SOCIAL PROTECTION SECTOR STRATEGY

FROM SAFETY NET TO SPRINGBOARD

The World Bank Group

THE HUMAN DEVELOPMENT NETWORK

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FOREWORD

As the World Bank moves toward a broader understanding of poverty reduction and the relationship of risk to poverty, the standard concepts and interventions of social protection are no longer sufficient. This first sector strategy paper for social protection reflects this view and argues for the development of social protection programs that not only help poor women and men cope with the result of downturns (a safety net), but proactively help them take on higher return activities with less concern about the risks (a springboard). Such an approach provides the opportunity for people to move out of poverty while still providing support for those in most severe need.

Implementation of this sector strategy paper's conclusions would help move the World Bank's analytical and lending work toward a more holistic, client-driven agenda. Specifically, the strategic directions would expand the World Bank's support for informal and market-based social protection arrangements, resulting in, for example, more community-driven development interventions and an increased role for the private sector in skills building. The strategy would involve refocusing support for public sector social protection programs toward (a) traditionally underserved groups (for example, by moving from reforming formal pension systems to looking more broadly at old-age income security for the lifetime poor) and (b) a more comprehensive reform agenda (for example, by addressing safety net reform more clearly within the context of changing labor market circumstances) and (c) more support for risk reduction and mitigation (for example, by providing school vouchers instead of cash handouts). The strategy paper also outlines areas in which its conceptual framework, social risk management, may be useful to other sectors and thematic areas of work. The World Bank's regions have already applied it successfully in the development of regional and country-specific action plans.

With the adoption of the strategy, the World Bank stands ready to renew and focus the policy dialogue with client countries around social protection issues and to offer support to governments in implementing specific social protection instruments. The implementation of this strategy will strengthen our role as a credible partner in the fight against vulnerability and poverty.

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Robert Holzmann (Director, Social Protection) and Steen Jørgensen (former Sector Manager, Social Protection and current Director, Social Development) led the work. Christine Allison, Amit Dar, Margaret Grosh, Ian W. Mac Arthur, Anita Schwarz, Lynne Sherburne-Benz, and Paul Siegel, among others, were major contributors. The report benefited from consultation with other members of the World Bank Group, a number of external agencies, and an External Advisory Panel consisting of Tarsicio Castaneda, Nieves Confesor, Frank Field, Peter Heller, Michael Lipton, July Moyo, Rani Parker, and Igor Tomes.

The paper drew on strategies elaborated by teams responsible for social protection in each of the World Bank's six regions. Jill Armstrong (East Asia and the Pacific), Ana-Maria Arriagada (Latin America and the Caribbean), Trina Haque (Sub-Saharan Africa), Mansoora Rashid and Michal Rutkowski (Eastern Europe and Central Asia), Zafiris Tzannatos and Setarah Razmara (Middle East and North Africa), and Tara Vishwanath (South Asia) headed up these efforts. Manny Jimenez, formerly of the Development Economics Group, and Michelle Riboud, of the World Bank Institute, made contributions regarding the activities of their respective units on social protection issues.

This is the first World Bank Strategy Paper for the social protection sector, one of the World Bank's youngest sectors. The preparation of this paper has offered the opportunity to rethink the concept of social protection, take stock of the World Bank's experience in this area, and develop the strategic thrust of future work. This paper highlights the need to expand the definition of social protection to encompass all public interventions that help individuals, households, and communities to manage risk or that provide support to the critically poor. It also recommends that social protection programs be embedded in an integrated approach to poverty reduction based on a new framework for social risk management.

BACKGROUND

The World Bank's involvement in social protection—which traditionally consists of labor markets, pensions, social funds, and "safety nets"—began with work on labor markets in the 1970s and the incorporation of safety net components into structural adjustment programs in the 1980s. The debt and economic crises of the 1980s in various parts of the world set the stage for the *World Development Report 1990* on poverty, which recognized the importance of safety nets. The concept of social protection gained importance with the collapse of communism, the continuation of economic crises, and the rising share of elderly populations in developing countries. The World Bank espoused a broader view of social protection in its *World Development Report 1995*, which focused on labor issues, as well as in its groundbreaking 1994 study of aging and pension reform, *Averting the Old Age Crisis.*

Events of the 1990s brought social protection programs to the forefront of the World Bank's work. The fiscal impact of the "cradle-to-grave" social security schemes in the former communist countries was unsustainable, and the World Bank's approach entailed reducing expenditure and targeting transfers to cushion the negative effects of transition on the most vulnerable. The global financial crisis that hit East Asia and then Russia and Brazil in 1997-98 resulted in the implementation of large-scale social protection measures with World Bank assistance. The crises and the downturn in the East Asian "miracle" countries demonstrated that growth and sound macroeconomic policies, while necessary, are insufficient for sustained poverty reduction. Shock-resistant risk management programs, including safety nets, income support systems for the elderly, and well-functioning labor markets with social safeguards are essential to reduce poverty over the long term and to protect gains already made.

The World Bank's portfolio in social protection reflects its growing involvement in the sector in response to world conditions. Lending in the social protection area has increased more than six-fold since 1994. The lending volume in FY99 was \$3.76 billion, 13 percent of the World Bank total (all monetary figures are in US dollars). While the response to the global financial crisis has driven much of the recent increase, annual lending levels for investment operations and noncrisis reform are about 3/4 of a billion and 1 billion dollars, respectively.

In FY99, the social protection portfolio consisted of 92 purely social protection loans, with a commitment of \$6 billion. Another 183 loans contained significant social protection components, adding \$8.9 billion (making an overall portfolio of \$14.9 billion). The limited evidence that exists on the quality and effectiveness of the portfolio is generally positive, as measured by the World Bank's Operations Evaluations Department and Quality Assurance Group, although there are emerging signs of strain regarding the quality of portfolio supervision.

The World Bank's experience with interventions in each of the main areas of social protection, and with recent adjustment operations induced by financial crisis, has provided some lessons to guide future work. Successful pension reform involves country ownership, flexibility, institution building, adoption of innovations, and sharing of experience. Social funds do well in terms of targeting, impact, sustainability, comparative advantage, and cost, and have shown the importance of community-driven development in achieving impact. In labor markets, vocational education and training perform best when demand-driven. Job placement activities are generally effective and efficient, while labor supply and demand interventions and enterprise restructuring need careful design. Social safety nets are most effective when established before a crisis hits, and their delivery mechanisms should involve communities. The inclusion of social protection measures in the policy mix supported in adjustment operations has contributed to positive social and economic outcomes.

THE CONCEPT OF SOCIAL RISK MANAGEMENT

At the beginning of the new century, it has become clear that, while individual social protection programs can improve people's welfare and reduce poverty, a more holistic approach is needed to make the quantum leaps necessary to lift more poor people in the developing world out of poverty. This Social Protection Strategy Paper reflects this understanding and uses "social risk management," which is consistent with other current approaches to social policy and poverty reduction, as an important conceptual framework for the World Bank's work in this sector.

The concept of social risk management asserts that individuals, households, and communities are exposed to multiple risks from different sources, both natural (such as earthquakes, floods, and illness) and manmade (such as unemployment, environmental degradation, and war). Poor people are typically more exposed to risk and have less access to effective risk management instruments than people with greater assets and endowments. This vulnerability makes individuals risk-averse and unwilling or unable to engage in high-risk/return activities. Under these circumstances, poor people have developed elaborate mechanisms of "self-protection" such as asset accumulation in good times, diversification of income sources, and creation of informal family and community "risk-pooling" arrangements. However, these arrangements are often relatively expensive and inefficient, and the coping strategies available once a shock occurs often reduce poor people's human capital (for example, cutting back on meals or pulling children out of school to help generate income). This gives rise to the need for public intervention.

Several key concepts are important to an understanding of social risk management. Dealing with risks involves recognizing their sources and economic characteristics, for example, whether they affect individuals in an unrelated manner or simultaneously. The most appropriate combination of risk management strategies (prevention, mitigation, and coping) and arrangements (informal, market-based, and publicly provided or mandated) in any given situation will depend on the type of risk and on the costs and effectiveness of the available instruments. There are also many different sources of risk management instruments (families, communities, nongovernmental organizations [NGOs], market institutions, and government agencies) and varying levels of demand from different groups (such as formal sector workers and lifetime poor people).

All these factors need to be taken into account in designing appropriate risk management strategies for a given population. A clear assessment of a risk management system for any population is possible by examining the available risk management instruments in a matrix of strategies and arrangements—a risk management framework. The World Bank proposes several principles to guide the application of this new framework, including (a) viewing social protection issues in the context of social risk management, (b) looking at all aspects of social protection, (c) achieving a balance among strategies, (d) achieving a balance among arrangements, (e) matching instruments to risks, (f) being prepared for risk, (g) matching supply and demand of risk management instruments, and (h) involving stakeholders in designing and implementing programs.

IMPLICATIONS AND STRATEGY

Based on the social risk management framework, the World Bank, in collaboration with partners, will work to convince policymakers of the importance of risk management to poverty reduction. The World Bank stands ready to offer support in implementing specific social protection instruments or working with other sectors to improve their programs' effect on risk management. This process will be demand-driven and characterized by joint learning and pilot programs in many areas where global knowledge is still limited. In other areas, the World Bank has well-tested products to offer to interested policymakers (for example, in pension reform and support for community-driven development through social funds). For yet another set of interventions, the World Bank will either build on others' experience using its comparative advantage in linking up with the overall macropolicies or help to scale up other agencies' pilot efforts. The World Bank will also continue its practice of supporting partners' efforts when its partners possess the comparative advantage (for example, in child labor).

The social risk management framework applies to many areas of the World Bank's work beyond the social protection sector. Table 1 summarizes how the World Bank can apply social risk management in other areas. If appropriate policies are in place, then households will be much less vulnerable and will be able to smooth their consumption patterns to a degree. This points toward a need to build greater awareness of the significance of risk reduction for the development process. Furthermore, social risk management can serve as an analytical tool to assess interventions in various sectors.

Table 1: Applying Social Risk Management to the World Bank's Work Beyond Social Protection

Areas of World Bank Work	Strategic Directions for the World Bank Using a Social Risk Management Approach
National shocks (economic crises, natural disasters, and civil conflicts)	■ Encourage governments to adopt preventive policies including low inflation ■ Share operational knowledge with disaster management and rural development sectors ■ Support other sectors in developing and piloting appropriate insurance products
The financial sector	■ Promote inclusion of risk management elements in the design of financial sector interventions
Rural development	■ Cooperate in analyzing, piloting, and monitoring innovative ways to manage rural risk
Infrastructure	■ Help relevant sectors to include risk management in analysis of investments
Health, nutrition, population, and education	■ Support development of an integrated human development strategy, emphasizing risk management and human capital development ■ Pursue joint work in areas such as health savings and insurance mechanisms, risk reduction through nutrition programs, early childhood development, multi-sectoral HIV management
Gender issues	■ Promote legal literacy, encourage equal access to productive resources, and ensure equity in access to education and public services

Within the social protection sector itself the risk management framework poses challenges in terms of rethinking existing public sector programs and expanding the range of interventions to provide better support for informal and market-based activities. In the traditional areas of public social protection, reassessment of risk reduction measures (mainly in the area of labor markets) will involve, among other things:

- Enhancing pre- and in-service skills building. This will entail reorienting the World Bank's approach to ensure access (especially for women) to skills building and to reflect the increasing importance of market-driven training and the shift from skills to knowledge; piloting new training approaches; and reworking existing projects to fit the new framework. This will be done in partnership with international organizations, especially the International Labor Organization (ILO) and interested bilateral donors.
- Eliminating harmful child labor. Removing children from school is a common coping mechanism for poor households, but it endangers the long-term potential of the children. Some areas of child labor are so clearly harmful that a major global effort should focus on their eradication. The World Bank Group (including the International Finance Corporation [IFC]) will build on its existing approach in this area, continuing to follow the lead of the United Nations Children's Fund (UNICEF) and the ILO.

- Assisting governments in making labor markets more equitable and inclusive. Because labor is often poor people's main or only asset, equitable access to safe and well-paid work—"decent work" according to the ILO (1999)—is one of the most important aspects of risk reduction. This is reflected in basic labor standards, including the prohibition of forced labor as well as gender and other forms of discrimination in employment and pay. Private or market-based standards, which range from corporate bench-marking and codes of conduct to voluntary enforcement of industry standards, are a promising complement to public labor standards. The World Bank group is actively pursuing these initiatives with several private sector partners.

In terms of risk mitigation, the new strategic directions in the social protection sector will include:

- Improving old-age income security. In the area of pension systems for the formal sector, the World Bank has become an established leader in conceptual and operational aspects of reform. This began with its development of a flexible approach to old-age security focusing on a "multipillar" system that many countries throughout the world are successfully implementing. While maintaining this approach, the main challenges will be to ensure adequate retirement income for informal sector workers and lifetime poor people, as well as for particularly vulnerable groups such as widows, by strengthening their access to earnings, savings, and other assets.
- Providing appropriate unemployment benefits. Many developing countries are rightly questioning the standard insurance approach to mitigating the risk of unemployment. The World Bank proposes to assess carefully the experience of alternative instruments (including their gender impact) and pilot them where there is sufficient interest, in close collaboration with the ILO.

Risk coping strategies mainly involve safety nets. Under a social risk management approach, promising avenues relate to interventions that help poor people cope while reducing or mitigating future risks (for example, transfers linked to keeping children in school). Key strategic questions include:

- How can the social protection sector sustain its support for safety net design and implementation? Resources will be allocated to support impact evaluations while lending will be as responsive as possible (especially in crisis situations).
- What is the appropriate balance in supporting different types of safety net programs? The World Bank, in partnership with the regional development banks and the International Monetary Fund (IMF), will systematically collect and analyze information on program experience to provide the best possible advice to client countries.
- How much is enough? While the global financial crisis has emphasized the need for coping programs, care must be taken to ensure that they remain appropriately sized and do not hamper other forms of risk management. Such issues must enter the World Bank's dialogue with the IMF in crisis situations.
- How can coping interventions help with risk mitigation and reduction? From the perspective of the social risk management framework, this relates to how assistance can be provided in a way that not only increases current levels of consumption for poor women and men but also enables them to manage risk better and climb out of poverty.

As the social protection sector of the World Bank increases its support for government efforts to improve and expand informal risk management mechanisms, it proposes to build on the World Bank's existing experience in the following areas:

- Rethinking social funds. Social funds have been successful in supporting communities in more than 50 countries. Considering its increased emphasis on community-driven development, the World Bank will support social funds to (a) expand the menu of eligible projects, (b) target vulnerability in addition to poverty, (c) strengthen means to enhance the flow of services from installed infrastructure, and (d) explore further how to ensure that the voices of women and other marginalized groups are better heard in the selection of priorities.
- Encouraging expansion of support for legal reform efforts. This will ensure that these efforts incorporate measures to strengthen and protect poor people's rights to assets, which includes the review of inheritance laws. Women's property rights are of special concern in many contexts. Reforms should also cover civil law, particularly with respect to women's rights in marriage and divorce.

■ Supporting community-based coping related to orphans and AIDS victims. Efforts will begin in parts of Sub-Saharan Africa where traditional coping mechanisms have come under unbearable strain and will build on the existing activities to support AIDS coping. Women are particularly vulnerable as they are expected to bear the burden of caring for the sick and may face additional social exclusion compared to men.

The World Bank also has much experience in supporting market-based reforms. The challenge will be to incorporate risk management aspects as much as possible into these reforms without distorting the important moves toward fiscal and financial sustainability. Two areas stand out as potentially promising:

■ Rethinking microfinance within social protection programs. Recent trends in microfinance (toward instruments such as microsavings and microinsurance) and the combination of community-based and market-based arrangements (reinsurance) should provide the chance to develop new models that may meet both financial and social sustainability criteria.
■ Building financial literacy. Because safe financial assets are key to poor people's ability to mitigate risk, there is a potential role for social protection interventions in bridging the gap between formal financial sector reforms and traditional social protection programs (for example, through the promotion of financial literacy).

STRATEGIC DIRECTIONS AND CONCLUSION

The final chapter of this paper summarizes strategic directions for the World Bank's work under the new social protection strategy along the following dimensions: regional and country priorities; traditional Bank products; partnerships with other organizations; and resources (financial and human).

The paper outlines strategic reorientation in regional work program priorities and countries of emphasis. All regions are proposing to work toward a more holistic approach to risk management, while the detailed work program priorities reflected in the regional sector strategies will depend on the different starting points of the regions, as shown in Table 2.

Within regional work programs there will be country priorities. An initial determination of countries of emphasis relies on two dimensions: (a) the importance of the country's risk management issues from a global perspective and the comparative advantage of the World Bank relative to other partners in a country; and (b) the opportunity for World Bank involvement (for

Table 2: The World Bank's Social Protection Priorities by Region

Region	Strategic Directions
Sub-Saharan Africa	Work with other human development sectors to mainstream work on orphans and AIDS/HIV management; other sectors to mainstream community-driven development. Integrate pensions and labor work more fully with the rest of social protection.
East Asia and the Pacific	Help clients to establish sustainable public safety nets, improve functioning of and access to market-based arrangements, and review and support informal safety net arrangements.
Europe and Central Asia	Push strongly on second-generation reforms, better integrate social protection subsectors and establish more community-based activities as complement to public interventions.
Latin America and the Caribbean	Integrate social risk management into country dialogue, with country papers helping to identify gaps and need for reform of risk management instruments.
Middle East and North Africa	Improve the functioning of public provisions, the quality of services, and the synergy between governments and civil society in providing social risk management instruments.
South Asia	Establish social risk management as an important element of poverty reduction; focus on microfinance, microinsurance and pension reform in terms of operations.

example, interest of the government in addressing social protection issues). Of special interest in this context are "engagement" countries, which have great global importance but little interest in World Bank involvement; "high-intensity" countries, which are of global significance and possess great interest; and "regional priority" countries, which are of less global importance but which maintain high interest. The categorization of countries is dynamic and will be updated as situations change.

Sub-Saharan Africa (AFR) possesses special challenges. The risks are numerous, severe, and widespread, while the means and instruments for risk management are limited. This indicates a need for a special emphasis on the region. However, three constraints limit the opportunity for the sector:

- Issues of vulnerability "compete" with other priorities in the region.
- Where management of vulnerability and risks is identified as a priority, nonsocial protection instruments may provide the best means of dealing with the major risks faced by poor people—for example, droughts, civil war, and disease.
- The capacity to implement social protection instruments is so low that even if a social protection instrument would work best in an ideal world, the costs of providing social protection in reality may be prohibitively high.

In terms of its traditional product lines (country strategy work, analytical and advisory services, portfolio management, knowledge management, lending, information/communication, and evaluation), the World Bank will promote shifts in strategy consistent with the social risk management approach. In some areas it will also undertake specific actions to reorient its product lines to take full advantage of the new approach, as summarized in Table 3.

Because this strategy paper will expand the World Bank's involvement in social protection, it will be important for the World Bank to reassess its partnerships with other organizations involved in this sector. In this regard, the paper examines partnerships along three dimensions: content, level of cooperation, and type of partner. The World Bank will continually

Table 3: Changes in World Bank Products Based on the New Social Protection Approach

Product	Shifts in Strategy Required by Social Risk Management Approach-Strategic Directions
Country strategy work	■ Promote risk management as a theme in the overall discussion of poverty reduction ■ Use tools such as the social protection PRSP Sourcebook to encourage the incorporation of social protection instruments into country strategies
Analytical and advisory services	■ Move to more comprehensive and action-oriented sector analyses ■ Improve dynamic vulnerability aspects of poverty assessments, especially from a gender perspective
Portfolio management and quality enhancement	■ Maintain the sector's portfolio in a quality leadership position ■ Evaluate the explosive growth in lending, and rework existing operations against the new risk management benchmark
Knowledge management	■ Expand and maintain reform "primers," which compile current analytical thinking, operational lessons and case studies into an accessible handbook format ■ Explore new dissemination technologies
Lending	■ Undertake more piloting ■ Employ adjustment operations in countries still in need of first-generation sector reform and initiate second-generation reforms ■ Scale up community-driven development based on social funds
Information and communication	■ Support dissemination of the new risk management and social protection approach, including through the World Development Report 2000/1 and the World Bank Institute
Evaluation	■ Refine evaluation criteria and benchmarks ■ Adjust household surveys to better reflect vulnerability indicators, including intra-household data ■ Assess the appropriateness of different risk management instruments

ABBREVIATIONS & ACRONYMS

AFR	Sub-Saharan Africa Region (World Bank)
AIDS	Acquired Immunodeficiency Syndrome
APEC	Asia Pacific Economic Cooperation
ASEM	Asia-Europe Meeting
CAS	Country Assistance Strategy (World Bank)
CDD	Community-Driven Development (World Bank)
CDF	Comprehensive Development Framework (World Bank)
EAP	East Asia and Pacific Region (World Bank)
ECA	Europe and Central Asia Region (World Bank)
EU	European Union
FY	Fiscal Year
FYR	Former Yugoslav Republic
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
HNP	Health, Nutrition, and Population (World Bank)
ICFTU	International Confederation of Free Trade Unions
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
ISSA	International Social Security Association
LAC	Latin America and Caribbean Region (World Bank)
MENA	Middle East and North Africa Region (World Bank)
NGO	NonGovernmental Organization
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department (World Bank)
PAYG	Pay-As-You-Go
PDR	People's Democratic Republic (Laos)
PROST	Pension Reform Options Simulation Toolkit (World Bank)
PRSP	Poverty Reduction Strategy Paper (World Bank, IMF)
SAR	South Asia Region (World Bank)
SIF	Social Investment Fund
SP	Social Protection
SRM	Social Risk Management
UNAIDS	Joint United Nations Program on HIV/AIDS
UNDP	United Nations Development Program
UNICEF	United Nations International Children's Education Fund
WBI	World Bank Institute (World Bank)
WCL	World Confederation of Labor
WDR	World Development Report (World Bank)
WHO	World Health Organization

review and adjust its interaction with international partners, carefully measuring the costs and benefits of each partnership to allow prioritization and to ensure the selection of those with the highest potential impact on poor people relative to their cost.

The proposed sector strategy, if fully implemented, would imply additional resource requirements. Experience from other sectors with similar rapid growth indicates that the social protection sector needs to make management of the existing portfolio its highest priority. In a low- or no-growth resource scenario, the focus will be on maintaining the quality of the portfolio and supporting implementation of the poverty reduction strategy papers in key heavily indebted countries. With an increase in resources, priority would be given to upstream work for country assistance strategies in non-heavily indebted poor countries, using the basic risk management framework and a revised sourcebook from the poverty reduction strategy work. Gradually, there would be expansion into new activities in support of traditional social protection interventions and into the new areas identified in this strategy. In terms of human resources, this implies a greater need for a broad-based social protection staff, with a few highly specialized staff in key implementation areas.

The strategy outlined in this paper will help the World Bank to be a credible partner in worldwide social policy. As it recently did in the Global Social Summit in Geneva in June 2000 (a five-year review of the Copenhagen Summit of 1995), and its follow-on activities, in the coming years the World Bank will play a key role in important events and processes including the discussion of social protection at the February 2001 session of the United Nations Commission for Social Development and work on the dissemination and application of the World Development Report 2000/1. The next stage of this strategy, developing partnerships involving a common approach to social policy and poverty reduction, will be the true test of whether there will ever be a day when the World Bank's mission statement becomes a reality:

Our dream is a world free of poverty.

CONTENTS

CHAPTER one

SOCIAL PROTECTION AND THE WORLD BANK

For decades, public policy has been concerned with risk and vulnerability associated with factors such as natural disasters, crop failure, war and violence, illness and injury, old age and death, and job loss and business failure. In the development arena, these topics have received increased attention in recent times for at least three reasons:

- Globalization of trade in goods, services, and factors of production and the increased interconnectivity of economies and societies present enormous opportunities for developing countries to prosper. However, globalization also brings new risks and increases the number of possible outcomes.
- Technological change helps to accelerate the pace of development, but at the same time it tends to widen the gulf between the "haves" and the "have-nots," both within and among countries.
- Increased political openness improves governance by holding those in power more accountable to larger segments of the population. As a result, poor people are finding their voices and asking for help in managing the risks that they face.

In this context, the World Bank has developed its first sector strategy for social protection. This process has offered it the opportunity to take stock of experience and develop the strategic thrust of future work. It has also allowed the World Bank to rethink the concept of social protection and embed the analysis, design, and implementation of social protection programs in an integrated poverty reduction framework.

Social protection is one of the youngest of the World Bank's sector groups, coming together in its current configuration only in 1996 with the establishment of the Human Development Network. It is also one of the most dynamic and best performing sectors, with recent high growth in lending and analytical work stimulated by the increased emphasis that countries have given to social issues and by recent financial crises.

This chapter covers the World Bank's involvement in social protection, which began long before the formal establishment of the sector, and reviews the growth and current status of the sector's work program. It also examines the main lessons of social protection operations and programs from current assessments of experience. Based on this analysis, the chapter concludes that it is necessary to adopt a new conceptualization of social protection that is better aligned with current worldwide realities and emerging thinking about poverty reduction and development.

THE WORLD BANK'S INVOLVEMENT IN SOCIAL PROTECTION—A BRIEF HISTORY

The creation of the modern welfare state, starting modestly in a few industrialized countries toward the end of the nineteenth century, received a boost with the "New Deal" in the United States in the 1930s and emerged fully in Organization for Economic Cooperation and Development (OECD) economies and Eastern Europe after World War II.[1] Many developing countries also introduced social protection measures such as safety nets (often, however, with poor coverage for the most vulnerable) as well as pension schemes, unemployment benefits, and health insurance for formal sector workers.

The World Bank's involvement in social protection began later and on a limited scale but gained momentum in the 1980s. The earliest efforts concentrated on labor markets research and policy work (see Horton, Kanbur, and Mazumdar 1994) and on social protection components of integrated rural development projects. The crises during the 1980s in Latin America and Africa, and the resulting World Bank-supported structural adjustment programs, brought social and human dimensions to the center of the development debate. Many agencies expressed concern that macroeconomic stabilization and structural adjustment were adversely affecting the welfare of poor people (see United Nations International Children's Education Fund [UNICEF] 1987). As a result, social protection instruments became a part of the World Bank's highly visible structural adjustment programs, although they remained mainly reactive and palliative in nature. Some programs, such as social funds, later evolved into free-standing social protection instruments that help poor people deal with a variety of risks, not only those induced by an adjustment program.

The experience of the 1980s led to the production of the *World Development Report 1990* on poverty, which identified the most critical elements of poverty reduction as labor-intensive growth, investment in human capital, and safety nets for poor people. However, safety nets were still viewed as a "last resort"—reactive instruments dealing with the consequences of poverty but not its underlying causes. In this sense, safety net programs represented a cost to be minimized as opposed to an investment for which impact should be maximized.

The quest for growth remained paramount to the World Bank's poverty reduction strategy of the early 1990s, based on the firm notion that more use of the market and better government was the preferred way forward. The idea that growth should be labor-intensive was prominent in the debate, but labor market discussions typically focused on the need to remove distortions and promote macropolicies to achieve this objective. This view increasingly came under pressure through factors such as the inclusion of new member countries after the collapse of communism, repeated crises, and an increasing population share of elderly in developing countries. As a result, the view of social protection expanded gradually, as reflected, for example, in the *World Development Report 1995* on labor issues, which set the stage for the World Bank's "rediscovery" of labor issues and introduced concepts such as core labor standards and the reduction of child labor.

With the collapse of communism and the opening up of Central and Eastern Europe and the former Soviet Union in the early 1990s, social protection programs came to the forefront of the World Bank's work in the region. Both the World Bank and the International Monetary Fund (IMF) found themselves confronted by the ultimate (and fiscally unsustainable) welfare states, which had assumed all risk management and ensured cradle-to-grave security. The need to reduce spending on these (presumably) nonproductive transfer programs and free up funds for more productive purposes drove the World Bank's initial attempts to address social protection in the new member countries. This was based on the assumption that the transition would be quick, that strong growth (à la East Asia) would take place, and that the main point should be to ensure that expenditures on social protection did not strain the budget. Soon, however, the World Bank and the IMF recognized the importance of targeted transfers to the early losers in the transition and broader social safety nets to cushion the effects of transition.[2]

The first half of the 1990s also brought a series of financial market and policy-induced crises, especially in Latin America and Africa (for example, the peso crisis and the debt crisis). Moreover, the falling relative price of the main export earners in Africa induced an almost constant crisis that disabled growth prospects in large parts of the continent. By this time, in both regions, the response from the World Bank and other multilateral agencies regularly incorporated measures to alleviate both the impact of the crisis and any negative short-term effects of the adjustment measures. Social funds became prevalent throughout much of Latin America, and African countries implemented them as well. India, Bangladesh, and several other Asian countries either expanded or adopted public works programs,[3] and the range of safety net programs also began to widen in other regions, often with an emphasis on food subsidies.

With a rising number of developing countries passing through the demographic transition, support for the elderly became an increasingly important issue in social protection. The World Bank took the lead in the field with the production of a seminal book on pension reform, *Averting the Old Age Crisis* (World Bank 1994), which highlighted the need to manage pension systems proactively while balancing equity, efficiency, fiscal, and financial objectives. The World Bank's program support for pension reform has expanded substantially since this time, especially in Latin America and Eastern Europe (see Annex A).[4]

During the 1990s, social policy in general received a higher profile, culminating with a 1995 summit in Copenhagen that firmly identified social policy and social protection as cornerstones of development (see Box 1.1). Although this represented an advance, there was still relatively little discussion in Copenhagen about informal or market-based solutions. The model that had evolved in the more developed world continued to dominate the debate, even though it was under increasing pressure even in the richest countries.

Most recently, the global financial crisis that first hit East Asia and then Russia and Brazil in 1997-1998 also helped establish social protection as one of the critical elements of a sustainable poverty reduction strategy. The social and poverty implications of the shock and the ramifications of the proposed corrective measures were central and fundamental concerns in the World Bank's quick response to the East Asia crisis. As a result, social protection interventions constituted an integral part of the overall adjustment programs, as in the case of the emergency support operations for the Republic of Korea (World Bank 1998, 2000c).

The Human Immunodeficiency Virus/Acquired Immune Deficiency Symdrome (HIV/AIDS) pandemic is also causing development planners to broaden their thinking on social protection. In addition to the obvious human tragedy, HIV/AIDS is placing a tremendous strain on the economic and social fabric of the most affected societies, principally through the decimation of the labor supply. It creates additional burdens for women, who are frequently expected to sacrifice their educational and economic aspirations to care for the sick and dying, may be more frequently ostracized and even forced to leave the community when infected, and in some cases may lose their property when their husbands and other male relatives have died.

These recent crises have shown that growth and good macroeconomic policies, while of great importance, are not sufficient for sustained poverty reduction. Shock-resistant risk management programs, including safety nets, income support systems for the elderly, and well-functioning labor markets with social safeguards, are essential to reduce poverty over the long term and protect previous gains. They are necessary for humanitarian reasons and in light of sound economic rationale—the avoidance of long-term poverty can reduce the need for social assistance. The crises have also demonstrated the importance of empowering citizens by encouraging broad participation in decisionmaking.

THE SOCIAL PROTECTION PORTFOLIO AND ANALYTICAL WORK

These external events have been a factor in the seven-fold increase in the World Bank's lending in the social protection area since 1992. The lending volume in FY99 was US$3.76 billion (13 percent of total World Bank lending), up from about US$0.3-0.7 billion in the FY92-FY95 period (Chart 1.1). Policy-based lending has increased (for example, in the large loans to Russia, Korea, Thailand, Indonesia, Argentina, and Brazil), and in FY99, more than 80 percent of social protection lending was in the form of adjustment loans. While the response to the global financial crisis has driven much of the recent rise in lending, the annual lending level for investment operations is about 1/2 to 3/4 of a billion dollars, and the World Bank has lent another billion dollars annually in the last three to four years (with wide fluctuations, depending on the size of the

BOX 1.1

THE COPENHAGEN SOCIAL SUMMIT AND 20/20 INITIATIVE

The Global Social Summit in Copenhagen in 1995 put social policy at the center of the development debate. The final Copenhagen Declaration and the Program of Action highlighted a number of areas related to social protection. Of the ten "commitments" called for in the Program of Action, Commitment 2 called for the formulation or strengthening of national policies and strategies to reduce inequalities and eradicate absolute poverty by a target date to be set by each country. At the national level, governments were to develop and implement policies "to ensure that all people have adequate economic and social protection during unemployment, ill health, maternity, child-rearing, widowhood, disability, and old age." Commitment 4 fostered social integration "based on the promotion and protection of all human rights, as well as non-discrimination, tolerance, respect for diversity, equality of opportunity, solidarity, security, and participation of all people." This included ensuring "the protection and full integration into the economy and society of disadvantaged and vulnerable groups and persons."

The 20/20 Initiative was part of the Copenhagen Conference and has since gained a life of its own, most recently with an October 1998 follow-up meeting in Hanoi. The goals of this initiative are to ensure that countries and donors each allocate at least 20 percent of their spending or aid flows to social sectors, with 20 percent of this amount directed to primary services. While social protection interventions were not originally present in the 20/20 framework, they are now entering into the discussions.