

## SOCIAL PROTECTION BRIEFING NOTE SERIES, NUMBER 1

# Social protection in poor countries

*This first note in the Social Protection briefing note series introduces the terms and concepts related to social protection and the types of programmes involved in the context of low-income countries.*

## What is social protection?

Social protection (SP) can be broadly defined as public actions – carried out by the state or privately – that: a) enable people to deal more effectively with risk and their vulnerability to crises and changes in circumstances (such as unemployment or old age); and b) help tackle extreme and chronic poverty. However, too wide a definition can make it difficult to distinguish social protection from development policy more broadly. Many activities that tackle chronic poverty or help people deal with their vulnerability to crises would not usually be regarded as social protection. For example, while flood defences help communities deal with the risk of flooding and immunisation prevents disease among the chronically poor, most people would not classify either as social protection. In effect, while many public actions may protect socially, it may be confusing to classify them all as social protection.

For this reason, DFID takes a narrower definition of social protection that focuses on a *sub-set* of public actions that help address risk, vulnerability and chronic poverty. These comprise three sets of instruments:

- **Social insurance** refers to the pooling of contributions by individuals in state or private organisations so that, if they suffer a shock or change in circumstances, they receive financial support;
- **Social assistance** comprises non-contributory transfers that are given to those deemed vulnerable by society on the basis of their vulnerability or poverty; and,
- **The setting and enforcing of minimum standards** to protect citizens within the workplace.

Most other definitions of social protection encompass these three sets of instruments. However, some definitions broaden the third element to encompass public actions that address a wider set of rights issues such as access to land, discrimination, and gender inequality. Furthermore, social protection should always be viewed through a broader lens of risk management and other actions to address vulnerability and poverty. The World Bank's *social risk management framework* – set out in Box 1 – is a useful tool for this. By taking a broader perspective, it is easier to understand how social protection should be complemented by a range of other public actions if policy objectives are to be achieved.

## Why devote resources to social protection?

Social protection can contribute to achieving the Millennium Development Goals in a number of ways. It is an:

- **Effective instrument for reducing hunger and income poverty.** SP can help achieve the MDGs both quickly and sustainably by tackling hunger and reducing the number of people living on less than one dollar a day. Social security provides a minimum standard of living for all, including vulnerable groups such as the elderly, orphaned children and people living with disabilities. For those able to work, social protection can help them during difficult times, such as ill-health, or at stages in life, such as pregnancy, when work is not possible.
- **Investment in poor people** and a powerful tool for transforming their lives. The new livelihood opportunities and improved incomes created by social protection allow families to invest more in health and education, particularly of children. This is one of the most effective ways to help children escape from the abject poverty faced by their parents. And, the benefits reach beyond the direct recipients to the broader community.
- **Critical element in ensuring equitable growth**, for example, by encouraging poor people to take on higher risk and more profitable activities, invest in the human capital of their children – as well as other productive assets – and recover from shocks. SP can promote a more flexible workforce while the cash transfers to families can stimulate markets. Importantly, social transfers enable the very poor to share in the benefits of economic growth since many will not be reached by “trickle-down”.
- **Essential aspect of an effective state.** By tackling poverty, inequality and exclusion, and strengthening the social contract between state and society, SP helps build citizenship and social cohesion while reducing the likelihood of extremism, social unrest and conflict. The International Labour Organisation has been working to make a reality of social protection as a basic human right (see Box 2 for the ILO’s approach to SP). Putting in place social protection to cope with economic transition can also help build support for essential reforms.

### Box 1: The World Bank's social risk management framework (SRM)

The SRM framework is an analytical tool developed by the World Bank to help understand the risks that people face and responses available to them. It looks at:

- **Risk management strategies** that can be undertaken before or after an event to: reduce the chances of a shock occurring (e.g. irrigation, or soil conservation); mitigate the impact of a shock (e.g. insurance, building shelters against cyclones); and help cope with the impact (e.g. selling assets).
- **Risk management arrangements** put in place by level of formality: informal (within communities); private sector within the market; or public sector (either national or regional).
- The **actors in risk management** (eg. individuals, households, communities, NGOs, market institutions, government, international organisations, the world at large) and their impact on one another.

This framework is used by the Bank for Risk and Vulnerability Analysis, often done in conjunction with a poverty analysis, prior to the development of a country Poverty Reduction Strategy.

The SRM has helped move forward thinking about the need to place social protection within a broader strategic approach to risk management and draws attention to the fact that the state is not the only provider of social protection. The SRM approach does have some weaknesses. In particular it does not consider social and political risks faced by the poor and does not adequately acknowledge that the chronically poor are subject to *continuous* stresses that erode their assets over time – not one-off shocks.

## A quick guide to social protection interventions

**1. Social insurance** is based on the principle of risk-sharing and involves the pooling of contributions by individuals to state or private providers in return for a pay-out if a set-back or change in circumstances happens (such as ill-health or old age). Because social insurance depends on individuals paying contributions, it tends to be more appropriate for the better-off, although it can play an important role in protecting people from dropping into poverty. In poorer countries, social insurance schemes are often put in place for formal sector workers to compensate for income loss from life-cycle changes (**contributory pensions**) or job loss (**unemployment benefits**) but, since most employment in poor countries is informal, the majority of people are excluded. Insurance programmes require robust administration since they inevitably require information on the probability of events happening; and, when a claim is made, the provider needs to be able to verify that the event did, in fact, occur.

## Box 2: The International Labour Organisation's approach to social security

The ILO stresses that social security is a basic human right, particularly for those who do not currently benefit (four-fifths of the world). Social security is “the protection which society provides for its members through a series of public measures: to offset the absence or substantial reduction of income from work resulting from various contingencies (notably sickness, maternity, employment injury, unemployment, invalidity, old age and death of the breadwinner); to provide people with healthcare; and to provide benefits for families with children”.<sup>1</sup> Social security systems are based around formal employment, and include social insurance and social assistance measures.

Under its 'Decent Work' agenda, the ILO has proposed the following roles for social protection: combating the impact of poor health, particularly HIV/AIDS, on employment and incomes; priority financing of healthcare, including extending insurance to poor and vulnerable people; income support systems for families with school-age children, older people and people with disabilities; reform of existing social insurance schemes; improvement of mechanisms for establishing and enforcing minimum wages; and occupational health and safety policies, with a particular focus on hazardous occupations and community maternal support.

**Health insurance** is increasingly popular in developing countries, particularly where fees are charged for health services. Schemes can be run by the government, health providers and by non-governmental organisations. Often schemes can only insure people against a limited number of health problems due to cost; these need to be carefully identified and relevant to the needs of those subscribing to the scheme. Since poor families often find it hard to pay premiums, health insurance is likely to be most effective when complemented by tax-based funding of health care provision aimed at the poor.

In many places, poor people have set up their own systems to insure themselves against shocks either explicitly – for example **funeral associations** that support families when a member dies – or savings clubs that give out money to a member who has experienced some bad luck. These can be an effective form of support for individuals facing personal problems but may break down in the face of a widespread crisis. Moreover, since individuals have to make contributions over time, such arrangements tend to exclude the poorest who cannot afford such payments.

Private (usually NGO-based) micro-finance institutions can also provide poor people with the opportunity to save small, regular amounts of money where formal banks are not active. These savings are often used to cover spending needs during difficult times. **Micro-insurance** is a less common instrument, although it does exist in some places. For example, in Bangladesh, many micro-finance institutions provide **life insurance** and **disaster insurance** when giving loans to poor people (by allocating a small proportion of the loan to pay the insurance premiums).

There is an increasing interest in examining the potential for **weather and crop insurance** in low-income countries. However, one of the main problems faced is that, in the regions where farmers most need protection for their crops, the risk of drought or floods destroying agricultural outputs is much higher and tends to affect everyone.

So, the farmers most in need of protection are likely to be excluded by high premium payments.

**2. Social assistance** comprises a set of instruments by which the state (or NGOs) transfer non-contributory benefits to those judged to be poor or vulnerable by society. **Social transfers** are one type of social assistance programme that provide relatively small, but regular and predictable transfers in cash, vouchers or food directly to households or individuals. Examples include social pensions, child benefits, disability allowances and regular food or voucher distribution. **Conditional cash transfers** (CCTs) are a more recent and innovative form of social transfer that has become popular in Latin America. Although the main aim of CCTs is to provide income support to poor families, the transfer is made conditional on families sending their children to school or visiting health clinics (see Box 3 for an example from Mexico).

### **Box 3: The Oportunidades programme in Mexico**

The programme, begun in 1997, now covers 4.5 million families. It targets the poorest households with children and provides cash grants as well as nutritional supplements for pregnant and lactating women and young children. Families receive a school grant ranging from the equivalent of US\$0.50 a day to US\$3.20 for secondary school, conditional on 85% attendance.<sup>1</sup> In addition, the programme provides US\$0.75 a day for the purchase of food on condition of attending health clinics. 70% of beneficiary households have shown improved nutritional status while levels of stunting have been reduced. There has been a 12% reduction in ill-health among children below five and 19% fewer days of illness among adults.<sup>1</sup> The programme has also increased enrolment rates in secondary schools and helped narrow the gender gap in education.

A number of other **transfers-in-kind** can be considered to be social assistance. For instance, the free distribution of anti-retroviral drugs to those living with HIV and AIDS can save lives and improve livelihoods. **School feeding** is also common in many countries although it can only benefit those children that can attend school (who may not necessarily be the poorest).

**Public work programmes** provide employment for those without jobs in exchange for cash or food. They work best during times of crisis, providing people with a temporary safety-net. To be most effective, they should provide work for poor people whenever it is needed (such as the Maharashtra Employment Guarantee Scheme in India that guarantees one hundred days employment a year). Public works are often seen as a win-win situation in that they both build infrastructure and provide a safety net. However, public works programmes are a less appropriate instrument when tackling chronic poverty. For instance, many poor families with little or no free labour are unable to take up the jobs on offer. Furthermore, many work programmes are of short duration and, because they do not provide long-term security of income, are unable to have any meaningful impact on chronic poverty.

Other social assistance instruments provide subsidised or free use of services. **Fee waivers** – the removal of fees for services – can play a key role in increasing poor people's access to health and education services. They have demonstrated

impressive results in a number of countries (although there are always some children who cannot access education because of a range of other costs, besides fees, with the result that they are likely to need additional financial support). **Housing subsidies** can help ensure that the poor can pay for shelter while **food subsidies** are common but often benefits better off people more than the poor, unless the subsidy is on those food items that are eaten mainly by the poor.

**3. Setting and enforcing minimum standards in the workplace** is an important means of ensuring decent employment. Labour standards are the rules that govern working conditions and industrial relations. They range from the core labour standards – freedom of association, freedom from forced labour, the abolition of child labour and no discrimination in employment – to more specific rights that are part of national law such as the minimum wage, paid maternity leave or health and safety standards. However, labour standards tend to be enforceable only in the formal sector and, in poor countries, by-pass the majority of workers.

### **Informal social protection**

Most poor people do not have access to formal social protection and, therefore, rely on informal networks to help them cope with risk. These may be either actions to minimise risks or transfers between individuals or households to cope during difficult times. Some examples of informal systems are loans of cash or food between households, or AIDs orphans going to stay with relatives when their own household experiences a crisis.

In some cases, informal social protection can rely on exploitative patronage relationships that maintain inequality and exclusion – such as lending by landowners to landless labourers – rather than providing equal and empowering rights to the poor and vulnerable. Government policy and new interventions should be careful to build on existing informal and private systems of social protection where these have genuinely benefited the poor.

### **Challenges of delivering social protection on the ground**

When **developing social protection policy** a key first step is to choose the right combination of social protection instruments, such as the best mix of social insurance and social assistance programmes for different target groups. Governments can do this by developing a national social protection framework. Social protection programmes also need to be linked to other development interventions to have the greatest impact: conditional cash transfers for children to go to school will not be effective if schools are not staffed or the quality of the teaching is poor; and farmers cannot graduate out of public works if there are no other economic opportunities available in rural areas. Consequently national social protection frameworks need to be integrated within country-led Poverty Reduction Strategies.

When setting up social protection programmes, a number of **implementation challenges** need to be considered. Who are the poorest and most **vulnerable**, and what is the best way of reaching them, given the **budget and capacity constraints** facing so many governments? It may be best to start with small programmes in resource-constrained environments and gradually scale up. **Costs need to be compared with the benefits** to the target group and options should be assessed

against their contribution to reducing overall vulnerability. In other words, what is the most appropriate and cost-effective strategy for achieving specific policy objectives? **Building political support** for social protection programmes is critical since they are likely to have significant budgetary implications. In some of the poorest countries, there will also be a need to build support among donors since they will have to part-fund social protection programmes in the short to medium term.

#### Links to some useful social protection resources

[Social Protection team inSight page](#): Please check our team Insight pages for more information and access to the virtual social protection library.

World Bank SP: <http://www1.worldbank.org/sp/>

International Labour Organisation (social protection):  
<http://www.ilo.org/public/english/protection/about/index.htm>

Asian Development Bank SP: <http://www.adb.org/SocialProtection/default.asp>

Chronic poverty website: <http://www.chronicpoverty.org/>  
International database on social assistance programmes:  
<http://www.chronicpoverty.org/pdfs/SocialAssistanceDatabaseVersion1-April2005.pdf>

[A database on DFID social assistance programmes](#) can be found on the Insight page of the Social Protection team.

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