SUMMARY People in developing countries—particularly the agricultural poor—face a host of risks to their lives and livelihoods, including those stemming from globalization, climate change, and weather shocks. These experiences highlight the importance of social protection, which can have a potentially significant impact on reducing poverty and vulnerability when implemented with the optimal design, targets, and resources.

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THE FINANCIAL CRISIS OF 2008–2009 CRystALLIZED A “NEW NORMAL” in the global economic discourse. The vulnerability of national economies to global instability, and its implications for individual livelihoods, became clear to citizens and governments of developed countries as they struggled to cope with the biggest recession since the Great Depression. However, this new normal for developed countries is in fact the old normal for developing countries, where national- and individual-level vulnerability to shocks has been an ever-present reality.

As developing countries have integrated into the global economy, they have experienced not only enormous opportunities but also an intensification of risks of different types. These include the collapse of particular industries under a constantly shifting global market, the spread of infectious diseases through greater population mobility, and of course the global financial crisis. Climatic risks have also clearly worsened over the past few decades, which poses particular risk to countries dependent on agriculture.

The history of agriculture reminds us that even without intensification of risks at the global level, the poorest of the poor, always vulnerable to weather shocks, lead a precarious existence. Luck often plays a great role in determining even their basic survival. Going beyond weather shocks, individual-level shocks—such as poor health or accidents at work—can set off a spiral of ever-increasing indebtedness from which escape is near impossible. For poor households, financial traps are just one dimension of the spiral.

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A key dimension of vulnerability, especially for the poorest households, is food and nutrition insecurity. The threat can be direct, where agricultural shocks threaten households that grow their own food for consumption. It can also be indirect, where loss of income due to a range of negative shocks threatens the capacity to purchase an adequate amount of food and nutrition in the marketplace. Added to the short-term downturn is the fact that poor nutritional intake during lean times can lead to worsening health and, especially for children, long-term developmental consequences.

With this background, it is surprising that in the discussion surrounding the Millennium Development Goals (MDGs) of 2000 so little attention was paid to vulnerability and thus to protection from risks. Reducing vulnerability was not introduced as an explicit goal among the list of the eight goals or even as a target or indicator. One could argue, perhaps, that it was present implicitly in the first goal of eradicating extreme poverty and hunger. Among the targets and indicators under this goal were the halving of a range of indicators: (1) the proportion of population trapped in “dollar a day” poverty, (2) the prevalence of underweight children under five years of age, and (3) the proportion of the population below the minimum level of dietary energy consumption. While these indicators are suggestive, they do not directly address the issue of risk and vulnerability. Measuring vulnerability is of course more difficult than just tracking such levels, which raises the unfortunate complication that outcomes that are not measured are often underappreciated in the policymaking context.

The global community is currently discussing the “post-2015” agenda, seeking to define the goals and targets that will succeed the MDGs. The Open Working Group tackling Sustainable Development Goals (SDGs) has submitted a proposal to the United Nations General Assembly for one year of discussion and negotiation before it will be adopted at the 2015 General Assembly. While we are still early in the process of this new round of goal setting, it does seem that risk and vulnerability—and thus building resilience toward risk and vulnerability—are more present in this proposal for SDGs than they were in the MDGs.

Given the enhanced interest in vulnerability and social protection, this chapter considers the topic by focusing on concrete targets and policy actions needed to achieve them. First, it highlights why vulnerability and social protection are back on the agenda. It then discusses some possible targets for social protection based on global patterns of spending and their effectiveness. Next it addresses the challenges faced by policy interventions to meet targets for social protection. The chapter ends with a summary of the main policy conclusions.

**VULNERABILITY AND ITS CONSEQUENCES**

There is growing evidence that national-level vulnerability has increased as a result of both economic and noneconomic factors. On the economic front, global integration has brought not only opportunities for economic growth but also greater economic volatility. Thus some researchers found a strong association between greater trade openness and aggregate volatility, with the effect being much more pronounced for developing countries. The economic risks have been compounded by greater climate volatility. Thus the latest Intergovernmental Panel on Climate Change (IPCC) assessment concludes with “very high confidence” that “impacts from recent climate-related extremes, such as heat waves, droughts, floods, cyclones, and wildfires, reveal significant vulnerability and exposure of some ecosystems and many human systems to current climate variability.”

The spread of infectious diseases in a world of greater labor mobility has added further to national-level risks, as shown by the experience of the spread of Ebola in Liberia and its neighbors. Through their impact on the economy, agriculture, and health, these risks at the national level have consequences at the individual level. National-level shocks have gained attention in recent years, but they are merely additions to the risks of weak harvests that poor individuals have always faced due to climate, pests, and a variety of health and employment shocks. Together, the macro- and micro-level vulnerabilities can have significant impact on short-term poverty and medium-term development.

At the most basic level, sharp negative downturns in income, food intake, and nutrition all increase
undernutrition, the current informal mechanisms to address these insecurities are inadequate. The question thus arises whether such security can be provided socially by state interventions. Such social protection could address the short-term consequences of negative shocks to agriculture, employment, or health, and in doing so could also help to address the medium-term impacts on productivity and income growth.

Social protection is broadly understood to encompass a range of public programs that provide insurance and transfers in cash or in kind. Sometimes the term “social security” is used interchangeably with “social protection.” Different programs are included in different sources of information, making comparability difficult. However, most definitions include both social insurance (such as contributory programs, principally pensions, or unemployment benefits) and noncontributory social assistance programs/social safety nets (including such programs as cash transfers, food stamps, school feeding, in-kind transfers, labor-intensive public works, targeted food assistance, subsidies, and fee waivers). Thus alongside insurance, social protection as commonly discussed also encompasses redistributive programs targeted to the poor and vulnerable. Indeed, as a practical matter it is difficult to separate out these two roles of social protection.

The extent of social protection in the world is difficult to pin down because of definitional and data issues. One estimate suggests that between measured poverty, hunger, and malnutrition. The greater the risk of downturn, the higher will be the probability of falling below critical thresholds in income, food, or nutrition. Panel data where household well-being is tracked over time reveal these patterns. In Vietnam, for example, while 30 percent of households moved out of poverty between 1993 and 1998, another 5 percent moved into poverty. If the negative effects of short-term shocks in the downward direction were fully compensated by the positive effects of shocks in the other direction, then volatility would not be as much of an issue. Unfortunately, this is not the case. Researchers have shown that the damage done in the downturn is not made up in the upturn; this is especially true in the case of shortfalls in food and nutrition.

Furthermore, equally important is that the actions that households take to cope with shocks in the short term can actually be detrimental to the development in the medium or long term. A debt trap is built up, and households stick to low-return but less-risky crops and investments. For example, a study in Pakistan found “high incidence and cost of shocks borne by households, with health and other idiosyncratic shocks dominating in frequency, costliness, and adversity. Sample households lack effective coping options and use mostly self-insurance and informal credit. Many shocks result in food insecurity, informal debts, child and bonded labour, and recovery is slow.” Of course while both private and public safety nets can play a role, they almost always prove inadequate.

Thus, just as macro-level volatility affects economic growth negatively, micro-level vulnerability leads to negative short- and medium-term effects for the poorest. Because existing and informal mechanisms are inadequate, and because these vulnerabilities are unlikely to decrease in the near future, “social protection” interventions have a clear role to play in addressing these risks and vulnerabilities. A range of studies has shown that safety nets provided by social protection can contribute to economic growth.

SOCIAL PROTECTION AND POVERTY
Although high vulnerability to shocks can drive poor households deeper into poverty, hunger, and...
0.75 billion and 1.0 billion people in low and middle income countries are recipients of some form of cash support. However, the coverage of social protection is not comprehensive (Figure 1). As the World Social Protection Report 2014/15 notes, “Only 27 percent of the global population enjoy access to comprehensive social security systems, whereas 73 percent are covered partially or not at all.” Another estimate, using the World Bank’s ASPIRE data set and definitions, is that for developing and transition economies less than half of the population has access to social protection programs, with the number being less than one-third in South Asia and less than one-quarter in Africa south of the Sahara.

Limited though they are, what is the poverty impact of social protection transfer programs in developing countries? If we focus on income poverty (because of the availability of data on a comparable cross-country basis), one way to answer this question is to subtract the monetary value of social protection benefits and recalculate poverty on this basis. Of course this will be an overestimate to the extent that individual responses or other community mechanisms step in to fill the gap. However, to the extent that social protection improves medium-term income prospects through better handling of risk, this would be an underestimate. With these caveats in mind, and making assumptions to extrapolate from the ASPIRE data set to the global population, it has been estimated that around 150 million people annually are prevented from falling below the US$1.25 per day poverty line worldwide as a result of existing social protection programs. Focusing on the sum of the gaps between income/consumption and the poverty line, estimates hold that social protection programs eliminate almost half of the total

**Figure 1** Percent of population receiving transfers from social protection programs

poverty gap. However, the impact on numbers and on the gap is weakest in Africa south of the Sahara, which is not surprising, given the low coverage of population noted above.\textsuperscript{14}

What determines the impact of social protection transfers on poverty? If we examine the total poverty gap, we intuitively see that there are two components to the impact. First is the total budget for social protection transfers relative to the pre-social protection poverty gap. Second is the fraction of the total budget that actually goes to the poor to fill the poverty gap. These are the twin determinants of the efficacy of social protection transfers in addressing poverty: budgetary adequacy and targeting efficiency. ASPIRE data show that average targeting efficiency for the countries in the sample is 8 percent. This is very low, but compares with the best value of 40 percent and an average value for the top quartile of countries of 21 percent.

Clearly, improving targeting efficiency will increase the poverty reduction impact of social protection transfers. Suppose that we were to set a social protection goal of halving the poverty gap. Suppose further that we were to set an ambitious goal of having every country reach the very top targeting efficiency in the world: 40 percent. It has been shown that improving targeting efficiency is not enough to attain the poverty reduction goal. Only 73 percent of all countries in the sample would achieve the goal of halving the poverty gap. For low income countries, only half would achieve the target even with the very best targeting efficiency seen in the world: 40 percent. The problem is as much one of budgetary adequacy as it is one of targeting efficiency. The total budget as a fraction of the poverty gap does not exceed 20 percent in low income countries in the sample, which is clearly insufficient to address poverty, no matter how well it is targeted.\textsuperscript{15}

The above calculations are for the impact of social protection on income poverty. Some aspect of the insurance role of social protection is also captured in these calculations to the extent that insurance prevents negative shocks from driving households into poverty. However, the insurance role can also have beneficial long-term effects, which are not captured directly in the short-term impact calculations.\textsuperscript{16}

**CHALLENGES OF SOCIAL PROTECTION**

Adequate budgets are a major challenge of social protection programs, but the design of social protection poses additional hurdles. Targeting of benefits to the poor is of course another obstacle. Fine targeting to the poor and only the poor is an even greater challenge. There are at least two issues that such fine targeting raises. First is the informational and administrative difficulties of identifying the poor and separating them from the nonpoor to receive the transfer. Recent improvements in information technology, such as biometric identification or electronic banking, could help to address this problem.\textsuperscript{17} There is also the political economy challenge of finding a support program that only benefits the poorest—one reason why less well-targeted programs are prevalent is because they enjoy the support of middle-income groups as well.

Even beyond targeting, social protection raises a further set of impediments to design.\textsuperscript{18} The first is the interaction between formal social protection programs and preexisting family, community, and informal mechanisms of insurance and transfers. A challenge for the design of state-supported social protection is how these programs and mechanisms will respond. If informal mechanisms decline in response to state provision, then the net effect of state intervention is less than the gross effect. This has to be taken into account in evaluating the success of social protection.

A second challenge is conceptual and has political implications. Is social protection best thought of as insurance or is it redistribution? Insurance has greater support than redistribution, especially among middle- and upper-income groups, but in practice separating one out from the other is difficult.\textsuperscript{19} Thus, for example, a progressive tax system, or a cash transfer scheme to the poor financed from the general fiscal revenue, is redistributive. Yet at the same time it also provides insurance through lower taxes or even transfers when incomes are low, just as it is financed by higher taxes when incomes are high. By the same token, programs that are labeled as social insurance but actuarially require transfers from the fiscal budget are redistributive without this being appreciated by the public. Any pension schemes for
public-sector workers are of this type—they redistribute toward the beneficiary group on average. The estimation of the insurance versus the redistribution component of such schemes represents an analytical hurdle.

A third challenge in the discourse on social protection is that of conditional cash transfers. There are two parts to the challenge—payment in cash and conditioning of the transfer. There is a vigorous debate between those who favor transfers in cash versus those who favor transfers in kind. Transfers in cash are argued to be administratively easier—with recent advances in mobile banking and electronic transfers, which do not require the government to manage vast food stocks, being one example. They are also argued to be economically efficient because they allow the individual to make the choice of what the cash is spent on. However, the counter argument is that payment in kind makes it more likely that the benefits will flow to the household and to the vulnerable members of the household. The jury is still out on this debate. Preliminary research results by scholars at the International Food Policy Research Institute suggest that the relative effectiveness of different modalities may depend heavily on contextual factors, such as the severity of food insecurity and the prevalence of markets for grains and other foods.

On conditioning of the transfer, there is some evidence that this strategy works. For example, the goal of keeping children in school usually improves when conditional cash transfers are used. But conditioning is not useful everywhere; it can also discriminate against households that need support but cannot meet the conditions, and also adds administrative and monitoring burdens. Despite its problems, however, conditioning can be more politically viable because it draws the support of the middle class and the decisionmaking authorities.

This is related to a fourth challenge, that of sustainability. Finance ministers in particular are concerned about what might become an open-ended commitment to transfers without an “exit.” Conditioning on human capital accumulation could aid this exit for individuals and households.

A fifth and final challenge in the social protection discourse is developing social protection in low income countries (LICs). Although not easy to establish quantitatively, not least because of the difficulties of cross-country comparability in what comes under the umbrella of social protection, there seems to be a consensus that social protection programs are more widespread in middle income countries (MICs). We have already noted that coverage in Africa south of the Sahara is much lower than in the world as a whole and that the budgetary allocations to social protection are much lower in LICs. Another indirect indicator is that taking World Bank lending as a whole, 13 percent of World Bank projects in MICs were devoted to social safety nets, while the figure for LICs was 6 percent.

The challenge lies in the argument that this is the “natural” order of things. In fact, LICs cannot “afford” social protection. Countries have to first grow and then develop social protection. The counter-argument is that it is precisely in these countries that the need for social protection is greatest, and that without social protection negative shocks can trap both the poor into a cycle of poverty and their countries into a path of low growth. There is also further evidence that social protection interventions do not fare any worse in LICs than in MICs. The World Bank’s Independent Evaluation Group finds that in terms of the performance of social safety net projects, LICs performed no worse. In fact, according to the World Bank’s well-established evaluation scale, 88 percent of projects scored “moderately satisfactory” or better in LICs, while the number was 85 percent for MICs.

**POLICY CONCLUSION**

Social protection was largely missing from the MDG discourse, which was shaped in the 1990s. The experience of the last two decades has emphasized the importance of social protection, especially in the face of growing economic and noneconomic risks at both the individual and the national levels that exacerbate poverty, hunger, and undernutrition. The United Nations Open Working Group on Sustainable Development Goals has proposed 17 goals and a more detailed set of targets under each goal; the first three goals encompass social protection explicitly (Table 1).
Most countries have programs that can be classified as falling under social protection. These can have a significant impact on reducing poverty. But there is inadequate coverage of the population, especially in low income countries. Of course better targeting of a given budget will enhance the poverty reduction of social protection. Yet for many countries, especially low income countries, the problem is one of adequacy of budgetary resources. Beyond targeting and budgetary resources, social protection programs also face a series of design challenges that need to be addressed, and they need to be seen as a system rather than as individual programs.

The first step for countries and for the international community should be to institute a Social Protection Assessment Program (SPAP) for each country, led by the country’s government with support from development partners. Analogous to the Financial Sector Assessment Program of the International Monetary Fund and the World Bank, such an assessment would look at the social protection programs as a collectivity. Through “stress testing” with respect to a range of micro-level risks and macro-level crises, SPAP would assess the system as a whole not only as a poverty-reduction device but as a safety net. For example, the assessment would ask whether the system as a whole can provide support in the face of a drought or an external economic crisis that affected the local economy. Based on such an analysis, the assessment would identify gaps and recommend additions, subtractions, and improvements to the design of individual programs and the system as a whole.

Such an assessment would in turn lead to a specific program of investments to strengthen the system to deal with a range of individual-level shortfalls and risks as well as national-level shocks. Most of the resources for these improvements in the first instance will have to come from the outside, especially for low income countries. However, just as important for reforming and building up the collectivity of programs as a system is the rapid response to the financing needed when national-level shocks hit a country. For this, a global facility is appropriate. A number of instruments are currently available, such as the “deferred drawdown option” in International Bank for Reconstruction and Development loans that disburse when certain triggers are breached, confirming that a crisis is at hand. For low income countries, the International Development Association has a Crisis Response Window, but more is needed to develop the facility further and to streamline it to provide an automatic response when a crisis is identified. 26

Broadly construed, social protection—encompassing elements of both insurance and targeted transfers to the poorest and most vulnerable—is now recognized as a cornerstone of development policy. This is especially true given the greater degrees of economic and noneconomic risks faced by developing countries and their populations in the wake of global integration and climate change. National governments supported by the international community need to design efficient programs as a system and provide adequate finance for social protection.