absolute GDP, a 7% reduction of the number of people living under the national poverty line, a 1% reduction in income inequality, a 1.8% increase in government tax revenues, and a 0.6% increase in employment (number of workers)’ (ITUC, 2020, p. 25).

Figure 4. Economic returns on investments in social protection

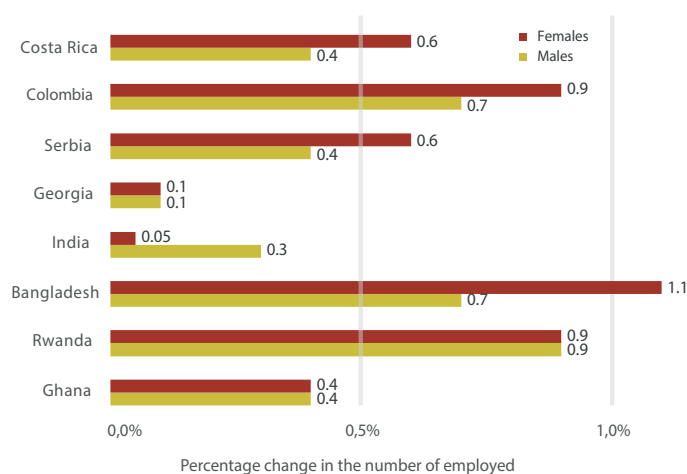
The investment of 1% of GDP in social protection policies has a return on the GDP between 1.9 and 0.7 times the investment



The investment of 1% of GDP in social protection policies has a positive effect in the reduction of poverty



The investment of 1% of GDP in social protection policies has a positive effect on the increase of number of employed, with a higher increase for female workers



The investment of 1% of GDP in social protection policies has a positive effect on total tax revenues with a percentage increase between 0.9 and 2.7



Source: ITUC (2020, p. 9)

2.3. Challenging negative perceptions about social assistance programmes

While public spending on education and health care is relatively uncontroversial, governments and the general public are often sceptical about the merits of spending on social protection. This stems from widely held pejorative views about how social assistance will be used, especially cash transfers, and whether comprehensive social protection systems are affordable in low-income countries, and so on. These views are briefly presented and assessed here.

1. Poor people spend cash transfers

irresponsibly. It is assumed that disadvantaged individuals are responsible for living in poverty because they are lazy and irresponsible, and that cash provided as social assistance will be misspent on non-essential items (e.g. alcohol) rather than on priority needs, such as nutritious meals for children. However, there is no systematic evidence for such behaviour. Evaluations across multiple countries found that cash transfers are spent mainly on food, followed by housing, education and health care (Handa et al., 2017). In rural Zambia, a cash transfer led to a 35% increase in household per capita food expenditure, through two pathways: increased food purchases and increased investment in agricultural production (Tiwari et al. 2016). In Mexico, conditional cash transfers significantly reduced household food insecurity thanks to higher spending on food (Saldivar-Frausto et al., 2022). In South Africa, cash transfer recipients, especially women, invest in informal livelihood activities to multiply their income (Nnaeme, Patel and Plagerson, 2020).

2. Cash transfers cause 'dependency syndrome'.

According to economic theory, social benefits may discourage people from looking for work and encourage state dependency, which is why governments are reluctant to offer social assistance to working-age adults. In OECD countries, where benefits are relatively generous, there is some evidence for this 'dependency syndrome' but not in low-income countries, where transfers are insufficient to meet basic needs. Even in OECD countries, studies cannot easily differentiate between 'benefit traps', where social assistance disincentivizes job-seeking, and 'genuine state dependence ... attributed to recipients' personal and household characteristics' (Immervoll et

al., 2015, p. 9). Randomized controlled trial evaluations of cash transfer programmes in six countries of Africa, Asia and Latin America found no negative impact on willingness to work or total hours worked by men or women (Banerjee et al., 2017). A cross-country data analysis found that cash transfers, typically, do not reduce the labour market participation of household members or their total hours of work. In some cases, cash transfers are invested in agriculture or micro-enterprises, resulting in increased total hours worked. Social protection that targets unemployed people with job search or business start-up assistance also tends to increase adult labour supply and earnings. One exception is pensions, which lead to older persons withdrawing their labour. But this is a positive outcome because the purpose of pensions is to empower older persons to retire with financial security (Baird, McKenzie and Özler, 2018).

3. Cash transfers cause price inflation. Social assistance is increasingly dominated by cash transfers, which are more flexible than food, and offers recipients more choices. However, if markets are weak and fragmented, injections of cash could cause the demand for food and other basic commodities to exceed supplies, pushing prices up to unaffordable levels. This is one reason why food aid has been preferred to cash as a humanitarian response to food crises (along with the belief that cash would be spent irresponsibly, i.e. not on food, as discussed earlier). Social assistance is still often provided in kind, for instance, on school feeding schemes. This issue is context specific. A market assessment should be conducted before deciding on the modality of social transfers so as to minimize potential inflationary consequences. For example, Ethiopia's Productive Safety Net Programme (PSNP) adopted a differentiated approach, with cash transfers preferred in districts where food is available in local markets and where traders can be relied upon to bring in food if people have cash to buy it. Alternatively, food is preferred in districts where cash injections are expected to drive inflationary pressure on food prices (Sabates-Wheeler and Devereux, 2010).

While public spending on education and health is relatively uncontroversial, governments and the general public are often sceptical about the merits of spending on social protection. This stems from **widely held pejorative views about how social assistance** will be used, especially cash transfers, and whether comprehensive social protection systems are affordable in low-income countries, and so on.

4. Social protection is unaffordable in low-income countries. It is paradoxical that the needs for social protection are highest in countries that can afford it the least. Social protection is expensive, especially in low-income countries with a narrow tax base. But social protection has the potential to increase tax revenues by raising incomes and bringing more people and businesses into the taxpayer base, and even by strengthening institutional capacities for tax collection and compliance (Bastagli et al., 2016). ILO has conducted cost simulations for scaling up cash transfer programmes in low-income countries. Although comprehensive social protection floors are not feasible – the financing gap averages 52% of GDP – most governments could finance moderate expansions. Cash transfers for the poorest 20%, worth 20% of their pre-transfer income, would cost 1.1% of GDP (Cattaneo et al., 2024).

A related issue that compromises the effectiveness of social protection as a poverty reduction measure is the non-withdrawal of social benefits because of shame or stigma, especially where public opinion is critical of ‘benefit scroungers’, and when bureaucrats, who register claimants and dispense benefits, treat claimants with suspicion and disrespect. One survey in the United Kingdom found that as many as one-quarter of respondents had neither claimed nor would claim benefits to which they were entitled because of personal or social stigma, or claim-related shame (Geiger, 2015).

2.4. Case study:

School feeding programmes

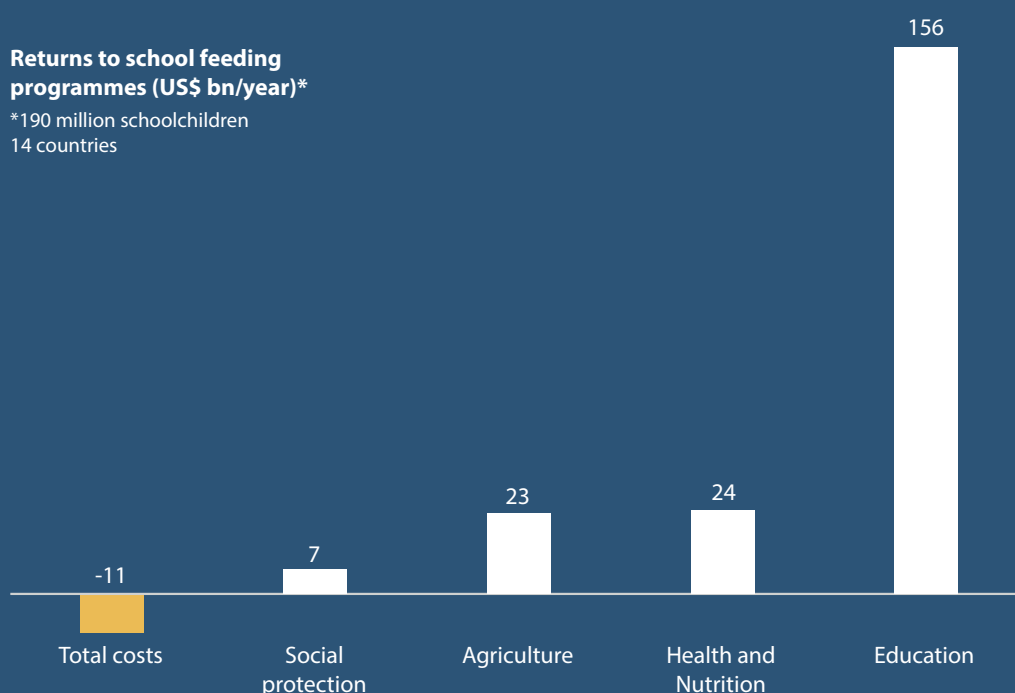
In 2022, an estimated 408 million children – one-quarter (25%) of all school-aged children – received some food items at school in most countries across the world, that is, at least 148 million children (76%) for which data are available. Interestingly, school feeding programmes are more prevalent in wealthier countries than in poorer ones. Coverage of school meals for school-aged children rises from 13% in low-income countries to 25% in middle-income countries, and 48% in high-income countries. Among enrolled primary school learners, coverage rates are higher, at 25%, 39% and 62% respectively (GCNF, 2024, p. 4).

In 147 countries with budget data, spending on school feeding totalled around US\$67 billion in 2022, that is, US\$450 million per country and US\$137 per child. Spending is positively correlated with national income, ranging from US\$8 per child in low-income countries to US\$611 per child in high-income countries. In Europe and North America, most costs are financed by national governments, but in sub-Saharan Africa this cost is halved, with a high proportion coming from international donor agencies (GCNF, 2024, p. 5).

These costs are not extravagant uses of public funds. School feeding programmes are a form of social investment that generates economic returns to several social and economic sectors, notably, social protection, education, health, nutrition and agriculture, as shown below.

- **Social protection:** school meals perform a social assistance function by providing regular and predictable in-kind transfers that boost the income of disadvantaged households by an estimated 10–15% on average (Burbano et al., 2018).
- **Education:** increased school enrolment; increased attendance; reduced absenteeism; reduced dropouts; improved educational attainment (reduced gender gaps in education; improved female retention at school; lower risk of early marriage).
- **Health:** higher vaccination, deworming and delousing rates; detection and treatment of eye, ear and dental problems; referrals to child protection and social workers (if these services are delivered through schools).
- **Nutrition:** increased food intake (for children from food-insecure households); improved diet quality (if nutritious meals are provided, or bio-fortified foods, such as orange-flesh sweet potato and iron-fortified beans).
- **Agriculture:** models like ‘home-grown school feeding’ (HGSF) can generate ‘structured demand’ for fresh produce from smallholder farmers who supply schools with meal ingredients, thereby boosting farmers’ income and strengthening local food systems.

Figure 5. Returns to school feeding programmes



Source: Compiled by the author from Verguet et al. (2020)

As indicated under 'education', some of these benefits impact more strongly on girls than on boys, sometimes deliberately. In Bangladesh, gender gaps were reduced by offering take-home rations to secondary school girls, thus incentivizing parents to retain their daughters in secondary education. More generally, school feeding is progressive in the sense that food-insecure and marginalized groups derive greater benefits, 'so these programmes are likely to be pro-poor and pro-woman' (Burbano et al., 2018).

Verguet et al. (2020) evaluated the multisectoral economic returns to school feeding programmes across 190 million learners in 14 low- and middle-income countries in Africa, Latin America and South Asia. To assess social impacts, the methodology involved calculating the market value of the transfers to families whose children receive school meals. For education impacts, they estimated the incremental future wages earned from increased school attendance. For health impacts, they estimated the disability-adjusted life years (DALYs) gained by preventing childhood diseases.

The estimated returns to school feeding in these 14 countries, totalling US\$180 billion per annum, are disaggregated as illustrated in Figure 4. As the total cost of these programmes equals US\$11 billion, the benefit : cost ratio is 16, meaning that every US\$1 invested generates US\$16 in incremental income.

Most of this comes through the education impact (14 : 1) owing to the significant anticipated gains in lifetime earnings. Agriculture, and health and nutrition each enjoy returns of more than double the school feeding budget ($>2 : 1$). The social protection benefit is the proportion of the school feeding budget that is transferred to children and their families in the form of food ($=7 : 11$) (Verguet et al., 2020). According to the authors, this analysis shows that any evaluation of social investment returns must take into account their multisectoral impacts.

As with other forms of social protection, school feeding schemes are susceptible to low take-up due to stigma, especially if children have to disclose their poverty in front of classmates. In the United Kingdom, 29% of eligible children did not participate in the Free School Meals Programme in 2013 (Holford, 2014). This self-exclusion could be avoided if free meals became universally available to schools through geographic targeting at district level rather than by means testing individual families. Higher take-up of school meals amplifies the social investment returns estimated by Verguet et al. (2020).

Conclusion

This review of the evidence has shown that social spending is often wrongly interpreted as unproductive. Most social services, especially in education and health care, are investments in human capital that generate substantial benefits, not only to individuals (private returns) but also to the national economy (social returns). These impacts are most powerful in children, and they can break the intergenerational cycle of poverty. Evidence from cross-country studies supports the 'human capital theory' and 'social investment life-course multiplier' predictions that well-educated and healthy adults participate more and are more productive in the workforce, as well as achieving the goal of the 'well-being economy', which enables people to lead more fulfilled and happy lives.

Contrary to the belief that social protection causes 'dependency syndrome' and is unaffordable in low-income countries, it has in fact been proven to reduce poverty and contribute to inclusive economic growth. This evidence makes a strong case for universal access to social protection, not only as a human right but also as an instrument of economic policy. Even programmes that seem to be entirely welfarist, such as providing school meals, have positive impacts, not only on social outcomes but also on economic indicators, including employment and GDP. To conclude, spending on social services must therefore be reconceptualized by policy-makers as essential investments in human well-being and economic growth.

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Investing in People

Social investments for economic transformation

This policy paper argues that investing in people is one of the most powerful and overlooked drivers of economic transformation. Drawing on evidence from education, health, and especially social protection, it shows that social investments not only improve wellbeing but also generate substantial economic returns.

By reframing social spending as a strategic, long-term investment, the paper invites policy-makers to rethink budgetary choices, particularly in times of fiscal pressure, and to place people at the centre of economic planning.

This publication is part of the ongoing collaboration between UNESCO's Social and Human Sciences Sector and the 'la Caixa' Foundation within the framework of the Management of Social Transformations (MOST) Programme. It belongs to the MOST Policy Paper Series, which offers timely and accessible analysis on emerging social and economic challenges.

The MOST Programme is an intergovernmental programme dedicated to understanding and responding to social transformations. It draws on the social sciences to help governments navigate the interconnected changes shaping today's world – from climate and technological shifts to evolving socio-economic challenges. Through its partnership with the 'la Caixa' Foundation, MOST develops both in-depth flagship reports under the *Inclusive by Design* series as well as shorter policy papers.



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