

Social Risk Management

The Framework for Effective Social Protection

WORLD BANK INSTITUTE
Promoting knowledge and learning for a better world

Azedine Ouerghi
December 6, 2006
Seoul , Korea

Outline

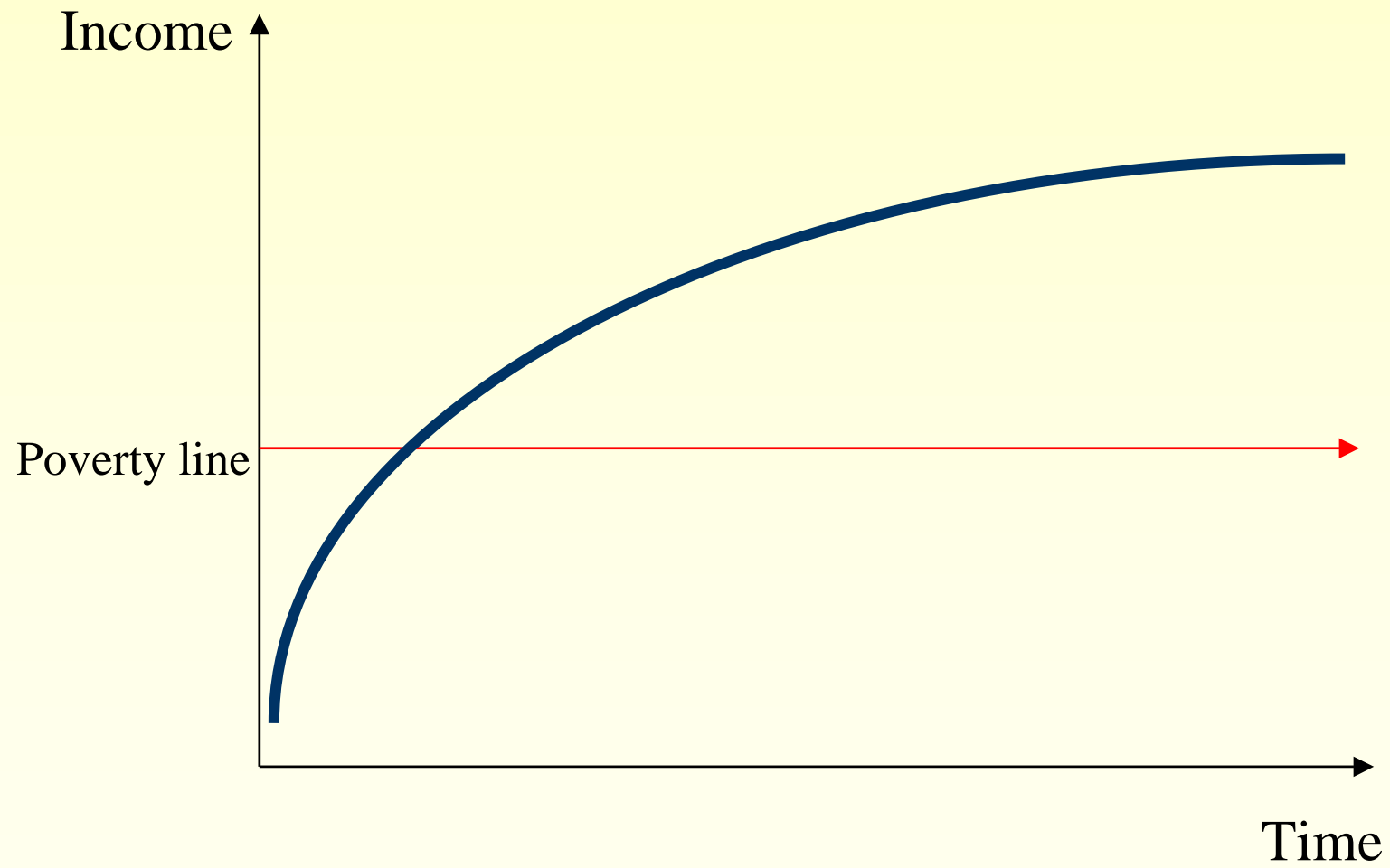
- I. Poverty Dynamics and Vulnerability
- II. Implication for the Social Protection Agenda
- III. SP in the World Bank Development Agenda
- IV. The Social Risk Management Framework (SRM): rationale, basic thrusts and elements
- V. Contribution of SP to Sustainable Development
- VI. SP in the World Bank- achievements, challenges and opportunities
- VII. Summary

I. Poverty Dynamics and Vulnerability

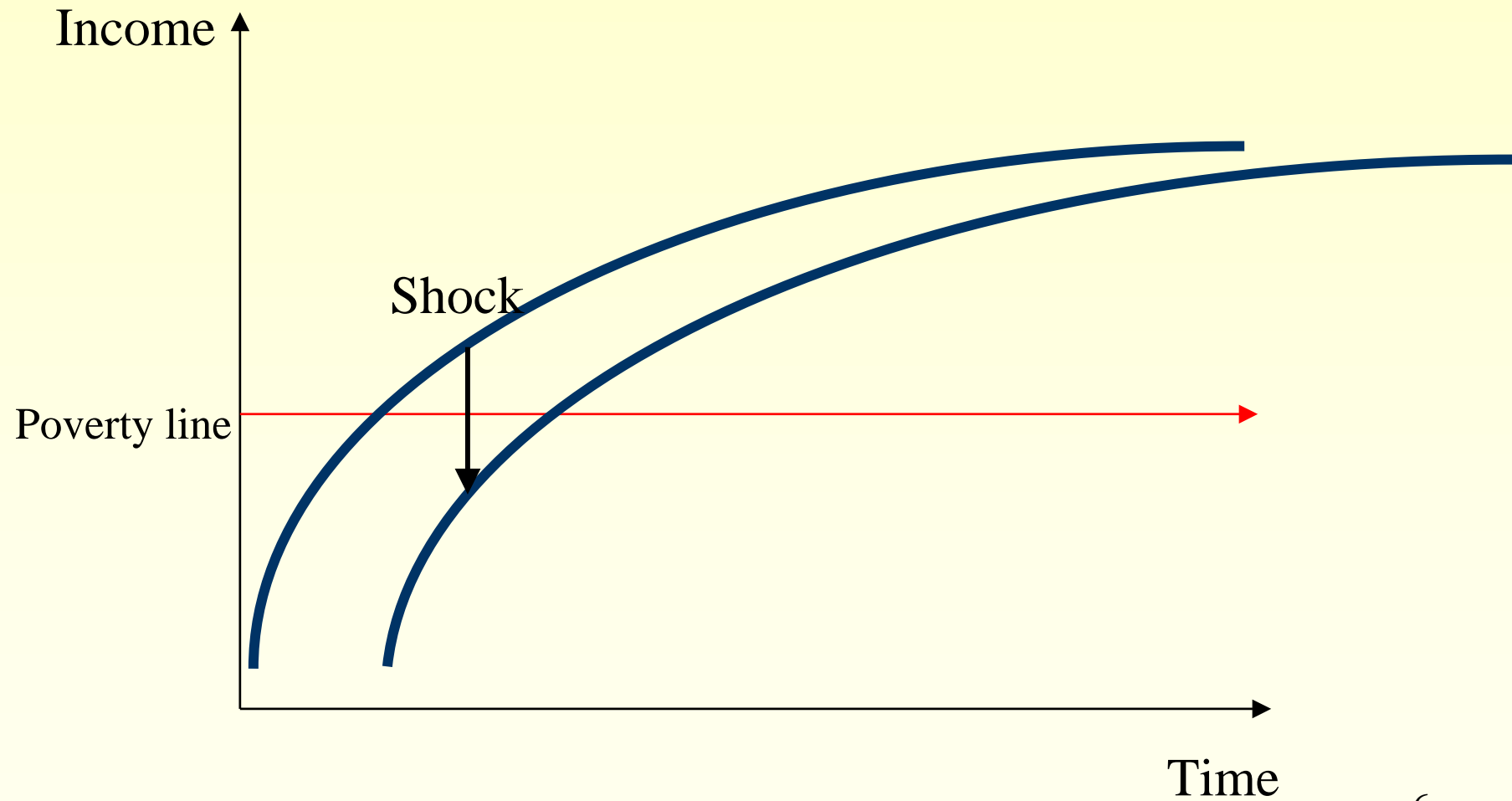
Poverty Dynamics and Vulnerability

- **Poverty** –
 - *not static, but dynamic*
 - to large extent influenced by shocks (**realized risks!**) and availability of instruments.
- A mere ex-post view of poverty does not catch future poor and the effects of risks on current poor.
- **Vulnerability** can be defined as expected welfare loss due to future events (**risks**) for a given set of risk management instruments.

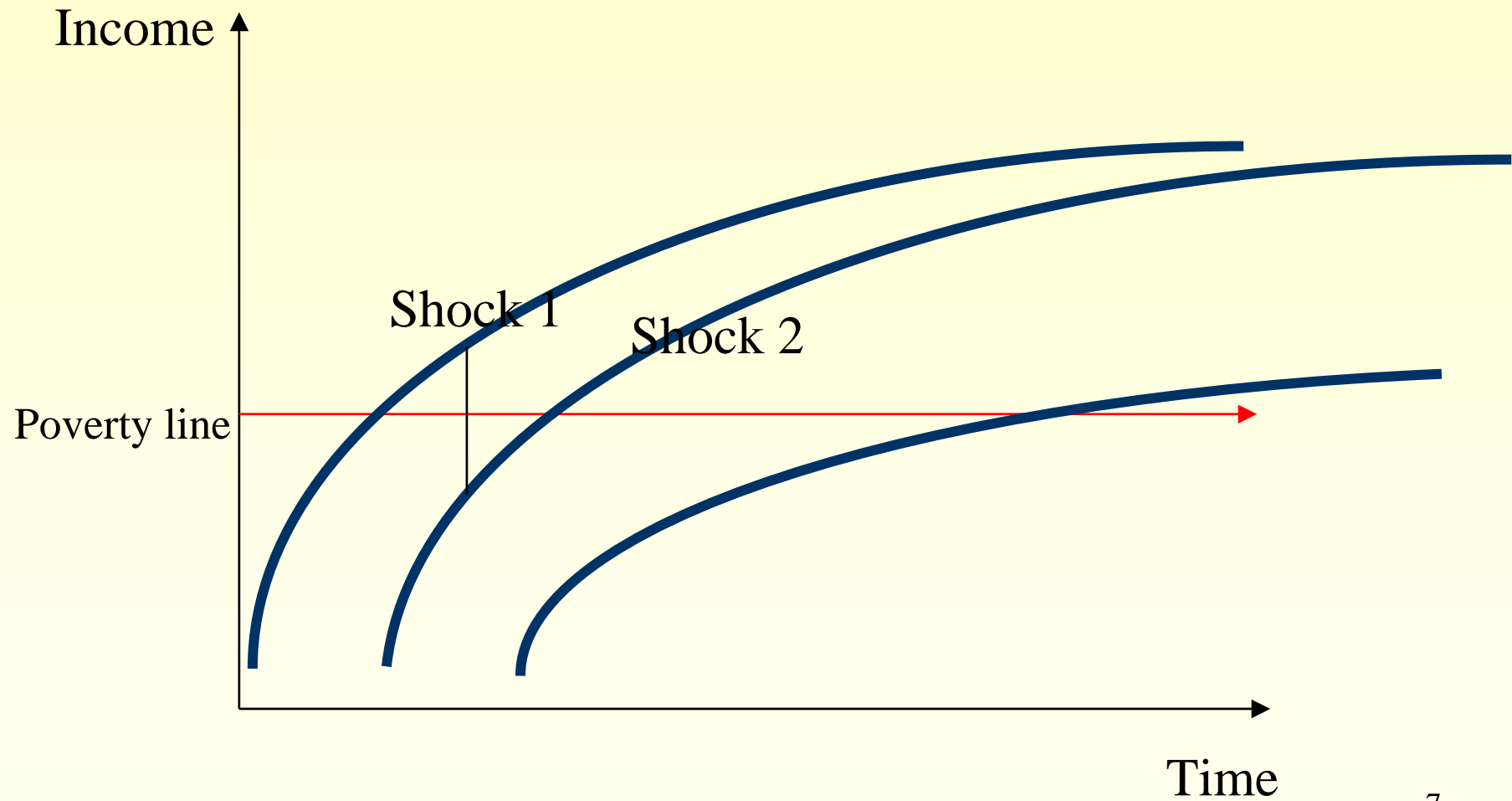
Risk and Poverty



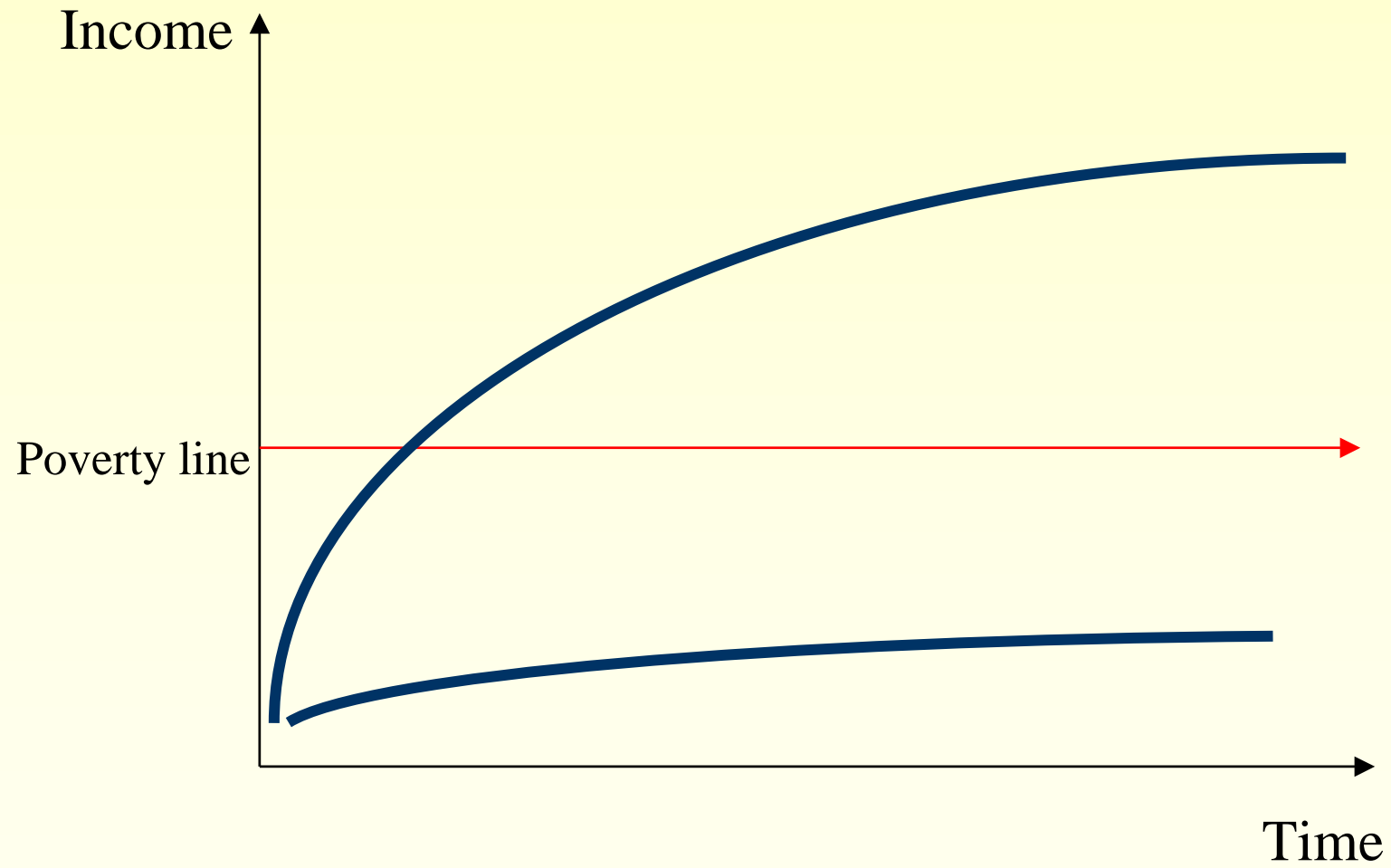
Risk and Poverty



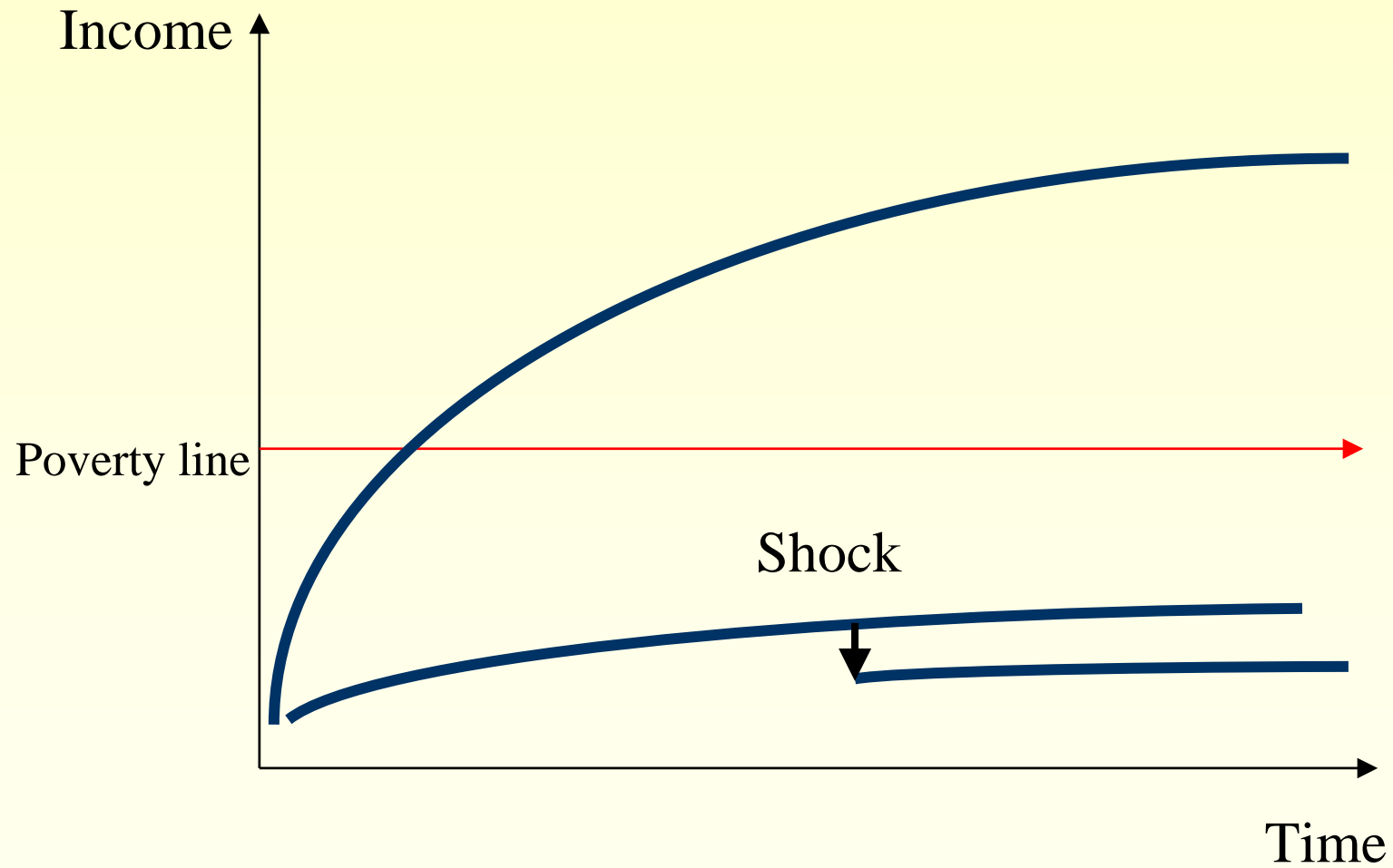
Risk and Poverty



Risk and Poverty

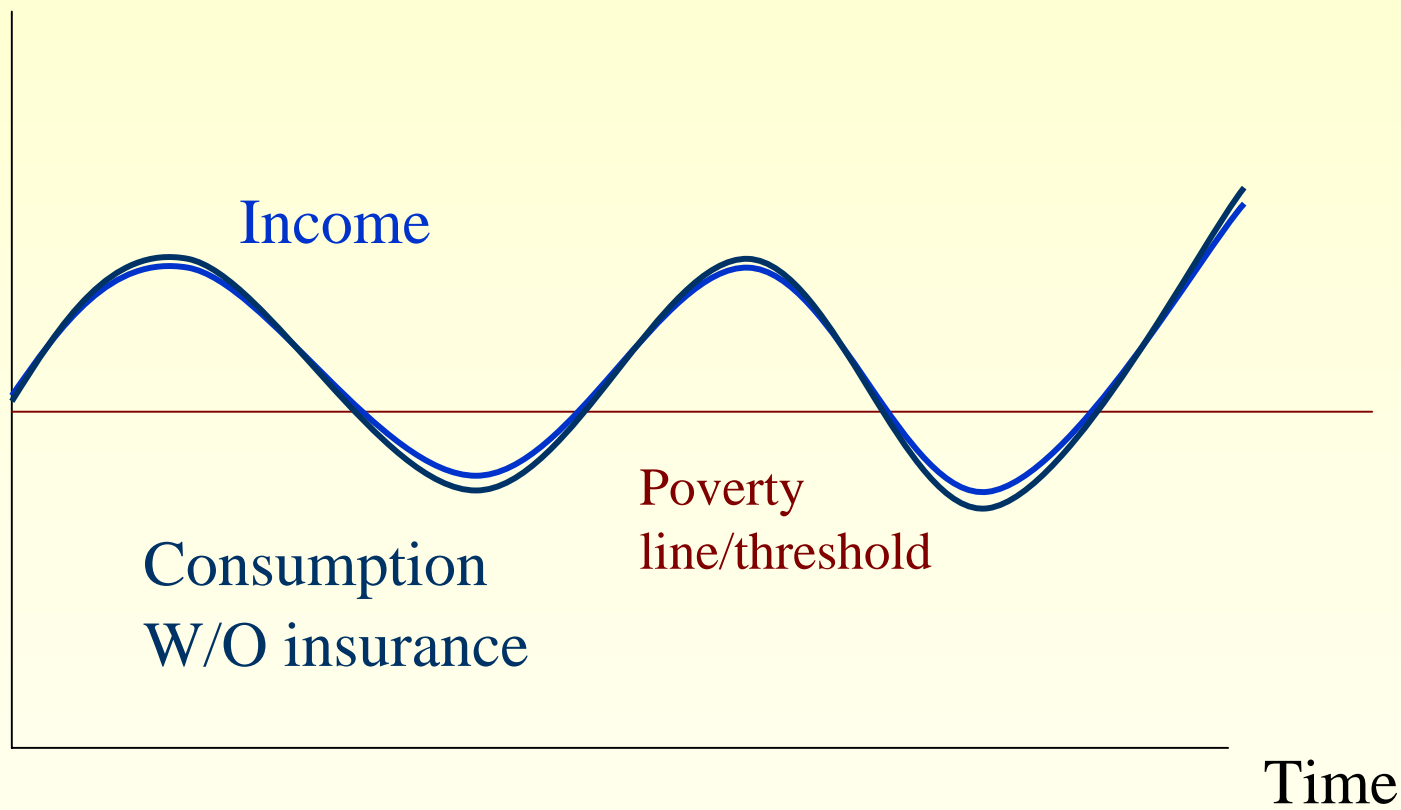


Risk and Extreme Poverty



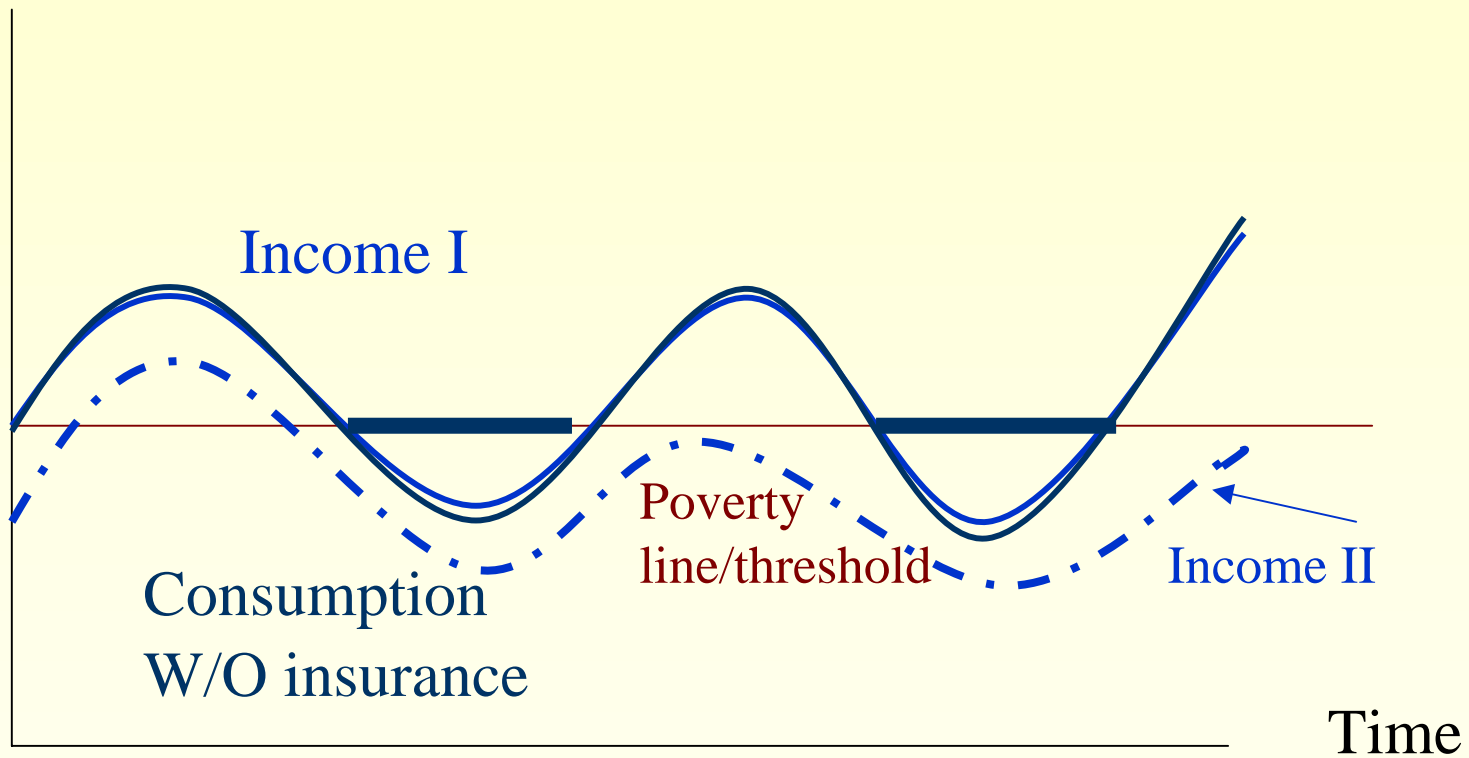
Income and Consumption

Income/Consumption



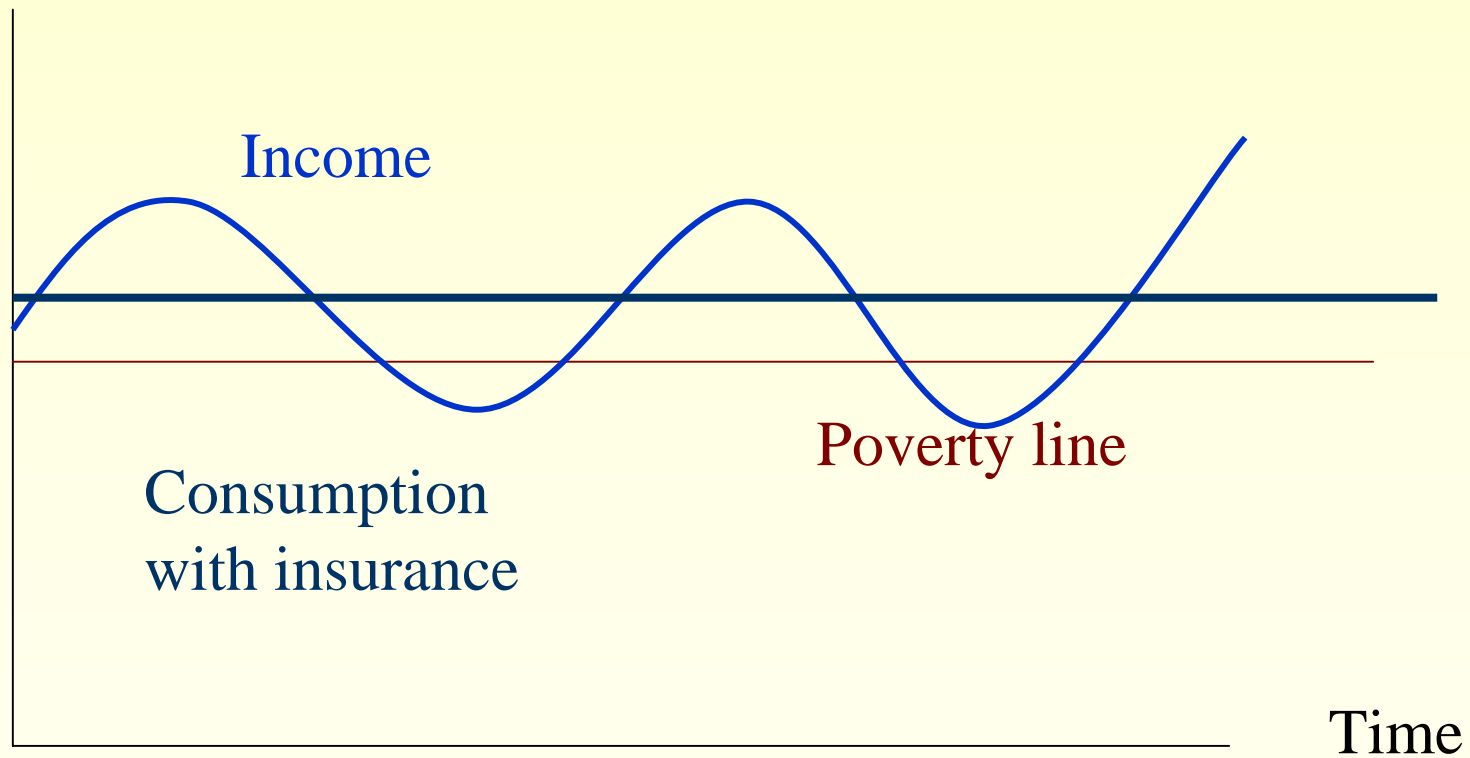
Income and Consumption: Poverty Spiral

Income/Consumption



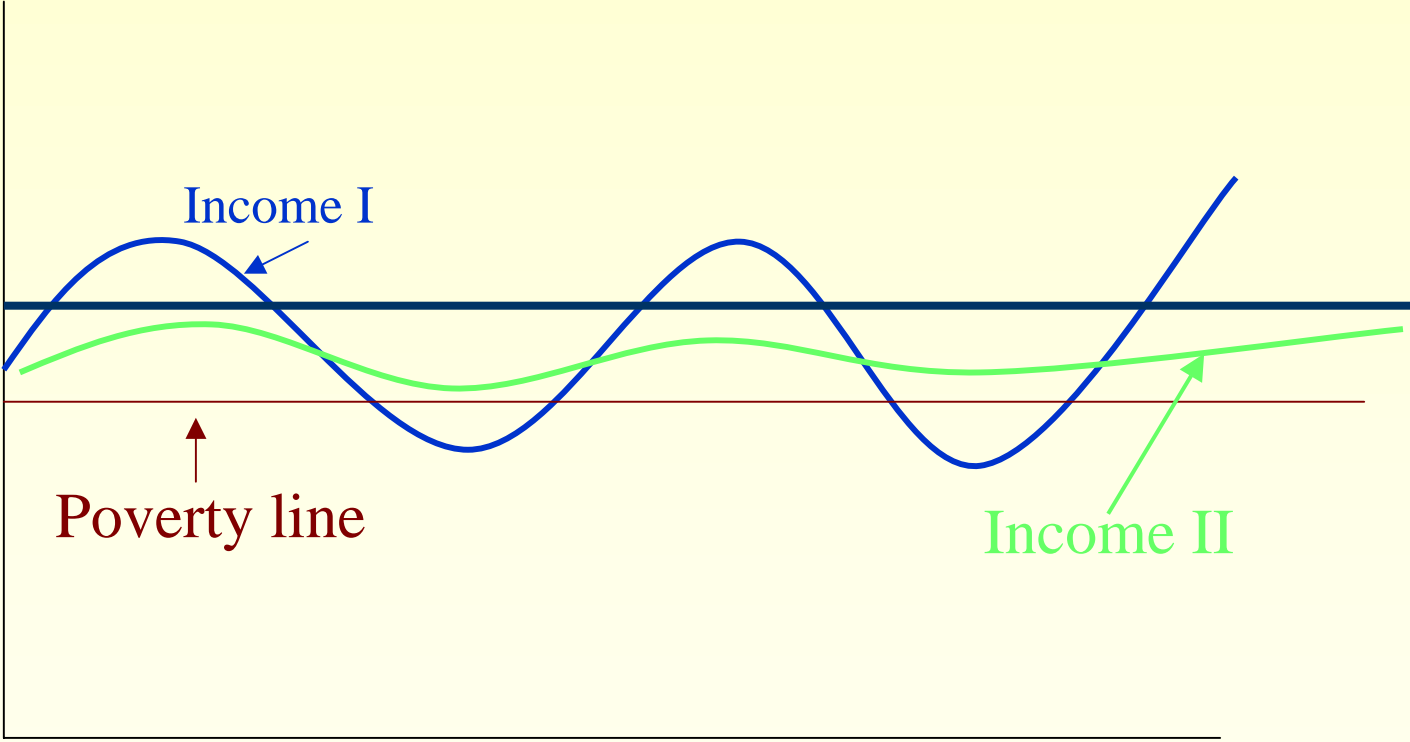
Consumption with Insurance

Income/Consumption



Income Smoothing

Income/Consumption



Time

Poverty and Vulnerability

		<i>Percentage of Households who are:</i>		
		<i>Always poor</i>	<i>Sometimes poor</i>	<i>Never poor</i>
China	1985-1990	6.2	47.8	46.0
Côte d'Ivoire	1987-1988	25.0	22.0	53.0
Ethiopia	1994-1997	24.8	30.1	45.1
India	1976/76-83/84	21.9	65.9	12.4
Indonesia	1997-98	8.6	19.8	71.6
Pakistan	1986-1991	3.0	55.3	41.7
Russia	1992-1993	12.6	30.2	57.2
South Africa	1993-1998	22.7	31.5	45.8
Vietnam	1992/93-97/98	28.7	32.1	39.2
Zimbabwe	1992/93-1995/96	10.6	59.6	29.8

→ **Chronic poor could be seen as the very vulnerable, temporary poor as the vulnerable, and the non-poor as non-vulnerable**

II. Implication for the Social Protection Agenda

II. What is Social Protection?

A traditional instrument-based definition

- **Labor Market Interventions**
 - LM regulation
 - LM programs (active/passive)
 - Wage setting
- **Social Security**
 - Social Insurance
 - ◆ 9 contingencies à la ILO (death, sickness, maternity)
 - Social Safety Nets
 - ◆ Social Assistance (in cash or kind)
 - ◆ Public Works
 - ◆ Subsidies

An objective/risk-based definition

- **Social Protection**: a **set of measures** that support society's poorest and most vulnerable members and **help** individuals, households and communities **better manage risks**.

III. Social Protection in World Bank Development Agenda

III. Social Protection in World Bank Development Agenda

- First WDR 1990 on Poverty (safety nets: ex-post addendum to a two-part strategy).
- Vulnerability concept and SRM framework as intellectual anchors of SP in the World Bank's work and adoption of SP Strategy (2000).
- WDR 2000/01 on attacking poverty ("Security" as a third pillar in poverty alleviation)
- International community adopts MDGs (2002)
- WDR 2004 on making social services work for the poor (mainstream proactive demand for social services)
- WDR 2006 on Equity and Development (equity in opportunities, recognition and outcomes)
- WDR 2007 on Youth (Investing in young people: *expanding opportunities, enhancing capabilities, and providing second chances*)

Social Protection in the Development Agenda

Providing Security/Empowerment
(Expanding Capabilities)

Creating opportunities

WDR 2000

Social Protection

Safety Nets
Labor Markets
Pensions

WDR 2006

MDGs
WDR 2004
WDR 2007

Social Fabrics and Institutions

Participation - Social Inclusion - Conflict Resolution - Social Capital - Governance

Sustainable Poverty Reduction and Social Peace

Information
Technology
Globalization

IV. Social Risk Management Framework: Rationale, basic thrusts, and elements

IV. Social Risk Management Framework: Rationale, basic thrusts, and elements

- Increasing understanding and empirical evidence: exposure to risk without access to appropriate *social risk management (SRM)* instruments impedes social and economic development:
 - Reduces the level of human capital (health and education).
 - Renders individuals vulnerable, unable and unwilling to take risks and to engage in higher return/higher risk activities.
 - Limits equity and equitable growth as the effects of risk pooling (incl. of good and bad risks), open risk coverage and hence key elements of “solidarity” are missing.

Central Elements of SRM

- Based on the concept of **asymmetric information** in an imperfect world.
- Takes account of the multiple **sources of risk** and their **characteristics** (such as idiosyncratic and covariant risk) to address vulnerability.
- Operates with multiple **strategies** (prevention, mitigation, coping) and **arrangements** (informal, market-based, public) to deal with risks.
- Attempts to match the multiple **suppliers** of risk management instruments (households, communities, NGOs, and governments) with key **demand** groups (formal, informal-urban and informal-rural workers).

Types of Shocks and their Characteristics

	Micro (idiosyncratic)	Meso	Macro (co-variant)
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	Resettlement	Output collapse BoP, financial or currency crisis Technology or ToT shocks
	Business failure	Harvest failure	Political default on social prog.
Political	Ethnic discrimination	Riots	
Environmental		Pollution Deforestation Nuclear disaster	

Risk Management Strategies

- Informal arrangements, e.g.
 - mutual community support, real assets, marriage.
- 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.

Table 2.1: Strategies and Arrangements of Social Risk Management – Examples

Arrangements/ Strategies	Informal	Market-based	Public
Risk Reduction			
	<ul style="list-style-type: none"> • Less risky production • Migration • Proper feeding and weaning practices • Engaging in hygiene and other disease preventing activities 	<ul style="list-style-type: none"> • In-service training • Financial market literacy • Company-based and market-driven labor standards 	<ul style="list-style-type: none"> • Labor standards • Pre-service training • Labor market policies • Child labor reduction interventions • Disability policies • Good macroeconomic policies • AIDS and other disease prevention
Risk Mitigation			
Portfolio	<ul style="list-style-type: none"> • Multiple jobs • Investment in human, physical and real assets • Investment in social capital (rituals, reciprocal gift-giving) 	<ul style="list-style-type: none"> • Investment in multiple financial assets • Microfinance 	<ul style="list-style-type: none"> • Multi-pillar pension systems • Asset transfers • Protection of poverty rights (especially for women) • Support for extending financial markets to the poor
Insurance	<ul style="list-style-type: none"> • Marriage/family • Community arrangements • Share tenancy • Tied Labor 	<ul style="list-style-type: none"> • Old-age annuities • Disability, accident and other personal insurance • Crop, fire and other damage insurance 	<ul style="list-style-type: none"> • Mandated/provided insurance for unemployment, old age, disability, survivorship, sickness, etc.
Risk Coping			
	<ul style="list-style-type: none"> • Selling of real assets • Borrowing from 	<ul style="list-style-type: none"> • Selling of financial assets 	<ul style="list-style-type: none"> • Transfers/Social assistance

Why is good SRM important?

As a set of measures that support society's poorest and most vulnerable members better manage risks, Social Protection:

- Address *current* (static) problems:
 - increase consumption of the poor (transfer programs)
- Achieve *long term* objectives:
 - help households avoid poverty perpetuating coping strategies after a shock
 - ◆ Social Insurance (contributory schemes- unemployment, etc.)
 - ◆ Social Safety Nets (cash and in kind transfers, etc.)
 - can be designed to increase investment
 - ◆ Public works, targeted transfers to promote HD outcomes, skilled labor force, etc.

Why is good SRM important?

- Stimulate *dynamic* economic gains:
 - let households make higher-risk return choices for earnings and savings
 - allow efficient and sometimes risk-increasing sectoral and macro policies
 - address inequality associated with growth

V. Contribution of Social Protection to Sustainable Development

V. Contribution of Social Protection to Sustainable Development

➤ *expanding Opportunities:*

Helping the creation of good jobs through better labor market regulations, active and passive labor market policies, and wage setting processes

➤ *providing Security:*

Assisting in better managing risks to reduce vulnerability, securing an asset-base and being able to engage in higher risk/higher return activities

➤ *enhancing Equity:*

Providing minimum levels of subsistence and helping to correct market-based distributive outcomes

VI. Social Protection in The World Bank- Achievements, Challenges and Opportunities

Achievements in recent years

- Since the launch of the SP Strategy in 2000:
 - Social Risk Management framework is mainstreamed inside and outside the Bank
 - Access to Social Protection/SRM instruments is now a recognized key ingredient to development
 - Focus on good jobs, security, and equity is receiving full regional buy-in
 - All regions have now a fully operative SP unit

Achievements ... cont'd

- Employment/good jobs has moved to the center of the policy debate on globalization and poverty reduction
- The Bank and sector has kept and expanded its leading role in pension systems and reform
- Social Safety Nets innovations such as Conditional Cash Transfers are becoming key instruments to deal with sources of poverty in South and North
- Demand driven and community-based delivery mechanism are in the forefront of delivering MGD outcomes

Key challenges to address

- Delivering measurable results:
 - Linking evidence based policy research to attributable outcomes
 - Consistent and monitorable results framework (M&E)
 - Measuring better what we want to deliver
- Adjusting to new priorities such as governance, transparency and accountability
- Working productively across Bank sectors as core SP&L areas are becoming increasingly mainstreamed
- Maintain capacity for global partnerships

East Asia and the Pacific

- **Achievements:**

- Coherent regional vision for SP; good cross-sectoral teamwork
- Growing AAA Program, anchored by:
 - Regional Labor Migration Studies in Mekong and Pacific
 - China: Rural Labor Market and Safety Net Studies
 - Expanded Requests for Assistance: CCTs (Indonesia, Timor)

- **Challenges:**

- In countries: design systems that are equitable and efficient but also fit East Asian characteristics
 - Strong emphasis on growth and individual effort
 - Important role for private mechanisms and family support
 - Large informal sectors
 - Urbanizing and aging populations

- **Opportunities:** EAP needs systems that can help HHs respond to health shocks, job turnover, natural disasters, rapidly aging populations.

Europe and Central Asia

- **Achievements**

- evolved from emergency interventions (fixing pension arrears, SIFs) to complex operations that support administrative reforms, systemic and structural change, financing social services, the MILES agenda

- **Challenges**

- Countries, moving beyond first-generation reforms. Challenge is right balance between promoting growth, and providing protection for their citizens.
- Establish strong links with “efficacy & efficiency”

- **Opportunities**

- Policy tasks
- Social Administration and Financing tasks
- Inclusion agenda together with EU

Latin America and the Caribbean

Achievements-- Strong AAA and Lending in most countries:

- Expand access to pensions & SI by the poor, accounting for labor market incentive & productivity effects of different program modalities;
- Promote human capital development & poverty reduction through CCTs; strengthening CCT model, linking to supply and with focus on emancipation and exit strategies; fiduciary controls and accountability;
- Promote effective approaches in supporting youth development (e.g., raising employability) and combating child malnutrition;
- Focus on labor market – promote equity of opportunities; increase understanding of informality & links to social protection access; support program transition from welfare to work;
- Advance M&E of SP programs and build country capacity

Middle East and Northern Africa

- **Achievements:** Pension reform dialogue spread widely across region; growing client interest in employment and SSN support
- **Challenges:** Shift clients to more evidence based decision making; refocus SIFs to be more community oriented; working effectively in conflict countries.
- **Opportunities:** Supporting clients with employment creation advice; risk management & reintegration in conflict countries; expand work on SSN, youth and migration

South Asia Region

- **Achievements: Establishing SP in South Asia**
 - Adoption of Regional SP strategy and country wide strategies for main countries, developing a strong AAA agenda and increasing strategic lending engagement in: safety nets development, social welfare services (e.g. for disabled) and social security, particularly developing framework/models for expansion to the informal sector.
 - Special focus on vulnerable groups: aging, mainstreaming disability and youth (skills and social risks).
 - Regional Knowledge Sharing
- **Challenges: Deepening Our Engagement/Knowledge in the Region**
 - Strengthening basic safety nets (design, governance, targeting) and CCTs (where feasible), supporting expansion of social security; and expansion of public private partnerships in social welfare and care services to vulnerable groups; and youth skills/development
- **Opportunities: Meeting Client Demand with Innovative Products**
 - Moving CCTs, informal social security (and in some countries formal SS reforms), in youth; and potential for social welfare and care services for vulnerable groups

Sub-Saharan Africa

- **Achievements:** mainstreamed SRM in Bank Operations (PRSCs and stand alone Operations); award winning Protection of Basic Services in Ethiopia to assure decentralized benefits during fiscal crisis; ESW on labor markets as well as risk financing
- **Challenges:** to coordinate supply side of labor market development with other relevant sectors; to explore suitability of CCT in low infrastructure environments.
- **Opportunities:** Maturity of social funds into decentralized service delivery; new interest in youth transitions following WDR; expansion of risk management strategies.

World Bank Institute

- **Achievements**

- Recognized internally as *adding value* to Bank's products and externally as *leading capacity development center* in SP areas

- **Challenges**

- Integration with Bank Operations:
 - Tension between full integration and innovation/intellectual freedom

- **Opportunities**

- Support the Regions in cutting-edge areas and new opportunities in client countries (CCT, etc.)
- Enhanced packaged products through Bank Operations (ESW, Capacity building and Lending)
- Knowledge-based TA in Middle Income Countries (RTA)

VII. Summary

VII. Summary

- **Social Protection** as **Social Risk Management**: not a luxury but necessities for all countries, most importantly the developing countries.
- Need to understand shocks and assess instruments to reduce vulnerability (R&VA).
- Public money spent should provide at the margin the same reduction in vulnerability for all groups.
- Need to pilot (design, implement, monitor and assess) new instruments: labor code light?, social pensions, conditional cash transfers, adjustable public works programs, etc.

Social Risk Management Framework

Thank you

WORLD BANK INSTITUTE

Promoting knowledge and learning for a better world

Azedine Ouerghi
December 6, 2006
Seoul , Korea