Social protection for the poorest:
The position and experience of the World Bank

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Risk and the access to risk management instruments matter for development. The poorest in society are typically the most exposed to divers forms of risk and have the least access to instruments for managing risk. Social protection defined as public policies that assist individuals, households, and communities in better managing risk and support the critically vulnerable is crucial for sustainable and equitable economic growth, contributes in fundamental ways to human development, and is essential for poverty reduction.

The World Bank has been engaged in Social Protection and Labor (SP&L) activities for more than two decades, albeit with large differences across regions and over time. The first social funds were prepared in the late 1980s to help communities cope with short-term adverse impacts of structural reforms. These expanded rapidly to become a central part of the Bank’s poverty reduction efforts in low income countries.

Policy discussions on old age security and pension reform took off in the early 1990s, in response to impending demographic changes worldwide, transition economy issues in Eastern and Central Europe and fiscal crises in Latin America. Policy debates and lending for social safety nets also took root in the 1990s; initially in the context of structural reforms and more recently to help households cope with shocks and natural and man-made disasters. Well functioning labor markets and job creation have long been a topic of interest for development economists at the Bank. However the World Bank’s work in these areas was piecemeal and not organized under a coherent framework. To rectify this and in recognition of the importance of the issues for development, various strands of social protection and labor work were brought together and the SP&L sector was created as a part of the Human Development network in 1996.

The Bank’s conceptual underpinnings of social protection

The conceptual foundations of the SP&L sector strategy are set forth in Social Protection Strategy: From Safety Net to Springboard published in 2001. These principles have been applied and deepened in publications both inside and outside the Bank. The World Development Report (WDR) 2000/01 established security at equal level to opportunities and empowerment to accelerate poverty reduction; WDR 2004 dealt with the crucial role of transfers and social services; WDR 2005 highlighted the role of labor markets for investment climate; WDR 2006 addressed the role of equity in development, including
the contribution of transfer programs, and *WDR 2007* is dealing with crucial aspect of youth employment. This increasing focus on social protection and labor was mirrored, inter alia, by the ILO labor conference of 2003, the OECD DAC PovNet work program, and the Report by the Global Commission on The Social Dimension of Globalization of 2004.

The strategy was innovative in placing particular emphasis on risk and risk management — the Social Risk Management (SRM) framework — as a complement to social protection’s more traditional emphasis on equity and basic needs, and in recognition of the demands and consequences of the rapidly changing global economy. The SRM framework is particularly relevant for low income countries, where risk is often an important cause of poverty. Poor people are more vulnerable to systemic (e.g. drought) as well as idiosyncratic risk (e.g. illness), and generally lack access to good instruments to effectively manage these risks. SRM adds vulnerability as a forward looking concept to the traditional poverty analysis, and thus highlights the importance of having multiple strategies for dealing with risk (prevention, mitigation, and coping) as well as multiple arrangements — traditional/informal systems, market-based systems, and public sector policies and programs.

The Bank’s SP&L strategy is driven by three broad policy objectives —

1. to improve earning opportunities and the quality of jobs;
2. to improve security through better management of risks; and
3. to improve equity and reduce extreme poverty through better assistance programs for vulnerable groups.

**Progress and Achievements**

A forthcoming update on the implementation of the Bank’s SP&L strategy provides details about progress in the pursuit of the fundamental development objectives - good jobs, greater security, and greater equity. Extracts from this update highlight the importance of clear conceptual framework to guide policy work; the implementation of the strategy in country context; and the role of partnership with other international agencies in this area.

**Good jobs.** Efforts to *improve earnings opportunities and the quality of jobs* lie at the heart of the Bank’s SP&L strategy. While there have been improvements in labor market policy worldwide (all eight ILO core conventions have been ratified by 124 countries; 163 have ratified the convention on the worst forms of child labor) major challenges remain. Joblessness remains high and resilient in particular among youth. Nearly half the 2.85 billion people in the world who have jobs that earn below the US $2/day international poverty line. While the number of children engaged in hazardous work has fallen, there are still 218 million children who are working. Employment of people with disabilities remains problematic.

Nearly 11 percent of all World Bank projects during 2000-2005 supported projects with an explicit thematic objective to improve labor market outcomes. Out of a total of 164 labor-related investment projects since 2000, the most common were projects that seek to
boost employment through development of micro-enterprises (26%) and improve labor market outcomes by training or retraining workers (20 percent). Substantial analytic work has laid the groundwork for policy action. Between 2003 and 2005, the Bank completed 54 analytical studies of labor markets, including main regional flagships and country studies in Russia, India, China and Ethiopia.

Recent developments have seen a resurgence of recognition that employment is at the heart of development. The Bank’s leadership is reflected in World Bank flagship publications, including four consecutive WDRs (2005, 2006, 2007 and the upcoming 2008) which discuss the labor market’s role in enhancing the investment climate, reducing inequalities, protecting and deepening human capital investment in youth, and providing a path out of rural poverty. The SP&L sector developed a multi-sectoral framework to guide the Bank’s work and policy dialogue, represented by the acronym MILES. To exploit synergies, the Bank is involved in important partnerships with other international agencies that have also provided leadership in this area (e.g. ILO, GTZ, IZA, etc.). An example is the Bank’s partnership with the Institute for the Study of Labor (IZA) to mobilize the international research community to fill gaps in knowledge about labor markets in low and middle income countries including mobility of workers into and out of informality and the impact of globalization and restructuring on workers.

Child labor and youth employment are two areas to develop better data and analysis and, increasingly, policy advice and project experience. On child labor, the Understanding Children’s Work project with ILO and UNICEF has developed innovative tools used to measure, monitor, and analyze child labor and is now the preeminent source for data on child labor in the world (with so far direct work in Cambodia, El Salvador, Guatemala, Morocco, Nepal, and Yemen). On youth unemployment SP&L increasingly conducts analytical work and supports operations which provide second chance education and training opportunities as well as other support services for poor youth. E.g. a global inventory of employment programs for youth was completed in 2007.

**More Security.** The Bank promotes better risk management for households and communities by facilitating the development of equitable, affordable, and sustainable savings and income support programs, counter-cyclical safety nets, and informal and market-based risk management programs. Risk & Vulnerability Assessments provide core diagnostics at the country level.

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**Box: Core Diagnostics: Risk and Vulnerability Assessments (RVAs)**

Directly following the launch of the strategy paper, the SP&L sector engaged in an explicit strategy to conduct country RVAs to aid in the diagnosis of appropriate social protection strategies for countries and points of engagement for the Bank with countries. Forty RVAs were done across all regions in the years initially following the launch of the SP strategy, which provided a basis for a richer dialogue with country stakeholders and identified important new areas of lending. The studies highlighted the importance of risk and the impact of exogenous shocks (e.g. natural disasters such as drought, hurricanes, earthquakes and mudslides; health shocks including HIV/AIDS, exogenous price shocks) on poverty levels, particularly for low income countries. Risk and vulnerability analysis is now increasingly mainstreamed into poverty assessments.
Ten percent of the world population is now over 60 years of age and by 2050 the ratio will be double that with 80 percent of the elderly living in the developing world. Since 1984 the Bank has been involved in pension reforms in more than 80 countries with a, initial focus on Eastern Europe and Latin America. More recently the focus has shifted to other Bank regions and comprehensive system evaluations, the reform of civil service pensions to enhance the overall equity of systems and consideration of non contributory social pensions and other systems to achieve coverage in the large informal employment and rural sectors.

The Bank has developed an overall pension policy framework based on the principles of risk diversification through the multi-pillar systems that utilize a combination of public and private institutions. This is articulated in the recent publication “Old Age Income Support in the 21st Century, An International Perspective on Pension Systems and Reform”. Appropriately balanced multi-pillar pension systems are better able to deliver poverty reduction and consumption smoothing than single pillar systems because they diversify risks, capitalize on the imperfectly correlated rates of return from the various schemes and pillars, and provide a risk floor.

To underpin the policy dialogue and support the Bank’s framework for pensions and income support to the elderly, it has developed and disseminated a computer model PROST (Pension Reform Options Simulation Toolkit) that has now been used in more than 90 countries (including in the EU). The model has the capability to project and compare the fiscal implications of a variety of pension system parameters and reform options. Building on a health financing projection model was released in November 2006 and tested in 12 countries. A tool for evaluating unemployment benefit systems has been developed and piloted in four countries: Bosnia, Slovenia, Turkey and China.

The SRM framework also acknowledges the importance of other tools for managing risks that are currently less commonly used in the social protection sector. Market-based strategies are being explored, for example via an African regional study on weather-based insurance. This includes provision of insurance to small producers and input suppliers and ways to use weather data to provide countercyclical financing for safety nets. Ethiopia’s Productive Safety Nets program incorporates such a mechanism to scale up safety nets in time of drought, and similar work is being done in other sectors, e.g. herder insurance in Mongolia, weather-based crop insurance in India.

Informal and community-based social risk management mechanisms are also important with risks pooled within extended families, ethnic groups, neighborhood groups and professional networks. Some social funds are recently exploring how they can fortify these mechanisms. For example, the Tanzania Social Action Fund includes strengthening of local institutions and promoting savings and income generating activities at community level in addition to its more standard activities to increase access to service and provide income via public works.

**Enhanced Equity.** The third priority of the SP&L strategy is to improve equity and reduce extreme levels of poverty and vulnerability. The proportion of the world’s population living on less than one dollar a day has fallen from 28 percent in 1990 to 21
percent in 2002. This trend is consistent with non-monetary indicators such as the percentage of stunted children or enrolment rates in schools. Recent rigorous impact evaluations of Social Safety Net programs (cash transfers and workfare) have demonstrated the contribution of SP&L interventions to reducing poverty and malnutrition and improving access to health and education services, and the prevalence of such programs is growing.

The understanding that safety nets are an important component of social policy everywhere has greatly increased in recent years, in part because the SRM strategy demonstrates that they have a role in improving efficiency and growth as well as the more traditionally understood redistributive role. As a result of the wider acknowledgement of the need for safety nets, the range and sophistication of work has greatly increased. The World Bank has engaged with 116 countries on safety net issues over the last five years.

The most dramatic change in safety nets in recent years is the advent of conditional cash transfer (CCT) programs. These programs transfer cash to poor families on the condition that the families ensure that the children regularly attend school, receive prescribed standards for preventive health care, and participate in nutrition programs. From only three countries a decade ago, twenty now have full-blown programs or pilots, and as many more are in the process of considering them. The early programs have had ‘gold-standard’ experimental design evaluations, showing very good targeting, impacts on poverty and inequality commensurate with the (varied) transfer size; largely positive impacts on school enrollment and use of health services; more muted but often positive impacts on educational and health status.

A second area of substantially increased focus and scale of efforts is safety nets for low income countries, especially in sub-Saharan Africa. More than a dozen African countries are either piloting or considering cash transfer programs, the majority of these conditional. Social funds have recently been experimenting with innovative community-based approaches in delivering safety net services in low income countries. For example, the use of community institutions for implementing cash transfers is being piloted in Tanzania, Nigeria, Uganda and Sierra Leone, and the use of community targeting and participatory methods in public works programs is being piloted in Malawi, Uganda and Tanzania. Most safety nets in low income countries are largely externally financed, so donor harmonization is a key issue, and collaboration with partners has been extensive, especially with the British Department for International Development (DFID), GTZ and World Food Program (WFP).

A third area of significant advance in the last decade is the know-how for, and implementation of, better targeting and administrative systems. Almost all safety net projects supported by the Bank contain elements to strengthen these. The best targeting systems in Bank client countries that worked with the Bank on safety nets (e.g. Romania, Brazil) have achieved levels similar to those in the US and UK. This demonstrates the potential for improvement in other client countries where a fifth of programs with targeting instruments that can yield good results were still producing regressive outcomes as recently as 2004.
Concluding Remarks

Social protection has become mainstreamed at the Bank and SRM has provided an important and forward looking concept to advance new thinking around social protection activities. It has helped to move from a traditional, instrument-based definition of SP to an objective-based definition that encompasses a diverse set of informal, market-based and public programs. It has helped expanding not only the objectives but also the effects of Bank-supported programs from addressing mainly equity concerns and re-distribution to new work on improved efficiency and economic growth. The approach is broadly consistent with the human rights based approach and the call for minimum provisions. Whether this should happen through universal access, means tested provisions, or selectively also through conditionality is open for discussion and should be evidence-based. Encouragingly, the framework is being used increasingly outside the Bank and its application has made more than a few flowers bloom. It has proven useful for the review and (re)design of traditional and inspirational for the development of new programs. While its refinement and application is still work in progress, the approach promises to deliver real progress for development and to render social protection relevant for the poorest.