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SOCIAL RISK MANAGEMENT

THE WORLD BANK'S APPROACH TO SOCIAL PROTECTION IN A GLOBALIZING WORLD

Social Protection
LABOR MARKETS, PENSIONS, SOCIAL ASSISTANCE
THE WORLD BANK

THE HUMAN DEVELOPMENT NETWORK
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Social Risk Management:

The World Bank's Approach to Social Protection in a Globalizing World

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Abstract

Social protection is moving up on the development agenda. Dismissed as ineffective, expensive or even detrimental to development in developing countries for a long time, it is now increasingly understood that assisting individuals, households and communities in dealing with diverse risks is needed for accelerated poverty reduction, and sustained economic and social development. Conceptually, social protection is shifting towards social risk management to reduce the economic vulnerability of households with appropriate instruments and to help them smooth consumption patterns. For the poor countries, it is about moving away from unproductive coping strategies adopted by households (such as removing children from schools, delaying health care, selling livestock) that are buffeted by shocks (such as drought, cyclones, floods, conflict, terms of trade, policy reforms, health, unemployment, etc.). It seeks to replace these strategies with ex-ante planning and mechanisms to help households anticipate and insure against these shocks (through public works, weather-based insurance, water management, grain storage, micro-savings, etc.). For all countries, it is about rethinking the design and implementation of traditional public interventions such as labor market, social insurance, and social assistance policies. The paper outlines the development aspect of social protection, presents the social risk management concept and its operationalization in risk and vulnerability assessments, explains the focus on vulnerable groups (such as children and the disabled), and briefly reviews traditional programs such as labor market interventions and pensions through the social risk management lens.

Introduction

Social protection (SP) is moving up on the development agenda. Dismissed as ineffective, expensive or even detrimental to development in developing countries, it is now increasingly understood that assisting individuals, households and communities in dealing with diverse risks is needed for accelerated poverty reduction and sustained economic and human development. But, to be efficient in a developing country context—i.e. providing the needed security in the most cost effective manner—requires a different and fresh look at the programs and instruments. Simply copying publicly provided and financed programs from rich countries will not do the trick in many cases. It requires a more comprehensive approach which draws attention to many more risks, and which proposes many more instruments of dealing with diverse risks, than traditionally considered by social protection. This is the purpose of the social risk management (SRM) approach and its application in developing countries.

This contribution outlines the World Bank's approach to social protection in a globalizing world, with a special focus on low income countries, where the vast majority of the population is outside the formal sector, and a major share lives below the poverty line however meagerly defined. The paper starts out by putting the role of SP and SRM within the current development debate, and discusses the changes that have taken place over the last decade or so (Section 1). The focus on poverty within the development debate has led to a better understanding of the poverty dynamics. It recognizes the fact that there is a major mobility in and out of poverty, and thus concentrating on the (ex post) poor instead of the (ex-ante) vulnerable may be less effective (Section 2). The focus on vulnerability is also the suggested approach to operationalize the SRM concept, and to this end risk and vulnerability assessments are being piloted with great success in developing countries (Section 3). The SRM lenses suggest looking at (very) vulnerable groups as a promising approach to reduce vulnerability to poverty in countries with an incomplete space of instruments to manage risks (Section 4). Finally, the new approach invites to review and reassess traditional social protection programs, of which two are briefly highlighted: labor market interventions, and retirement income provisions.[1]

The Changing Role of Social Protection in the Development Debate

Social Protection, broadly understood as public measures to provide income security to the population, was never at the heart of the development debate. The latter kept changing over the decades—moving the development focus from hardware (such as dams and roads) to software (such as education and institutions) considerations—but SP was never considered an important ingredient of this process. At best, it was an afterthought. Introducing OECD-type SP instruments such as social insurance in developing countries at an early stage of development was considered by most development economists as a luxury, or worse, detrimental. And for most development economists, targeted transfers in poor countries create a major trade-off between equity and efficiency considerations (Ravallion, 2003). Altogether, while many good social arguments could be put forward on why SP is important—if only to reduce the poverty head count via redistribution from rich to poor—until recently there were only few voices which considered SP important for the development outcome, i.e. improvements in economic and human development indicators.

Various events during the 1990s changed this perception dramatically. The new vision of SP sees it at the center stage of development, and as a crucial ingredient of the suggested twin development pillars: Innovation and Empowerment (Stern, 2003), and as a crucial ingredient to achieving the MDGs.[2] At the policy level, the experience of the East Asian crisis and the need to address the effects of globalization triggered the rethinking. At the conceptual level, it was the better understanding of the poverty dynamics due to better data, and a review of the poverty policy approaches which pushed the intellectual agenda. The rethinking of traditional SP approaches triggered a new conceptual framework for SP—Social Risk Management. While the development of this new SRM framework was initiated at the World Bank, it has been espoused by other development banks, bilateral development institutions, academic research centers, and many client countries.

Main Policy Triggers

The **East Asian crisis in the late 90s** has brought to the attention of policy makers that high growth rates, while necessary for lasting poverty reduction, are insufficient. They realized that progress made on the poverty front may be lost quickly under declining output and rising unemployment if appropriate social policy measures are not in place. Following a large covariate (negative) economic shock, informal safety net arrangements tend to break down, existing public support schemes, where available, are often inappropriate or insufficient, and new schemes tend to prove difficult to establish during a deep and protracted crisis. An ex-ante approach was required which assessed the potential risks and prepared social protection measures, in particular social safety nets, before a major shock hit. This was the main conclusion of a report prepared for the Asia Pacific Economic Cooperation (APEC) ministers of finance by a group of international organizations (World Bank et al., 2001).

There is a perceived strong need to address the **increased risks resulting from globalization** in an equitable but efficient manner. Globalization of trade in goods, services, and factors of production has the world community poised to reap the fruits of global comparative advantages. However, there is no certainty that improvements will be widely shared among individuals, households, ethnic groups, communities, and countries. Expanded trade or better technology can deepen the differences between the "haves" and "have-nots". It can increase the vulnerability of major groups in the population through higher income variability combined with marginalization and social exclusion, just as it can increase the opportunity for all, depending on the prevailing social context and policy measures. To further complicate matters, the trend towards globalization and the higher mobility of production factors reduces the ability of governments to raise revenues and pursue independent economic policies, and to have national policies to help the poor when they are needed most.

Main Conceptual Triggers

Within the development debate, the emphasis placed on poverty reduction **triggered a deeper understanding of the causes of poverty** and its transmission from one generation to another. More than a decade ago, the poverty literature took the undisputed view that poverty is caused by a low level of assets. From this paradigm, the policy prescriptions were simple: pro-poor growth and policies that build the assets of the poor (human development policies) are sufficient conditions for poverty eradication. Since poverty eradication efforts proved to be more difficult than anticipated, a more nuanced understanding of poverty emerged which mirrors our increasing understanding of poverty dynamics and economic mobility in developing countries. Besides personal characteristics and endowments (or the lack thereof), there is increasing evidence that seemingly transitory shocks can have long-term consequences.[3] This finding suggests the need for an ex-ante view of poverty—vulnerability—and a thorough investigation of the social protection instruments best suited for dealing with it.

The **World Development Report (WDR) 2000/01** on attacking poverty concludes that sustainable poverty reduction needs a forward-looking approach in social protection (World Bank, 2001a) and signals the change in development thinking during the 1990s. In the WDR 1990, social safety nets, largely understood as ex-post provision of support in response to economic crisis and structural adjustment, was subordinate to the need for labor intensive growth and access to basic social services (World Bank, 1990). In the WDR 2000/01, by contrast, social protection is a primary element in the new three-pronged approach. Successful poverty alleviation policies should simultaneously provide opportunities and security for, and empowerment of the poor. Absence of poverty is considered to be achieved when households have enough to consume both *now* and *in the future.* Improving the security of the poor, i.e. reducing their vulnerability to poverty, is one of the three pillars for an effective poverty alleviation policy.

Main Institutional Triggers

Like other sectors in the World Bank, SP was invited to write a **Sector Strategy Paper** with the objectives of taking stock of past experiences and developing the strategic thrust of its future operations. When developing the paper from early 1998 onward, it became clear that a new conceptual framework was needed which moves SP from a definition by instruments (such as social insurance) to a definition by objectives (that is assisting in risk management); from a traditional focus on ex-post poverty to ex-ante vulnerability reduction; from seeing SP in our client countries largely as safety nets to conceptualizing them as spring boards. The new conceptual framework—Social Risk Management, discussed below—proved very successful in not only molding the Bank's thinking about SP but also in providing the basis for a widely acclaimed Sector Strategy Paper (World Bank, 2001b). It also became the analytic underpinning for the WDR 2000/01 security chapters, discussed above.

The SRM framework was also presented to and discussed with the Bank's **international development partners** who in turn adopted versions of the framework for their strategic thinking and operational work.[4] It is no exaggeration to say that the new SRM framework effectively has become the reference point for the thinking about SP in a development context. But the specification of the framework and its translation into analysis and operational policy has only begun. Much of the intellectual travel and operational hardship is still ahead, but experiences and lessons so far are very encouraging as is the reaction by client countries. It is finally an approach which aligns the development interest of ministers of finance with those of ministers of labor, social insurance, welfare, or wherever SP issues are institutionally allocated in a country.[5]

Social Protection as Social Risk Management

The basic thrust of the SRM framework is based on two important assessments: (i) The poor are typically most exposed to diverse risks ranging from natural (such as earthquake and flooding) to manmade (such as war and inflation), from health (such as illness) to political risks (such as discrimination), and (ii) the poor have the fewest instruments to deal with these risks (such as access to government provided income support and market-based instruments like insurance). These assessments have important consequences: (i) the poor are the most vulnerable in society as shocks are likely to have the strongest welfare consequences for them. For welfare reasons, therefore, they should have increased access to SRM instruments; and (ii) the high vulnerability makes them risk averse and thus unable or unwilling to engage in higher risk/higher return activities. Access to SRM instruments would allow the poor more risk-taking and thus provide them with an opportunity to gradually move out of poverty. Hence providing risk management instruments to individuals, and in particular to the poor, is both an end as well as a means to development (Holzmann and Jorgensen, 1999 and 2001, Holzmann 2003).

The main elements of the new framework are derived from introducing the notion of asymmetric information in a world of diverse risks in a more explicit way than has been done generally. Compared to an ideal world (à la Arrow-Debreu), this has several consequences for managing risks; most importantly: (i) The sources and the forms of risk matter, e.g. whether a particular risk is idiosyncratic or covariant. For the former, more reliance can be given to informal or market-based RM instruments; for the latter, more government involvement tends to be required. (ii) Since risk is not necessarily exogenous, there are many more strategies to deal with risks than simple insurance, including risk reduction, risk mitigation, and risk coping strategies. (iii) As private insurance markets tend not to emerge or break down in view of asymmetric information, there are three main institutional arrangements for dealing with risk: informal, market-based and publicly-provided mechanisms. And

(iv) there are multiple suppliers of RM instruments (including individuals, households, communities, NGOs, market institutions, government, international organizations and the world community at large) and distinct demanders (such as the formal urban, the informal urban, the formal rural and the informal rural worker).

Sources and Characteristics of Risk

The capacity of individuals, households and communities to handle risk, and the appropriate risk management instrument to be applied depend on the characteristics of risks: their sources, correlation, frequency and intensity. The sources of risk may be natural (for example, floods) or the result of human activity (for example, inflation resulting from economic policy); risks can be uncorrelated (idiosyncratic) or correlated among individuals (covariant) over time (repeated) or with other risks (bunched); and they can have low frequency but severe welfare effects (catastrophic) or high frequency but low welfare effects (non-catastrophic).

While informal or market-based risk management instruments can often handle idiosyncratic risks, they tend to break down when facing highly covariant, macro-type risks. To take Africa as an example, the main sources of covariant risks that affect poor people are AIDS, wars and conflict, seasonal volatility in prices, drought, and macroeconomic shocks. Idiosyncratic risks include illness and widowhood or break-up of the family. Since many of the risks faced by poor people are covariant in nature, informal management mechanisms at the family or community level are typically not very effective. Among these risks, at least two are induced by human activity (war and policy-induced macroeconomic shocks), which need no *ex-post* coping mechanism if they can be prevented from happening in the first place. Access to market-based interventions, such as saving mechanisms or insurance programs, can mitigate some of the risks (seasonal price volatility or illness). This suggests that different strategies and interventions are appropriate depending on the nature of the risks faced.

Social Risk Management Strategies

Risk management can take place at different moments—both before and after the risk occurs. The goal of *ex-ante* measures is to prevent the risk from occurring, or, if this cannot be done, to mitigate the effects of the risk. Individual efforts, such as migration, can prevent risks, but, in many cases, this requires support from the government (for example, disaster prevention). Mitigating the effects of risk through risk pooling by definition requires people to interact with other individuals, and poor people are typically less able to participate in formal and also informal arrangements. This leaves most poor households with the residual option of coping with the risk once it has occurred. They are normally poorly prepared to do this and, therefore, often experience irreversible negative effects.

Prevention Strategies. These are strategies that are implemented before a risk event occurs. Reducing the probability of an adverse risk increases people's expected income and reduces income variance, and both of these effects increase welfare. There are many possible strategies for preventing or reducing the occurrence of risks, many of which fall outside of social protection, such as sound macroeconomic policies, environmental policies, and investments in education. Preventive social protection interventions typically form part of measures designed to reduce risks in the labor market, notably the risk of unemployment, under-employment, or low wages due to inappropriate skills or malfunctioning labor markets.

Mitigation Strategies. As with prevention strategies, mitigation strategies aim to address the risk before it occurs. Whereas preventive strategies reduce the probability of the risk occurring, mitigation strategies help individuals to reduce the impact of a future risk event through pooling over assets, individuals, and over time. For example, a household might invest in a variety of different assets that yield returns at different times (for example, two kinds of crops that can be harvested in different seasons), which would reduce the variability of the household's income flow. Another mitigation strategy is for households that face largely uncorrelated risks to "pool" them through formal and informal insurance mechanisms.

Coping Strategies. These are strategies designed to relieve the impact of the risk once it has occurred. The main forms of coping consist of individual dissaving, borrowing, or relying on public or private transfers. The government has an important role to play in helping people to cope (for example, when individuals or households have not been able to accumulate enough assets to handle repeated or catastrophic risks). The smallest income loss would make these people destitute and virtually unable to recover.

Social Risk Management Arrangements

Over time three main categories of social risk management arrangements have evolved: (i) informal arrangements, (ii) market-based arrangements, and (iii) public arrangements. Each of them has relative strengths and limitations.

Informal Arrangements. These arrangements have existed since the dawn of mankind and still constitute the main source of risk management for the majority of the world's population. In the absence of market institutions and public provisions, the way that individual households respond to risk is to protect themselves through informal (family or community) or personal arrangements (self-protection and self-insurance). Although they sidestep most of the information and coordination problems that cause market failure, they may not be very effective in helping the household weather adverse events. Examples of this kind of arrangement include: the buying and selling of real assets (such as cattle, real estate, and gold), informal borrowing and lending, crop and field diversification, the use of safer production technologies, storing goods for future consumption, mutual community support arrangements, and kinship arrangements through marriage.

Market-Based Arrangements. Individual households will also take advantage of market-based institutions such as money, banks, and insurance companies when they are available. However, in view of these instruments' limitations due to market failure, their usage will be initially restricted but will rise with financial market development. Because formal market institutions are reluctant to lend to households without secured earnings, microfinance is also an important instrument of social risk management.

Public Arrangements. Public arrangements for dealing with risk came into being with the development of the modern welfare state but are relatively scarce and have very limited coverage in the developing world for fiscal and other reasons. When informal or market-based risk management arrangements do not exist, break down, or are dysfunctional, the government can provide or mandate (social) insurance programs for risks such as unemployment, old-age, work injury, disability, widowhood, and sickness. The mandatory participation in a risk pool can circumvent issues of adverse selection, in which individuals with low risk profiles avoid participation in insurance pools due to premiums while individuals with high risk profiles join in order to gain access to payouts. Since these programs typically apply to those in formal employment, their coverage in developing countries is generally low. On the other hand, governments have a whole array of instruments to help households to cope after a shock hits. These include social assistance, subsidies on basic goods and services, and public works programs.

When viewed through the lenses of the social risk management framework, a number of lessons emerge as to the appropriate role of social protection within the set of public policy instruments:

1. There are synergies and complementarities that need to be realized between social protection and other risk management arrangements. Viewing social protection as strengthening the risk management arrangements provided by the market, communities and households makes it possible to identify the most appropriate mix of institutions and instruments for reducing poverty and supporting economic development, given a country's traditions, institutions, culture and budget.

2. Social protection should contribute to the achievement of a better balance among risk management strategies. Historically, risk coping occupied too much attention; risk mitigation, too little; and risk prevention, even less. Though this may be understandable in view of their direct costs and benefits, it is likely to be inefficient if indirect costs and long-term benefits are taken into account.

3. Formal social protection should not crowd out other risk management arrangements. Informal, market-based and public arrangements for dealing with risks, all have comparative advantages. These are determined by who has the information and the capacity to handle it, and by the long term development implication of each arrangement. In an ideal world with perfectly symmetrical information and complete markets, all risk management arrangements can and should be market-based (except for the instruments protecting the incapacitated). However, in the real world, all risk management arrangements will play important roles that are likely to change over time.

4. Social protection should contribute to a better match of instruments with risks. The difficult transition from plan to market in the countries of the former Soviet Union in the 1990s and the financial crisis in East-Asia have highlighted the need for solutions tailored to the problem (i.e. risk) at hand. Moreover, the outcomes of these crises demonstrated that the basic social risk management instruments should be in place before the crisis hits.

5. Social protection should contribute to a better match between the supply and the demand of risk management instruments. There are many suppliers of social risk management instruments, such as individuals, households, communities, non-governmental organizations, financial markets, governments at different levels, bilateral donors, and international organizations. Furthermore, there are distinct differences in demand among different population groups, such as formal, informal urban,

and informal rural workers. The role of government, and of social protection in particular, in making this match between supply and demand is complex. Not only should the government provide its own instruments, but it should also increase the supply and effectiveness of instruments from other sources.

Operationalizing SRM: Measuring Vulnerability and Undertaking Risk and Vulnerability Assessments

How do we know if a country makes progress in its SRM arrangements, in particular improving the position of the poor? And how do we identify the exposure to risk, the available instruments, and the remaining policy gaps? Naturally, both questions are interrelated and linked with the concept of vulnerability.

Defining and Measuring Vulnerability

Vulnerability is the central concept of SRM and it is suggested to use measured vulnerability as a criterion whether progress in SRM arrangements are made. Attempts to **define, formalize and quantify vulnerability** abound in the poverty-related literature, with many authors seeking an operational definition of vulnerability (Alwang et al., 2001). Here, we briefly review four of them:

1. According to *the first definition,* vulnerability is the ex-ante risk that a household will, if currently non-poor, fall below the poverty line, or if currently poor, will remain in poverty or fall deeper into poverty. Thus, vulnerability is synonymous with a high **probability of becoming poor** or poorer "n" periods ahead.[6]

2. *The second approach* treats vulnerability as the household ability to smooth (insure) consumption when faced with volatility in its income stream while preserving a minimum level of assets.[7] Under this approach, vulnerability is tantamount with **consumption volatility.** More precisely, household vulnerability is the conditional covariance between changes in household consumption and changes in income, subject to an asset constraint.

3. *The third definition* equates vulnerability with the **utility lost due to risks,** as the difference between the expected household consumption and the certainty-equivalent consumption.

4. *The fourth approach* was developed within the World Bank, based on a loose definition of the concept of vulnerability (not as ex-ante, but as ex-post risk of consumption poverty, malnutrition, low educational or health outcomes), by analyzing the

coverage of poor or vulnerable groups with adequate risk management instruments across the life-cycle. The approach starts with an investigation of the sources of vulnerability (prevalent and or catastrophic risks and shocks), contrasts these with the available risk management instruments, and finally identifies gaps in the access to, and efficiency of such instruments. This information may then be used to identify best practice interventions to address a particular risk, and for the costing, prioritization, sequencing and monitoring of these interventions.

Risk and Vulnerability Assessments

The World Bank operationalizes the SRM framework through Risk and Vulnerability Assessments (RVAs). An RVA is a complementary analytical product that enhances static poverty analysis, by:[8]

1. adopting an ex-ante perspective on household welfare, based on the related concept of vulnerability; and
2. analyzing explicitly the sources of household vulnerability as the combined effect of: (i) exposure to shocks and (ii) lower resilience to withstand these shocks, that can lead to, perpetuate or deepen poverty.[9]

The inability to manage these risks and shocks is likely due to inadequate assets and social risk management instruments (RMI), including social protection mechanisms.

RVAs are diagnostic tools used for the formulation of a social risk management strategy, or in placing the subset of social protection policies in the broader SRM context, by addressing the following issues:

1. Understanding the sources of vulnerability to poverty: which type of shocks cause the largest damages? What is the size of the population at risk for each type of shock?
2. Contrasting these with the supply of public interventions aiming at managing social risks (including, but not limited to, social protection).
3. Identifying the policy gap, i.e. the menu of interventions that can be used to reduce the risk, the exposure to risk, or the residual effect of the risk on household welfare.

To track the progress from conceptualization to estimation of vulnerability, the Bank together with IPRI organized a conference on risk and vulnerability,[10] where debates centered on (i) ways to increase the policy relevance of the RVAs; (ii) developing templates for identifying risks and risk responses in surveys, (iii) identifying information on shocks from secondary sources that can be merged with household survey information to study vulnerability; and (iv) producing a microeconometric toolkit for the assessment of vulnerability with household data.

To guide the operational work on social risk management, the Bank developed a guide for the **implementation of RVAs**,[11] which identifies the sources of vulnerability, and suggests a process for prioritizing the public interventions to address them. The RVA guide analyzes (i) the most prevalent and severe shocks that trigger welfare losses; (ii) the socio-demographic groups at high risk of poverty, due to lack of availability of or access to risk management instruments; and (iii) the gap in the supply of RMI, and the identification of instruments best suited to cover this gap. In the future, the Bank intends to shift its focus toward more formal assessments of vulnerability, with the aim of providing the operational teams with toolkits for the implementation of these concepts.

Ideally, the implementation of a RVA requires **panel data**, and information on (i) the risks and shocks that affect the households, and (ii) the household ability to withstand those shocks. Such data are typically not available, especially in developing countries.[12] However, explicit information on risks and shocks is crucial to understand the sources of vulnerability. To guide the data collection process for RVAs, the Bank in collaboration with research think-tanks developed:

1. an inventory of the information on risks and shocks that can be extracted from a typical LSMS;
2. an inventory of the policy questions related to vulnerability that can be investigated with the available information;
3. a template module on *risks, shocks and household responses to shocks* for multi-topic household surveys.

Finally, approaches have been devised to estimate vulnerability with **cross-sectional data.** This is a third-best solution. This approach substitutes the need for better data with stronger assumptions about the process that generates vulnerability, such that the cross-sectional variance can be used to estimate the inter-temporal variance. While cross-sectional variance will indeed be able to explain a part of inter-temporal variance (the one due to idiosyncratic or cluster-specific shocks), the impact of inter-temporal or aggregate (household invariant but time variant) shocks will be missed. In other words, the model is likely to produce good estimates of vulnerability for the situations where the distributions of risks, and the risk-management instruments, are similar from one period to another.

To date, most studies of vulnerability have analyzed vulnerability to consumption poverty. However, this should not necessarily be the case. The same techniques can be used to analyze vulnerability to other dimensions of well-being, such as malnutrition, health, education, access to adequate housing or basic services. In the near future, the work on developing guides or toolkits for the implementation of RVAs will investigate **vulnerabilities in health, education or other dimensions of well-being.** The richness of the vulnerability analysis can be further strengthened by merging quantitative and qualitative approaches.

Vulnerable Groups: Child Labor, Disability, Unemployed Youth and Orphans

The World Bank's approach to social protection in a globalizing world also recognizes that certain groups of poor people are even more exposed and vulnerable, and that risks are often mutually reinforcing. For instance, AIDS orphans as well as children in extremely poor households are at high risk of dropping out of school and becoming working children. Many children, with low human capital and in poor health, tend to grow up to become at-risk and unemployed youth. Disabled individuals are often stigmatized and denied access to basic social services. Evidence also indicates that the sudden loss of income from a working adult (for whatever reason), or a sudden eruption of armed conflict, leads to a high likelihood of child destitution and child labor. As risks multiply and the number of such vulnerable individuals grows, the attainment of the Millennium Development Goals (MDGs) will not be possible unless the vulnerabilities and risks that confront these groups are addressed holistically with appropriate public, community and private interventions.

The Bank has already started to tackle these difficult issues. Through analytical and operational work, the Bank with the support of the Norwegian Government has made rapid progress on understanding the risks faced by child workers. The World Bank, UNICEF, and the ILO have also launched the Understanding Children's Work (UCW) project to provide governments, employers, parents, and society as a whole with more information on the long-term welfare losses associated with child labor. The Bank also supports innovative conditional transfer programs that make social assistance contingent upon family efforts to keep children in school and away from harmful labor. In the area of disability, the Bank has started making progress with understanding the risks faced by disabled people. Operationally, the Bank is also beginning to work more on disability issues. For instance, a project in Vietnam aims to educate children with disabilities. Furthermore, the Bank has undertaken analytical work and capacity building on issues related to AIDS orphans and youth unemployment in collaboration with partner organizations and relevant stakeholders.

CHILD LABOR is undoubtedly one of the most devastating consequences of persistent poverty. The World Bank is working in partnership with internal and external groups to gain a better understanding of: the composition and extent of child labor; the various forms of child labor; the interaction between child labor and overall labor markets and human capital; how to most effectively design intervention and reduction strategies; and how to develop comprehensive SRM strategies against child labor. The specific work program in this area includes: (i) *analysis and research* to fill in gaps in current knowledge on child labor (e.g. economic causes and consequences, determinants and indicators, links to education and health, etc.), (ii) *operational activities* to mainstream child labor issues that to date have included 6 country case studies (Benin, Brazil, Ethiopia, Guatemala, Morocco, and Yemen), regional case studies in Latin America, and assistance to country teams (Ghana, Nepal, Thailand, Yemen) to integrate child labor alleviation strategies into lending, and (iii) *capacity building and dissemination* that has included numerous seminars, training events, an international conference on child protection issues, and other educational events.

The importance of a risk lens to deal with child labor emerges from empirical work which can draw on the new data sets. Recent estimates for Guatemala indicate that families without access to simple risk management instruments (credits or social assistance) and controlling for other characteristics (such as income of family size) have a 14 percent higher probability of sending their children to work. Access to risk management instruments has an income equivalent of 40 percent with respect to child labor, i.e. a 40 percent higher average income is needed for families to achieve the same 14 percent point reduction in child labor as access to simple risk management instruments can provide (Rosati et al., draft 2002).

DISABLED PEOPLE and their families are disproportionately poor, and poor people are disproportionately disabled. The fundamental goal of the World Bank's disability work is to reduce poverty among people with disabilities by mainstreaming disability concerns in the World Bank's strategies, policies, programs and projects. In December 2002, the Bank held a large international conference on Disability and Development that brought together over 400 Bank staff, other bilateral and multilateral entities, and NGOs to discuss the role of the Bank in the area of disability and poverty eradication. The Bank's Disability Advisor has also been developing knowledge products on disability and education as well as professional development of educators. A recent toolkit on blindness has been completed. Together with the Bank's Advisor on Children and Youth, two knowledge products have been developed focusing on the populations of disabled children, birth to 8 years and on youth. In support of analytical and operational work, country studies on disability are being undertaken (such as the one in Benin) and there has been support for operations in Brazil, China, India, Philippines, Sierra Leone, Vietnam. Projects in Egypt, Afghanistan, and the Democratic Republic of Congo have also been reviewed for their potential to address disability issues. Finally, there have been collaborative projects initiated recently on HIV/AIDS and Disability, a review of inclusive education practices worldwide, and the establishment of cross-cutting work groups by regions and networks as well as partnerships with UN Agencies, other donors, International NGOs, etc.

From a risk management perspective, some estimated 80 percent of disabilities can be prevented, in particular before and shortly after birth by access to safe water and sewage, secure nutrition, and access to basic health care services. For the remaining 20 percent major progress could be made by a full integration into the society which includes integrated education and universal access (to buildings, transport and jobs).

ORPHANS AND VULNERABLE CHILDREN are an important vulnerable group which continues to grow. One feature common to all countries is the interplay of traditional covariate shocks (droughts, terms of trade shocks) with idiosyncratic becoming covariate shocks (malaria, AIDS). The problems are especially acute in sub-Saharan Africa, which today has more orphans than any other part of the world. By 2000, there were about 12 million orphans in sub-Saharan Africa, and the number is expected to increase to 35 million by 2010. Though not nearly so affected to date, several Asian and Eastern European countries are at risk of developing important orphan problems if they do not address the AIDS epidemic in time. UNICEF estimates that in the 1990s armed conflict killed 2 million children, orphaned or separated from their parents another 2 million, disabled 4 million, left 12 million homeless, and caused serious psychological trauma to another 10 million children. The World Bank held an international workshop on orphans and vulnerable children in 2001 to assess an appropriate role for the Bank to play which led to analysis and research directed at understanding vulnerabilities, the issues involved in scaling up responses, and evaluating the effectiveness of interventions. At a very recent workshop at the Bank in May 2003 enhanced information could be shared between the main actors from international institutions, NGOs and client countries, including a template/good practice piece on how to integrate orphans and vulnerable children into multi-sectoral AIDS programs.

From a risk management perspective, HIV/AIDS is a large covariate shock which exhausts the traditional risk management capacity not only of households (such as foster parents provisions) but also of whole countries. While the type of shock calls for swift and comprehensive national response supported by international aid, the instruments may or should not necessarily be public only. For example, public orphanages are likely to be beyond the administrative and fiscal capacity of most countries, and may not deliver the intended results. Indigenous solutions supported by targeted public transfers (such as foster parents provisions) may prove cheaper and better. Eleven cheaper are preventive measures, but they are difficult to introduce.

Unemployed youth account for over 40 percent of total unemployment and young people are twice as likely to be unemployed as adults. Over 85 percent of those classified as youths (between the ages of 15 and 25) live in developing countries. The World Bank, the ILO and the UN have launched the Youth Employment Network project to examine the problem of youth unemployment. It aims to generate data, develop methodology, build capacity, and compile good practices related to youth employment programs. The Bank is currently developing its work programs in this area.

Viewed through a risk lens, dealing with unemployed youth is an upstream preventive measure. Very tentative cost-benefit estimates strongly suggest that helping youth to integrate early into gainful employment exhibits very high rates of return as it translates into a future higher income path (and tax revenue), reduced security and other related expenditure, and a more stable and cohesive society.

The Role of Pooling in Risk Management: Old Programs Through New Lenses

The new conceptual SRM framework can also be used to review traditional public SP programs in order to improve design and implementation. This can be applied to all programs, and for reasons of space only two programs are discussed in brief: Labor market interventions and old-age income support.

Labor market interventions can be considered as upstream preventive measures as access to gainful (decent) work is perhaps one of the most important SP/risk management instruments. It secures a more stable consumption, it typically provides access to market-based and public risk management instruments (such as saving accounts and employer-related health insurance), and within a family it allows for more comprehensive informal risk pooling or risk exchange arrangements (such as marriage).

To provide risk management in the labor market, the public sector typically intervenes in three areas: labor market regulations (such as hiring and firing rules), active and passive labor market policies (such as retraining and unemployment benefits), and wage determination (in particular minimum wage provisions). All three interventions provide "security" to the individual and are partly complementary, partly substituting in nature. While some minimum intervention in all three areas is definitely needed, providing too much intervention may translate to protecting those inside the formal labor market at the detriment of those outside.

Last but not least, the design of unemployment benefits can be linked to the risk individuals are exposed to. Hence, unemployment insurance benefits are consistent with idiosyncratic labor market risks but also some covariate cyclical risks (such as economic downturn), but may not be the best benefit form for other covariate risks resulting from industrial restructuring. For the latter, more hand tailored benefit forms may result in better outcomes (Vodopivec and Raju, 2002).

Old Age income support lends itself very easily to the application of the SRM concept as a number of diverse risks over the life cycle are involved. Viewed from a risk perspective, the World Bank's benchmark for pension systems and reforms—the proposed multi-pillar pension system—consisting of a social pension arrangement (zero pillar), a mandated unfunded and funded scheme (first and second pillar), and voluntary saving arrangements (third pillar), makes a lot of sense. You want to shield the individual against diverse demographic, economic and political risks and not put all eggs into one basket (i.e. pillar), while leaving the exact combination of pillars to individual country's risk profiles and preferences.[13]

The different pillars, however, have also a distinct importance for main but quite different target groups. The distinction is particularly relevant for developing countries: (i) The life-time poor do not participate in formal sector activities in a sustained manner, if at all. Labor is their main asset and they are too poor to pre-save for an extended retirement spell. When becoming very old and the capacity to work is reduced, they become very vulnerable, in particular those living alone or the widowed. For the lifetime poor, social pension type arrangements (zero pillar) are crucial. (ii) The informal sector workers of which many could participate in a formal scheme but do not for different reasons. While working they are not in deep poverty, but may be at risk to become so, if financial instruments are not available to transfer resources into the future. For this group, voluntary arrangements (third pillar) matter most. And (iii) the formal sector workers, who, almost by definition, are mandated to participate in formal pension schemes. For most of them, the income replacement function through a first and second pillar matters most, but also the existence of a zero pillar (in case of an insufficient work record) and a third pillar (to top-up retirement income with individual pre-saving).

Last but not least, the risk lens helps also in the design and implementation of pension systems. For example, in view of the diverse risks the poor and very poor are exposed to during their lifecycle, old-age income provisions are not high on their need agenda. The vulnerability due to insufficient resources in old-age and uncertain timing of death is likely to be dominated by short-term risks such as war, drought, flooding, unemployment, disability and sickness. In consequence, mandating a participation in public, earnings-related schemes for the very poor is likely to be welfare decreasing and may not work anyhow in a weak administrative environment.

Concluding Remarks

Over the last decade, social protection and the way it is conceived underwent significant changes: from an afterthought to economic and human development it has moved to its center and is likely to stay there. This progress was supported by events (such as the East Asian crisis), conceptual developments (such as a refocus on risks), and institutional support as many development institutions started to focus on sustainability of livelihood. Enhancing the development view from backward looking poverty to forward looking vulnerability promises major gains as it also aligns growth and equity considerations. Stating an inevitable trade-off between efficiency and equity when dealing with Social Protection could become an element of the past.

But the new journey for Social Protection has hardly started. While the new proposed framework—Social Risk Management -, the proposed operationalization—the vulnerability concept—and the proposed instruments of analysis—such as Risk and Vulnerability Assessments—are all very promising, much more needs to be done at conceptual, empirical and policy level. The true test is still outstanding: Does this contribute to an accelerated poverty reduction, and enhanced, more sustainable economic and social development? We are confident that this will be the case.

Notes

1. For more information, visit the Social Protection website (http://www.worldbank.org/sp) which provides access to papers, documents and related conference websites.

2. The critical contribution of Social Protection to achieving the MDGs is not yet fully recognized and needs further elaboration and communication. For a first draft pamphlet, see World Bank (2003).

3. For a collection of recent papers on these issues see the special 2000 issue of "The Journal of Development Studies" on "Economic Mobility and Poverty Dynamics in Developing Countries", edited by Baulch and Hoddinott.

4. Examples include the strategy work by ADB and IADB, the espousing of the framework by bi-lateral donors institutions such as DFID, and research and policy agenda by institutions such as IFPRI. See for example ADB (2001), Lustig (2000) and Conway and Norton (2002).

5. Health issues are very much part of SP and the new SRM framework. But as health, nutrition and population are dealt within another Bank sector it did not become a focus of the Bank's SP sector strategy paper.

6. As with the FTG class of poverty measures, the first two measures of vulnerability (the probability of being poor, or the conditional covariance between changes in consumption and in income) can be weighted with a system of distributionally-sensitive weights. These weights are explicitly embodied in the measures of vulnerability based on the cost of risk.

7. Such as the household livelihood be "sustainable".

8. As an example of extending Poverty Assessments by RVA see Tesliuc and Lindert (2002).

9. Vulnerability comes from the finding that the poor are typically most exposed to a wide range of risks (natural and man-made), but have fewer instruments to deal with these risks. Conceptually, vulnerability to poverty is the combined result of risks, risk exposure and household coping capacity.

(a) *risk:* Was the household affected by drought or by the accident of the bread-winner?

(b) *risk exposure:* How much land does the household have? Is it irrigated or rain-dependent? Is the land situated in a drought-prone region? / Is the bread-winner old? Works in a hazardous industry? Lives in a community with high risk of contagious diseases?

(c) *household coping capacity:* The household depends on a diversified portfolio of activities? Has crop insurance? Has accumulated liquid assets? Is part of a network of mutual support? / Has accident insurance?

10. Information available online at: http://www.ifpri.org/events/conferences/2002/092302.htm

11. Heitzmann, K. et al. (2002). Available in English, French, Russian and Spanish.

12. The few exceptions of datasets that recorded information on risks and shocks are (i) a panel in Ethiopia (1994/5) and (ii) the Guatemala LSMS 2000, a cross-sectional survey with a module of retrospective questions on risks and shocks.

13. The World Bank is currently undertaking a review of its approach to pension systems and reforms, and the paper presenting the Bank's current vision and approach is to be published shortly (Holzmann et al., 2003).

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