

Protecting the Vulnerable:

The Design and Implementation of Effective Safety Nets



December 2 - 13, 2002
Washington, DC

The World Bank

Social Risk Management

A Framework for Social Protection, and beyond



A new framework for SP

- Past:
 - Defined as a group of public programs:
pensions, labor market interventions and safety nets
- New definition:

“SP as public interventions (i) to assist individuals, households, and communities better manage risk, and (ii) to provide support to the critically vulnerable”

Why this conceptual framework for SP?

- SP as Trampoline and Safety-net
- Focus on Causes not on Symptoms of Poverty
- Sees Vulnerability as the dynamic Dimension of Poverty
- Stresses Investment Character of SP not only Costs
- Takes account of Reality

Social Risk Management: Basic Thrust

The Poor Are the Most Vulnerable in Society

- They Have the Largest Exposure to Multiple Forms of Risk**
- They Have the Least Access to Instruments to Manage Risk**

Provision of Appropriate Risk Management Instruments Is Crucial for Lasting Poverty Reduction

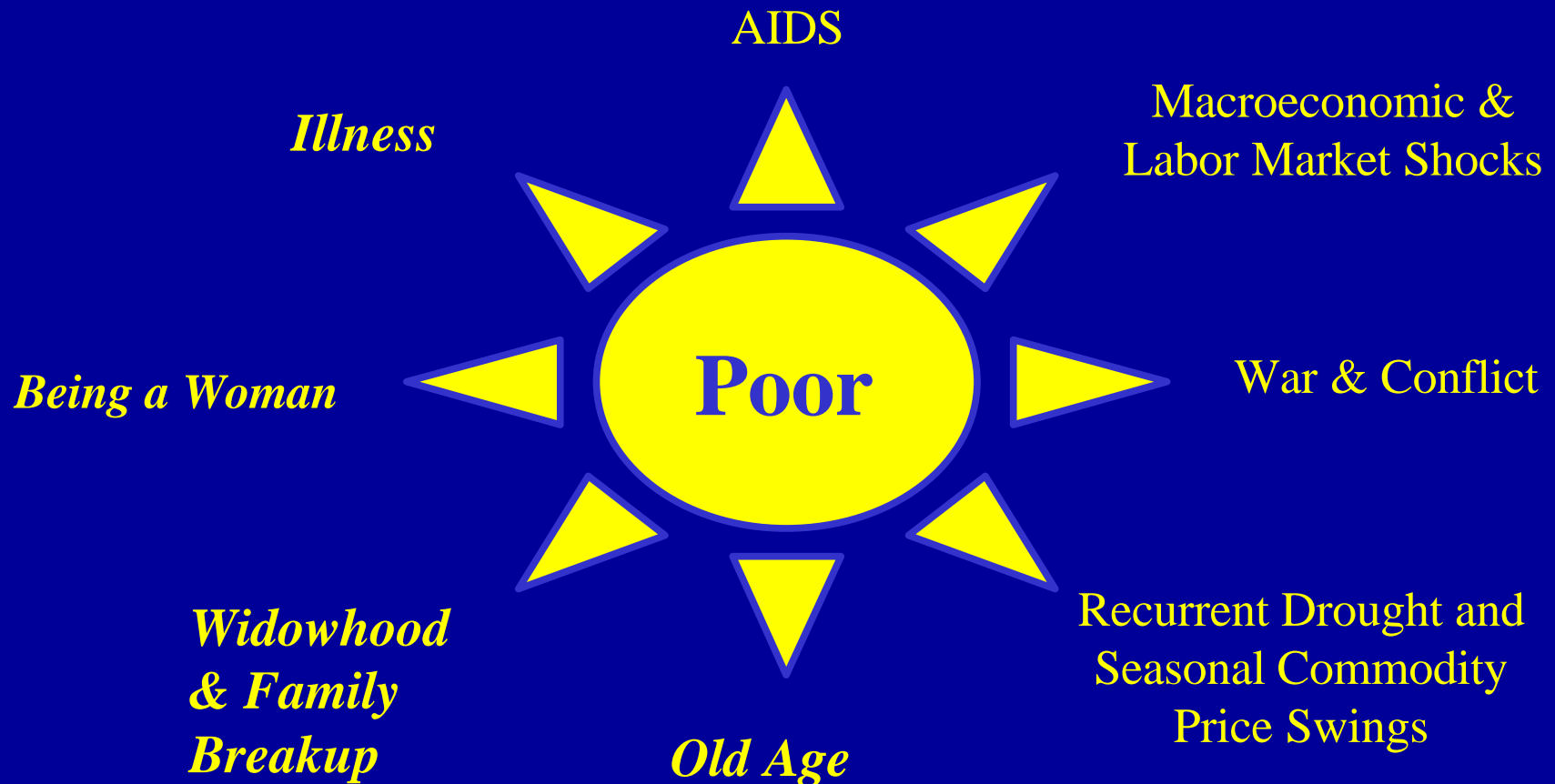
Vulnerability Compounds Poverty

- Both the poor (those living below the poverty line), and the near poor can be exposed to shocks that lower income
- Vulnerability can affect both the chronically and the transitory poor
- In many countries, there are more transitory poor than chronically poor

Household Risk in Africa

Individual

Community- Wide



Sources and Forms of Risk

| | Micro | Meso | Macro |
|----------------------|----------------------------------|--|--|
| Natural | | Rainfall Landslide Volcanic eruption | Earthquake Floods Drought Strong winds |
| Health | Illness Injury Disability | Epidemic | |
| Life-Cycle | Birth Old age Death | | |
| Social | Crime Domestic violence | Terrorism Gangs | Civil strife War |
| Economic | Unemployment Business failure | Resettlement Harvest failure | Output collapse BoP, financial or currency crisis Technology or ToT shocks |
| Political | Ethnic discrimination | Riots | Political default on social programs |
| Environmental | | Pollution Deforestation Nuclear disaster | |

What Are the Costs of Vulnerability?

For the Poor and the Very Poor

- Loss of Assets and Downward Spiral
- Poverty Traps
- Irreversible Losses in Human Capital
- Loss of Dignity

For Society

- Negative Externalities
- Reduced Potential for Growth
- Low Returns to Human Development Investments
- Shocks Worsen Inequity

Risk Management Strategies

- Prevention Strategies - to reduce the probability of down-side risk
- Mitigation Strategies - to decrease the impact of a future down-side risk
 - Portfolio diversification
 - Insurance
 - Hedging/Risk exchange
- Coping Strategies - to relieve the impact once the risk (the event) has occurred

Value-Added of Social Risk Approach: Getting to the Dynamics of Poverty

Risks Affect All Households, but Even Small Shocks Can Have Large, Permanent Costs for the Poor

- Who Are the Most Vulnerable?
- How Do the Poor Cope With Uninsured Risk? At What Cost?
- Social Risk Analysis Re-inforces Preventive, Pro-active Measures
- Requires Taking Account of Household Behavior
- Exposure to Risk Today Can Help Identify Who Is More Likely to Be in Poverty Tomorrow

Returns to Social Protection Are Across All Sectors

Risk Management Arrangements

- Informal arrangements, e.g.
 - marriage, real assets, mutual community support
- Market-based arrangements, e.g.
 - cash, bank deposits, bonds and shares, insurance contracts
- Publicly provided or mandated arrangements
 - social insurance, transfers in cash and kind, subsidies and public works

Developing A Public Response to Risks

- ⇒ Households experience multiple, simultaneous risks
- ⇒ Households are already engaged in risk management
- ⇒ Applying SRM framework to our work
 - ⇒ Non-Lending: Better understanding of poverty dynamics
 - ⇒ Lending: Need to work with traditional mechanisms - public interventions should leverage effective traditional responses and displace perverse or inequitable ones
- ➔ *Improved design and sequencing of public policy: higher returns to public expenditures*

Non-Lending Instruments

PRSP and CAS: moving beyond static poverty analysis to poverty dynamics

- ⇒ **Ethiopia and Kenya:** Using HH data to “predict” which vulnerable groups likely to be in poverty year after year
- ⇒ **Mozambique and Zimbabwe:** Identifying implications of perverse as well as effective informal safety nets for public policy

PERs: improving the poverty focus of the budget

- ⇒ **Kenya:** Consolidating information - how much is spent on social safety nets? Who is covered? What is its poverty incidence?
- ⇒ Which public expenditures reduce risks for poor? Which should be protected/scaled up during major shocks?
- ⇒ **VAT in South Africa:** Zero-rating goods disproportionately consumed by the poor, e.g. maize, beans

Coping With Macro Shocks

Why? When household purchasing power under stress, perverse coping likely; backlash

Need viable safety net

- ③ Smaller-scale program in “normal” years cuts start-up time
- ③ Scaling up and scaling down
- ③ Community-based targeting can improve affordability
- ③ Sequencing: safety net before adjustment

Examples

- ③ BEAM - Targeted school fee waiver in Zimbabwe
- ③ Social Investment Fund in Zambia
- ③ Public works program in Malawi

Preparing for Climatic Shocks

Why? Informal insurance is overwhelmed; disinvestment; risk-averse production choices

Prevention

- ③ Strategic community storage capacity, especially in remote villages, e.g. being done through SIFs in Angola, Eritrea
- ③ Rural infrastructure initiative: integrating markets

Insurance or Mitigation

- ③ Weather-index based crop insurance: insurance not entitlement; why not in Africa?

Coping

- ③ Self-targeted public works in preference to free food distribution, e.g. in Chad, Mali, Niger; could also be seasonal

Investing in Orphans

Why? Prevent social breakdown; long-term poverty

Prevention

- ③ Improving child maintenance and inheritance in Mozambique: NGOs used immunization program to register children, marriages
- ③ Early childhood support in Uganda and Kenya: “head-start”
- ③ Social pension for the elderly, e.g. in South Africa

Coping

- ③ Eritrea’s Community Fostering Grants to communities
- ③ Burundi’s school fee waivers for double orphans
- ③ Uganda’s Innovation Grants to communities for orphan-care
- ③ Zimbabwe’s revival of the Zunde Ramambo (Chief’s Land)
- ③ Earmarking resources for orphans support in Multi-sector AIDS Projects? And for elderly?