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# Working Paper

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## **SOCIAL PROTECTION, VULNERABILITY AND POVERTY**

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**Social Protection, Vulnerability and Poverty\***

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## 1. Introduction

The financial crisis of 2008/9 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, along with the enormous opportunities has come an intensification of risks of different types. These include the collapse of particular industries in a constantly shifting global market, spread of infectious diseases through greater mobility, and of course global financial crises. Added to these are climatic risks which have clearly worsened over the last decades, and to which countries dependent on agriculture are particularly susceptible.

Agriculture reminds us that even without intensification of risks at the global level, the poorest of the poor have always been vulnerable to weather shocks and lead a precarious existence where luck plays a great role in determining even survival. Going beyond weather shocks, individual level shocks such as poor health or accidents at work are a constant threat to the wellbeing of poor households, shocks which can set off a spiral of ever increasing indebtedness from which escape is near impossible. Financial traps are only one dimension of the spiral.

A key dimension of insecurity, especially for the poorest households, is food and nutrition insecurity. The threat can be a direct one where agricultural shocks threaten households which grow their own food for consumption, or more generally it can 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 market place. 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, with long term developmental consequences.

With this background, it is surprising indeed how little attention was paid to vulnerability and protection from risks, in the discussion surrounding the Millennium Development Goals (MDGs) of 2000. Certainly it was not introduced as an explicit goal among the list of the eight goals or even as a target or indicator. It could be argued that it was present implicitly in the first goal of eradicating extreme poverty and hunger. Among targets and indicators under this goal were halving (i) the proportion of population in “dollar a day” poverty, (ii) prevalence of underweight children under five years of age and (iii) proportion of population below minimum level of dietary energy consumption. While these indicators are suggestive, they do not directly address the issue of risk and vulnerability. Of course vulnerability is more difficult to track than levels, which leads to the added complication that outcomes which are not measured are often underappreciated in the policy context.

The global community is currently discussing the “post-2015” agenda, in terms of goals and targets to succeed the MDGs. The Open Working Group (OWG) for Sustainable

Development Goals (SDGs) has presented a proposal to the UN General Assembly<sup>1</sup>; there is to be a year of discussion and negotiation before final adoption at the 2015 UN General Assembly. While these are early days, it does seem as though risk and vulnerability, and building resilience towards risk and vulnerability, are more present in this proposal for SDGs than they were in the MDGs.

Given this enhanced interest in vulnerability and social protection, this chapter considers the topic with a focus on concrete targets and policy actions needed to meet these targets. First, it highlights why exactly 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.

## 2. Vulnerability and its Consequences

There is growing evidence that national level vulnerability has increased due to economic and non-economic factors. On the economic front, global integration has brought with it opportunities for economic growth, but also greater economic volatility in this growth. Thus some researchers found a strong association between greater trade openness and aggregate volatility, with the effect much more pronounced for developing countries.<sup>2</sup>

The economic risks have been compounded by greater climate volatility. Thus the latest 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.”<sup>3</sup> 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.

These risks at the national level have consequences at the individual level through their impact on the economy, agriculture and health<sup>4</sup>. National level shocks have gained attention in recent years, but they are merely additions to the risks that the poor have always faced at the individual level of poor harvests due to climate or pests, and of a variety of health and employment shocks. Together, the macro and the micro level vulnerabilities can have a significant impact on short term poverty and medium term development.

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<sup>1</sup> “Introduction to the Proposal of the Open Working Group on Sustainable Development Goals.” [http://sustainabledevelopment.un.org/content/documents/4518SDGs\\_FINAL\\_Proposal%20of%20OWG\\_19%20July%20at%201320hrsver3.pdf](http://sustainabledevelopment.un.org/content/documents/4518SDGs_FINAL_Proposal%20of%20OWG_19%20July%20at%201320hrsver3.pdf) Accessed October 14, 2014.

<sup>2</sup> J. di Gioviani and A. Levchenko. “Trade Openness and Volatility,” *Review of Economics and Statistics*, 91:3 (August 2009), 558-585.

<sup>3</sup> IPCC. 2014. *Climate Change 2014: Impacts, Adaptation and Vulnerability—Summary for Policy Makers*. [http://ipcc-wg2.gov/AR5/images/uploads/WG2AR5\\_SPM\\_FINAL.pdf](http://ipcc-wg2.gov/AR5/images/uploads/WG2AR5_SPM_FINAL.pdf) Accessed October 14, 2014.

<sup>4</sup> See for example, IFPRI assessments of climate change impacts on African agriculture at <http://www.ifpri.org/book-775/ourwork/researcharea/climate-change>.

At the most basic level, sharp negative downturns in income, food intake or nutrition increase 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 wellbeing is tracked over time, can reveal these patterns. In Vietnam, for example, while 30% of households moved out of poverty between 1993 and 1998, another 5% moved into poverty.<sup>5</sup>

If negative effects of short term shocks in the downward direction could be fully compensated by the positive effects of shocks in the positive direction, then risk would be less of a worry. Unfortunately, however, this is not the case. Researchers have shown that the damage that is done in the downturn is not made up in the upturn, and this is especially true in the case of shortfalls in food and nutrition.<sup>6</sup>

What is equally important, furthermore, is that while household actions to cope with shocks are not adequate to fully compensate, those actions which are taken can be detrimental to medium term development. 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 that “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 labor, and recovery is slow.” Of course both private and public safety nets play a role but are inadequate.<sup>7</sup>

Thus, just as macro level volatility affects economic growth negatively, micro level vulnerability leads to negative short and medium term effects for the poorest. Since existing and informal mechanisms are inadequate (otherwise we would not have the issue in the first place), and since these vulnerabilities are unlikely to decrease in the near future, “social protection” interventions have a clear role in addressing these risks and vulnerabilities. A range of studies have shown that safety nets provided by social protection can contribute to economic growth.<sup>8</sup>

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<sup>5</sup> Chronic Poverty Research Centre. *Chronic Poverty Report*, 2008-09, 2009.

[http://www.chronicpoverty.org/uploads/publication\\_files/CPR2\\_ReportFull.pdf](http://www.chronicpoverty.org/uploads/publication_files/CPR2_ReportFull.pdf), Accessed, October 14, 2014.

<sup>6</sup> Alderman, H., J. Hoddinott, and W. Kinsey. 2006. “Long-Term Consequences of Early Childhood Malnutrition.” *Oxford Economic Papers* 58 (3): 450–474.

Baird, S., J. Friedman, and N. Schady. 2011. “Aggregate Income Shocks and Infant Mortality in the Developing World.” *Review of Economics and Statistics* 93 (3): 847–856.

Carter, M., and T. Lybbert. 2012. “Consumption versus Asset Smoothing: Testing the Implications of Poverty Trap Theory in Burkina Faso.” *Journal of Development Economics* 99 (2): 255–264.

<sup>7</sup> Heltburg, Rasmus and Niels Lund. 2009. Shocks, Coping and Outcomes for Pakistan’s Poor: Health Risks Predominate.” *Journal of Development Studies*, Volume 45, Issue 6, pp. 864-888.

<sup>8</sup> For a recent review see Alderman, H., and R. Yemtsov, “How Can Safety Nets Contribute to Economic Growth?” World Bank Policy Research Paper, Number 6437, [http://www-wds.worldbank.org/servlet/WDSContentServer?WDSPIB/2013/05/07/000158349\\_20130507154500/Rendered/PDF/wps6437.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer?WDSPIB/2013/05/07/000158349_20130507154500/Rendered/PDF/wps6437.pdf) Accessed October 14, 2014.

### 3. Social Protection and Poverty

With high vulnerability to shocks which can drive poor households deeper into poverty, hunger and undernutrition, and the inadequacy of current informal mechanisms to address these insecurities, the question 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 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 which provided insurance and transfers in cash or in kind. Sometimes the term “social security” is used interchangeably with “social protection”.<sup>9</sup> Different programs are included in different sources of information, making comparability difficult. However, most definitions include social insurance (contributory programs, principally pensions or unemployment benefit) and non-contributory social assistance programs (or social safety nets) which include programs such 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.<sup>10</sup>

The extent of social protection in the world is difficult to pin down because of definitional and data issues. One estimate suggests that between 0.75 billion and 1.0 billion people in low- and middle-income countries are recipients of some form of cash support. But the coverage of social protection is not comprehensive. 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” (p. xxi).<sup>11</sup> Another estimate, using the World Bank’s ASPIRE data set and definitions, is that for developing and transition economies less than a 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 Sub-Saharan Africa.<sup>12</sup>

Limited though they are, what is the poverty impact of social protection transfer programs in developing countries? Focusing 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

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<sup>9</sup> For a definition of “social security” from the perspective of the International Labor Organization, see footnote 1 on p. 2 of the World Social Protection Report 2014/15, [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_245201.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf) Accessed October 14, 2014

<sup>10</sup> Kanbur, Ravi. 2010. “Conceptualising Social Security and Income Redistribution,” *Bulletin Luxembourgeois des questions sociales*, Volume 27, pp. 31-41, 2010.

<sup>11</sup> ILO. *World Social Protection Report 2014/15: Building Economic Recovery, Inclusive Development and Social Justice*. ILO: Geneva. [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_245201.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf), Accessed October 14, 2014

<sup>12</sup> Fiszbein, Ariel, Ravi Kanbur and Ruslan Yemtsov. 2014. “Social Protection and Poverty Reduction: Global Patterns and Some Targets.” *World Development*, Vol. 61, pp 167-177.

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 are prevented from falling below the \$1.25 poverty line worldwide as result of social protection programs that do exist. Focusing on the sum of the gaps between income/consumption and the poverty line, they estimate that social protection programs eliminate almost half of the total poverty gap. The impact on numbers and on gap is however weakest in Sub-Saharan Africa, which is not surprising given the low coverage of population noted above.<sup>13</sup>

What determines the impact of social protection transfers on poverty? Focusing on the total poverty gap, intuitively 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 what fraction of the total budget 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%. This is very low, but compares to the best value of 40% and an average value for the top quartile of countries of 21%.

Clearly, improving targeting efficiency will increase the poverty reduction impact of social protection transfers. Suppose that we were to set as a goal for social protection that it halve the poverty gap. Suppose further that we were to set as an ambitious goal for targeting efficiency for every country, the very top targeting efficiency in the world (40%). It has been shown that improving targeting efficiency is not enough to attain the poverty reduction goal. Only 73% of all countries in the sample would achieve the goal of halving the poverty gap. For low income countries, only half of the countries would achieve the target even with the very best targeting efficiency seen in the world. In other words, 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% in low income countries in the sample, clearly insufficient to address poverty no matter how well it is targeted.<sup>14</sup>

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 is not captured directly in the short term impact calculations.<sup>15</sup>

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<sup>13</sup> Fiszbein, Ariel, Ravi Kanbur and Ruslan Yemtsov. 2014. "Social Protection and Poverty Reduction: Global Patterns and Some Targets." *World Development*, Vol. 61, pp. 167-177.

<sup>14</sup> Fiszbein, Ariel, Ravi Kanbur and Ruslan Yemtsov. 2014. "Social Protection and Poverty Reduction: Global Patterns and Some Targets." *World Development*, Vol. 61, pp. 167-177.

<sup>15</sup> Alderman Harold and Trina Haque. Countercyclical Safety Nets for the Poor and Vulnerable. *Food Policy* 34(4) pp. 372-383. 2006.



#### 4. Challenges of Social Protection

Adequate budgets are a major challenge of social protection programs, but the design of social protection poses challenges going beyond budgetary adequacy. Targeting of benefits to the poor is of course a challenge. Fine targeting to the poor and only the poor is easier said than done. There are at least two issues that fine targeting raises. First is the informational and administrative challenge of identifying the poor and separating them from the non-poor to receive the transfer. Recent improvements in information technology like biometric identification or electronic banking could help to address this problem.<sup>16</sup> Second is the political economy challenge of finding a support program which 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 design challenges.<sup>17</sup> The first of these 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 they will respond. If they decline, then the net effect of state intervention is less than the gross effect and this has to be taken into account in evaluation of the success or otherwise of social protection.

The second challenge is conceptual with political implications. Is social protection insurance or is it redistribution? Insurance has greater support than redistribution, especially among middle and upper income groups, but it is very difficult in practice to separate out one from the other.<sup>18</sup> Thus, for example, a progressive tax system, or a cash transfer scheme to the poor financed from the general fiscal revenue, is redistributive but it also provides insurance through lower taxes or even transfers when incomes are low as it is financed by higher taxes when income 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. Any pension schemes for public sector workers are of this type—they redistribute towards the beneficiary group on average. The estimation of the insurance versus the redistribution component of such schemes represents an analytical challenge.

A third challenge in the discourse on social protection is that of conditional cash transfers<sup>19</sup>. There are two parts to the challenge—payment in cash and conditioning of the

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<sup>16</sup> Biometric innovations like India's Aadhar program are still being rolled out and need to be evaluated. For a range of issues in identification, see Casey Dunning, Alan Gelb and Sneha Raghavan, "Birth Registration, Legal Identity and the Post-2015 Agenda," Center for Global Development, Policy Paper 046, <http://international.cgdev.org/sites/default/files/birth-registration-legal-identity.pdf>, Accessed October 14, 2014.

<sup>17</sup> For a detailed discussion see Kanbur, Ravi. 2014. "Social Protection: Consensus and Challenges," in G.A. Cornia and Frances Stewart (eds.) *Towards Human Development: New Approaches to Macroeconomics and Inequality*, Oxford University Press, pp. 86-98.

<sup>18</sup> Kanbur, Ravi. "Conceptualising Social Security and Income Redistribution," *Bulletin Luxembourgeois des questions sociales*, Volume 27, pp. 31-41, 2010.

<sup>19</sup> Fiszbein, Ariel and Norbert Schady. (2009): *Conditional Cash Transfers: Reducing Present and Future Poverty*. World Bank Policy Research Report. Washington DC: World Bank. [http://siteresources.worldbank.org/INTCCT/Resources/5757608-1234228266004/PRR-CCT\\_web\\_noembargo.pdf](http://siteresources.worldbank.org/INTCCT/Resources/5757608-1234228266004/PRR-CCT_web_noembargo.pdf) Accessed October 14, 2014.

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, not requiring the government to manage vast food stocks, for example. They are also argued to be economically efficient, since 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 vulnerable members of the household. The jury is still out on this debate and preliminary research results by IFPRI scholars suggest that the relative effectiveness of different modalities may depend heavily on contextual factors such as the severity of food insecurity and the thickness of markets for grains and other foods.<sup>20</sup>

On conditioning of the transfer, there is some evidence that conditioning works, in the sense that the variable which is being conditioned on, for example keeping children in school, usually improves with the conditional cash transfer. But conditioning is not useful everywhere; it can also discriminate against households who need support but cannot meet the conditions, and adds administrative and monitoring burdens.<sup>21</sup> However, despite its problems, conditioning is can also be part of the political bargain which buys the support of the middle classes and the decision making 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 challenge in the social protection discourse, the final one discussed here, 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 Sub-Saharan Africa is much lower than in the world as a whole and the budgetary allocations to social protection are much lower in LICs. Another indirect indicator is that taking World Bank lending as a whole, 13% of World Bank projects in MICs were devoted to social safety nets, while the figure for LICs was 6%.<sup>22</sup>

The challenge lies in the argument that this is the “natural” order of things: in fact, LICs cannot “afford” social protection, and that countries have to first grow and then develop social protection. The counterargument 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 the poor into a

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<sup>20</sup> See <http://www.ifpri.org/blog/cash-food-or-vouchers> and related papers: John Hoddinott and Amy Margolis. “Costing Alternative Transfer Mechanisms”. IFPRI Discussion paper 1375 (sept 2014); Hidrobo, Melissa, John Hoddinott, Amber Peterman, Amy Margolis, and V. Moreira. 2014. “Cash, Food, or Vouchers? Evidence from a Randomized Experiment in Northern Ecuador.” *Journal of Development Economics* 107: 144–156. And Hoddinott, John, Susanna Sandstrom and Joanna Upton. “The Impact of Cash and Food Transfers: Evidence from a Randomized Intervention in Niger”. IFPRI Discussion Paper #1341. April 2014.

<sup>21</sup> Adato, M. & L. Bassett, 2012. *Social protection and cash transfers to strengthen families affected by HIV and AIDS*, Research Monograph, International Food Policy Research Institute (IFPRI).

<sup>22</sup> Independent Evaluation Group. 2011. *Social Safety Nets: An Evaluation of World Bank Support, 2000-2010*. [http://ieg.worldbank.org/Data/reports/chapters/ssn\\_full\\_evaluation.pdf](http://ieg.worldbank.org/Data/reports/chapters/ssn_full_evaluation.pdf) Accessed, October 14, 2014.

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 did no worse—in fact, using its well-established evaluation scale, 88% of projects scored “Moderately Satisfactory” or better in LICs, while the number was 85% for MICs.<sup>23</sup>

## 5. 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 non-economic risks both at the individual and at the national levels which 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, and the first three goals encompass social protection explicitly:<sup>24</sup>

- \* Under Goal 1, “End poverty in all its forms everywhere,” there are the conventional targets on percentage of population in extreme poverty. But there is also the target 1.3 to “implement nationally social protection systems and measures for all, including floors, and by 2030 achieve coverage of the poor and vulnerable.”
- \* Under Goal 2, “End hunger, achieve food security and improved nutrition, and promote sustainable agriculture,” target 2.1 states “by 2030 end hunger and ensure access by all people, in particular the poor and people in vulnerable situations including infants, to safe, nutritious and sufficient food all year round.”
- \* Under Goal 3, “Ensure healthy lives and promote well-being for all at all ages,” target 3.8 states: “achieve universal health coverage (UHC), including financial risk protection, access to quality essential health care services, and access to safe, effective, quality, and affordable essential medicines and vaccines for all.”

Most countries have some programs which can be classified as falling under social protection. Social protection programs can have a significant impact on reducing poverty. But there is inadequate coverage of the population, especially in low income countries. It goes without saying that better targeting of a given budget will enhance the poverty reduction of social protection. However, 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 which need to be addressed, and they need to be seen as a system rather than as individual programs.

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<sup>23</sup> . Independent Evaluation Group. 2011. *Social Safety Nets: An Evaluation of World Bank Support, 2000-2010*. [http://ieg.worldbank.org/Data/reports/chapters/ssn\\_full\\_evaluation.pdf](http://ieg.worldbank.org/Data/reports/chapters/ssn_full_evaluation.pdf) Accessed, October 14, 2014.

<sup>24</sup> “Introduction to the Proposal of the Open Working Group on Sustainable Development Goals.” [http://sustainabledevelopment.un.org/content/documents/4518SDGs\\_FINAL\\_Proposal%20of%20OWG\\_19%20July%20at%201320hrsver3.pdf](http://sustainabledevelopment.un.org/content/documents/4518SDGs_FINAL_Proposal%20of%20OWG_19%20July%20at%201320hrsver3.pdf) Accessed October 14, 2014.

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. Analogously to the Financial Sector Assessment Program (FSAP) of the IMF and the World Bank, such an assessment would look at the social protection programs as a collectivity and provide an assessment of the system as a whole not only as a poverty reduction device, but as a safety net, through "stress testing" with respect to a range of micro level risks and macro level crises. For example, the assessment would ask the question whether the system as a whole can provide support in the face of a drought, or of an external economic crisis which 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, and national level shocks. Most of the resources for these improvements will have to come from the outside in the first instance especially for low income countries. However, as important as external resources 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 IBRD loans which disburse when certain triggers are breached which confirm that a crisis is at hand. For low income countries IDA has a Crisis Response Window but more is needed to develop the facility further and to stream line it to provide an automatic response when a crisis is identified.<sup>25</sup>

Thus social protection broadly construed, 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 non-economic 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 to provide adequate finance for social protection.

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<sup>25</sup> The proposal for SPAP and a global facility for maintaining social protection at times of crisis is made in Kanbur, Ravi. 2012. "Stress Testing for the Poverty Impacts of the Next Crisis" Ambar Narayan and Carolina Sánchez-Páramo (eds.). *Knowing, When You Do Not Know*, Washington DC: The World Bank, pp. 50-55.

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