

Poverty and Vulnerability and Public Action

Review of Concepts

Paris, April 22-26, 2002

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Social Protection in Bank Operations and Emergence of Social Risk Management

Higher attention to SP issues since late 80's

- First World Development Report on Poverty (1990)
- Level of World Bank lending in the SP sector:
 - From US\$ 240 million in 1994 to 1.7 billion in 2001
 - 40% of the total lending in the Human Development sector (average between 1997-2001)
 - 10% of the total lending portfolio of the World Bank in 2001
- Second World Development Report on Poverty: Attacking Poverty (2000/01)
- The development of an SP sector strategy (2000)

Social Risk Management Framework

Basic Thrusts

- The poor are typically most exposed to diverse risks (natural and man-made)
 - The poor have the fewest instruments to deal with these risks
- ⇒ The poor are the most vulnerable as shocks have strongest welfare consequences
- ⇒ The high vulnerability makes them risk averse and thus unable or unwilling to engage in higher risk/high return activities
- ➔ A reduction in vulnerability is thus both an *end* and a *means* of development

Social Risk Management Framework

Rationale

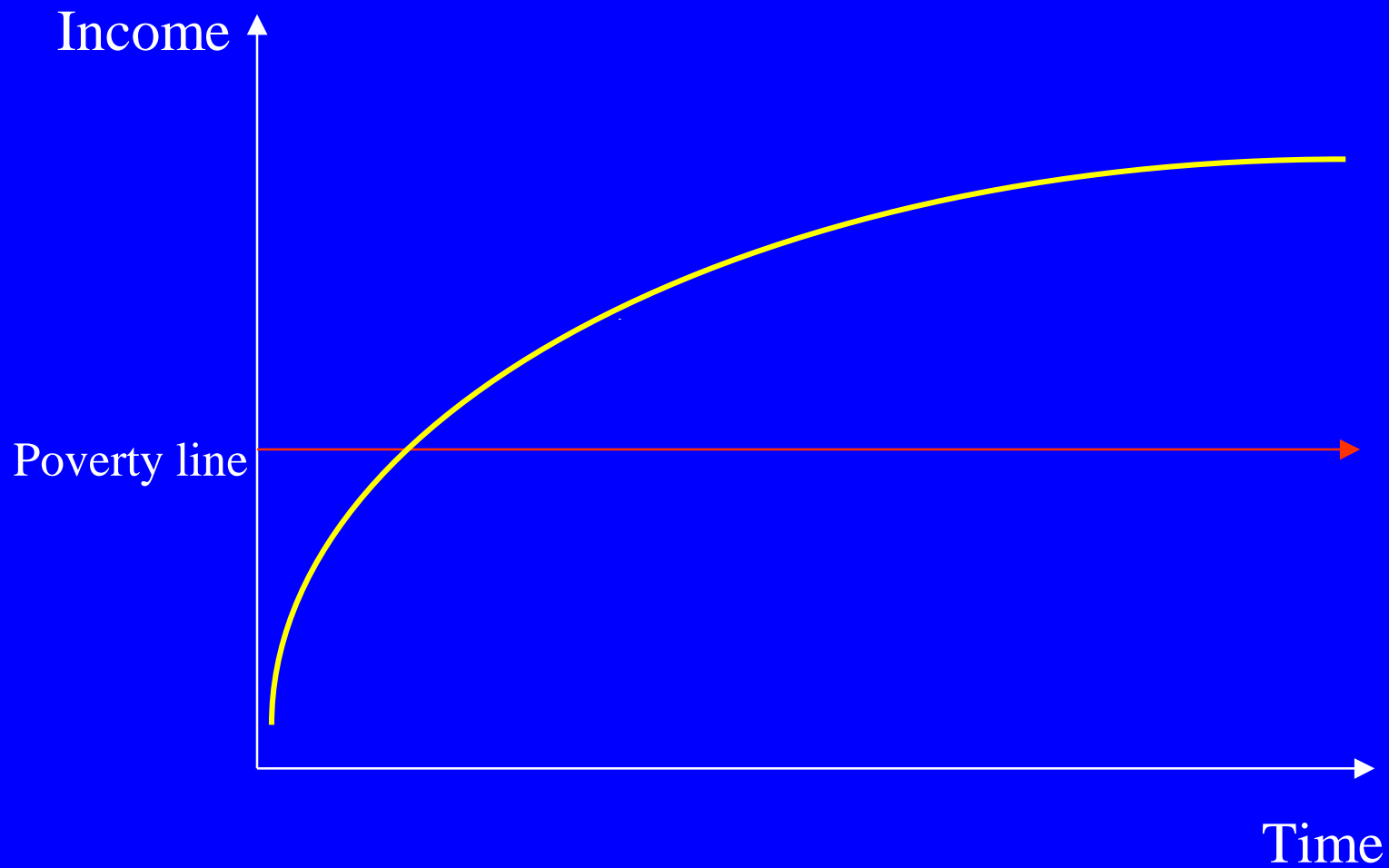
- From a backward to a forward looking approach to poverty reduction
- Poverty is not static but dynamic (influenced by shocks and the availability of instruments)
- An ex-post view of poverty does not catch future poor and the effects of risks on current poor

Social Risk Management Framework

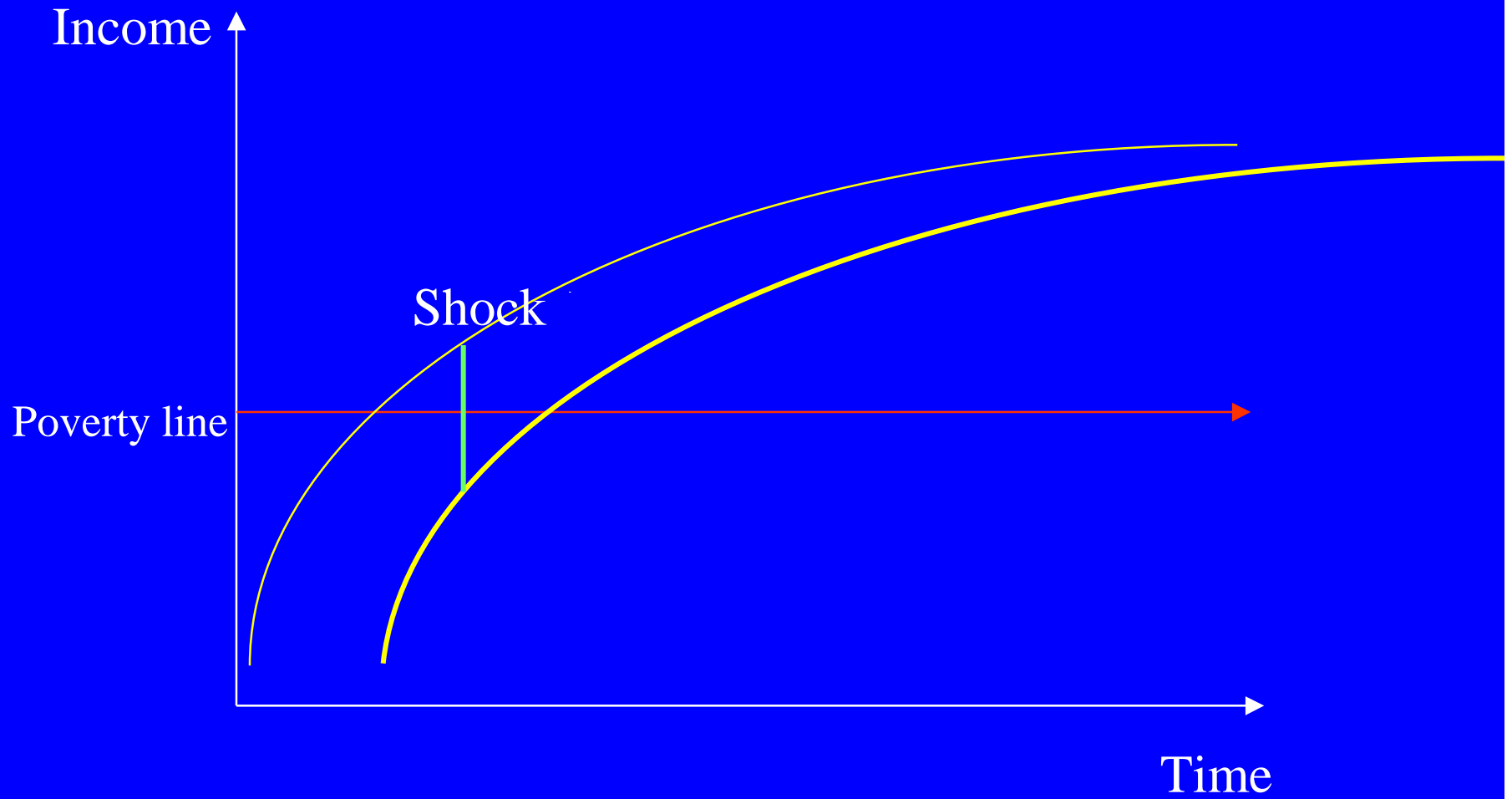
Central Elements

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

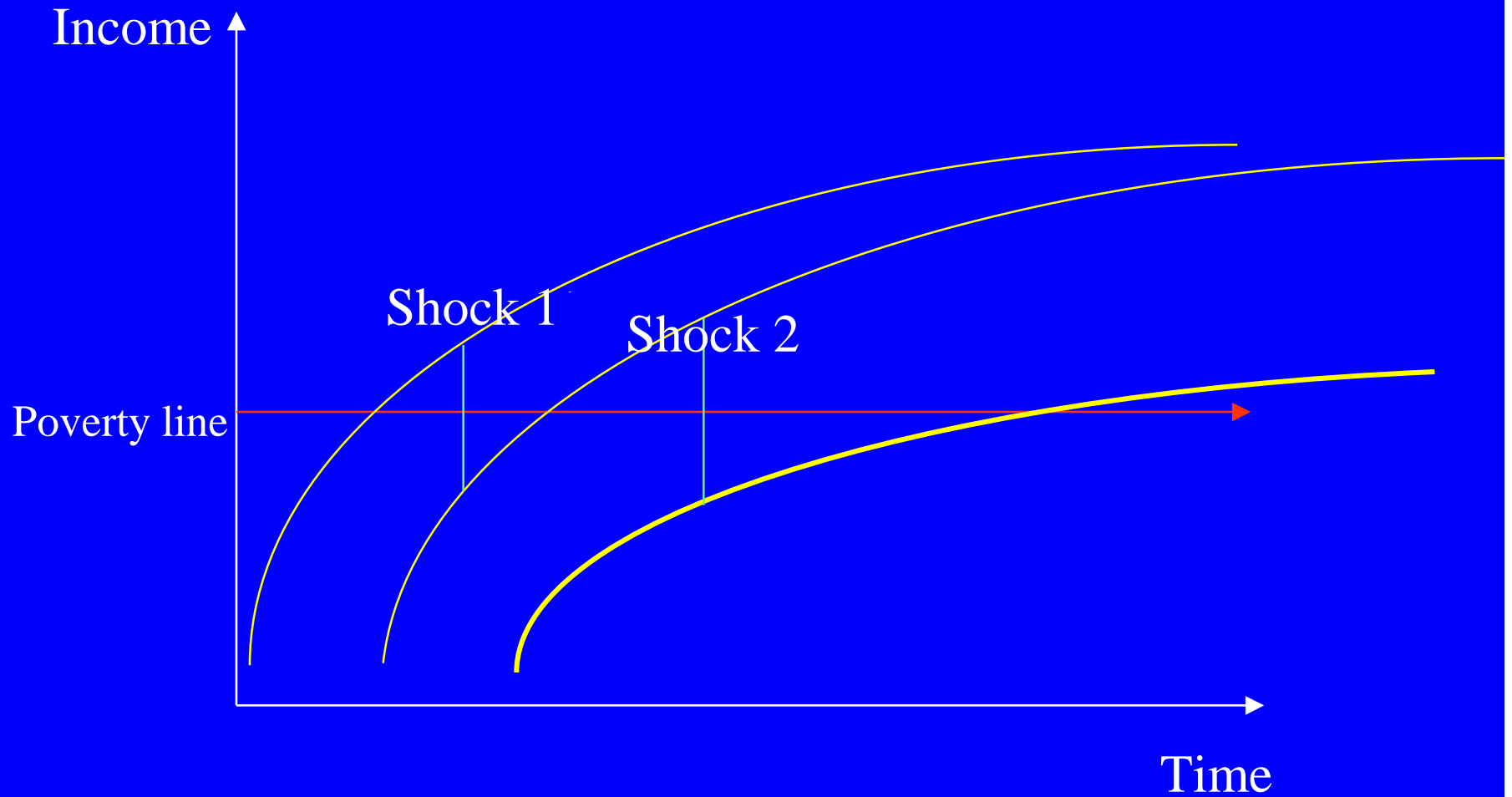
Risk and Poverty



Risk and Poverty

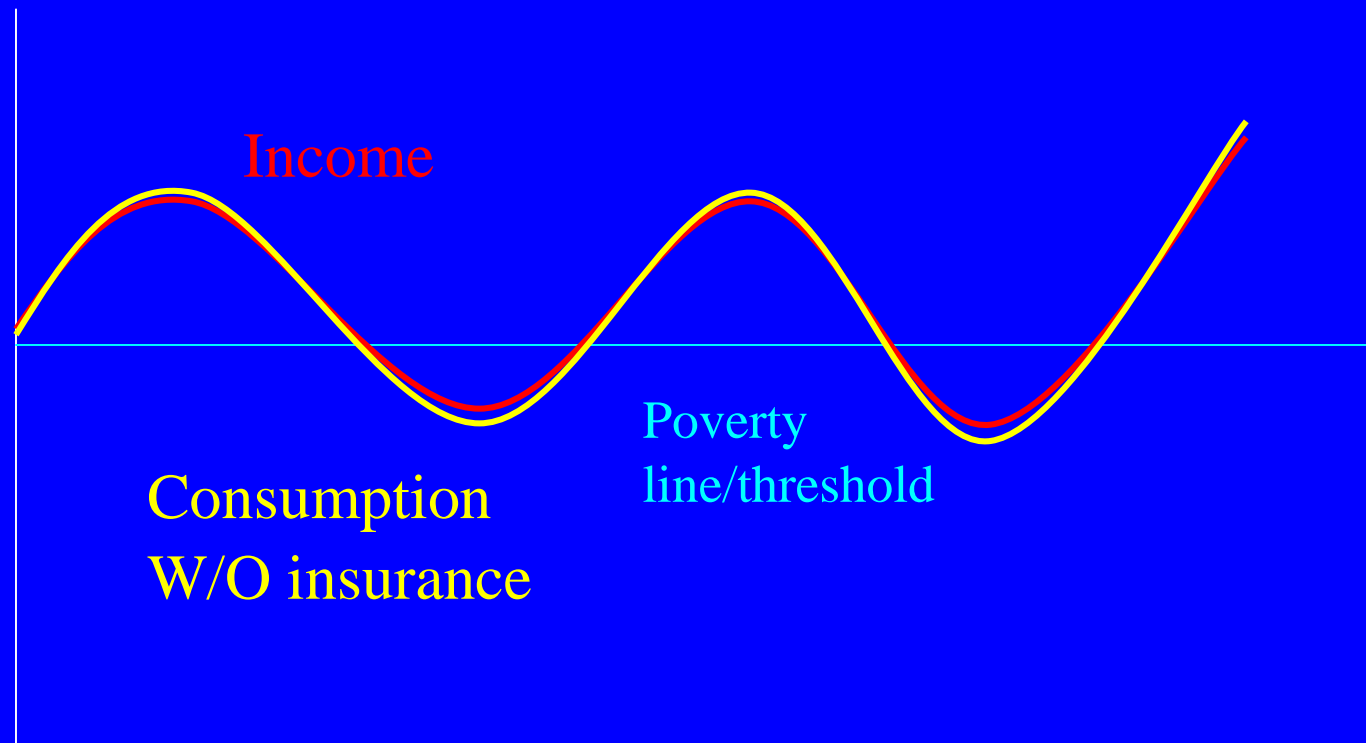


Risk and Poverty



Income and Consumption

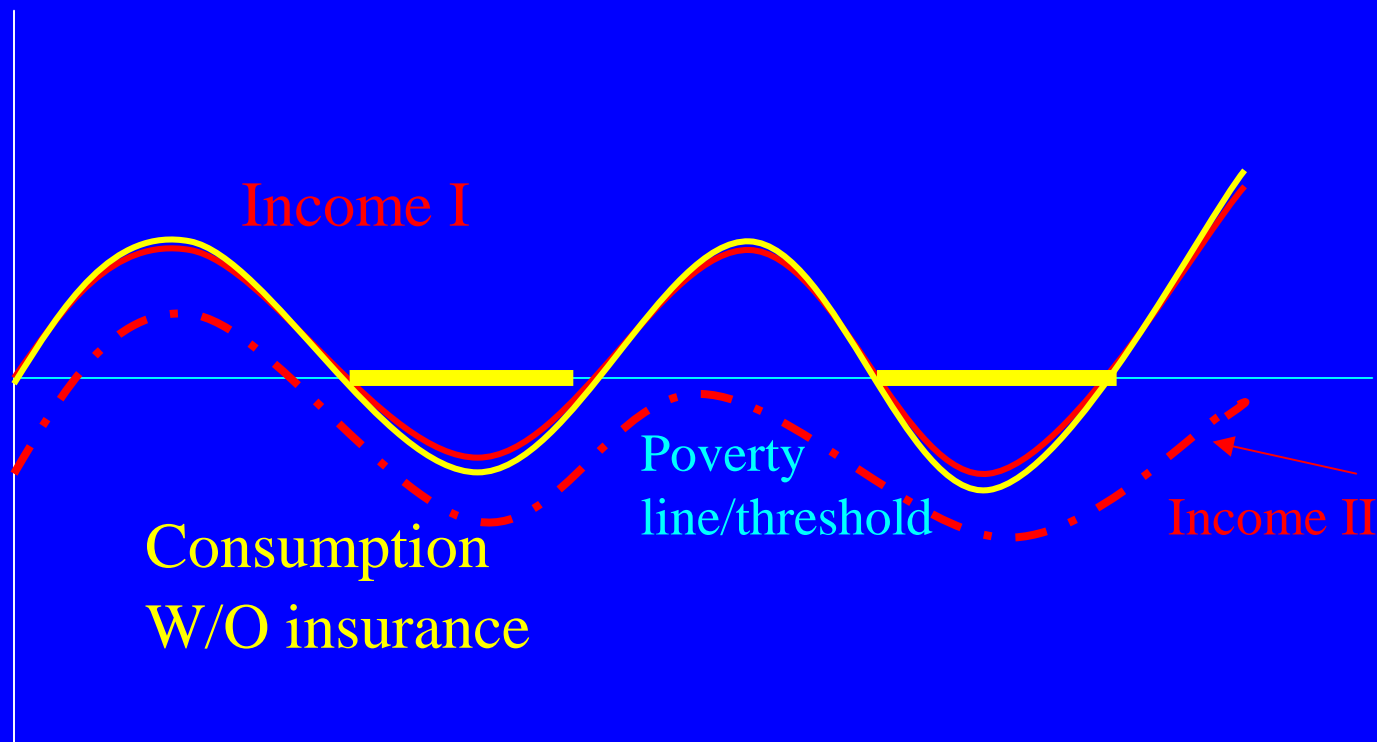
Income/Consumption



Time

Income and Consumption: Poverty Spiral

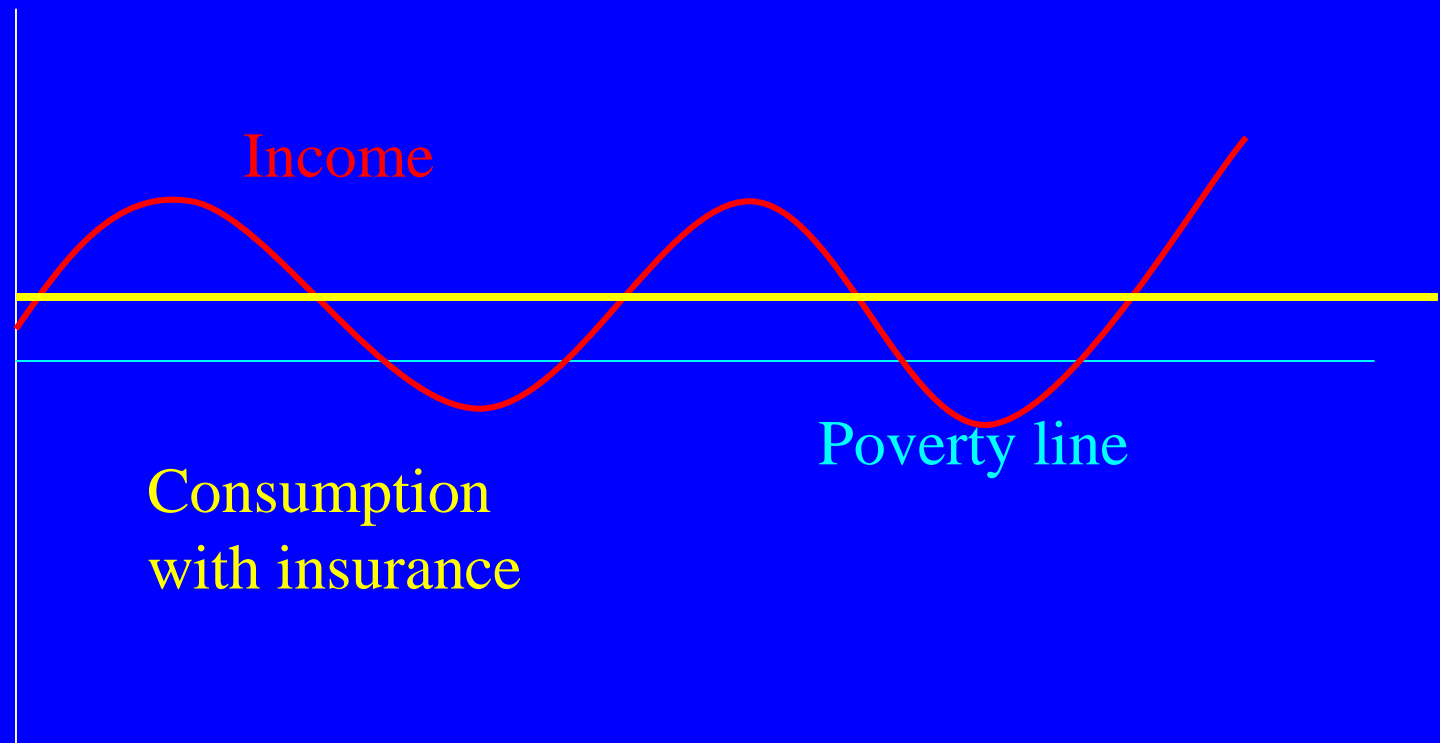
Income/Consumption



Time

Consumption with Insurance

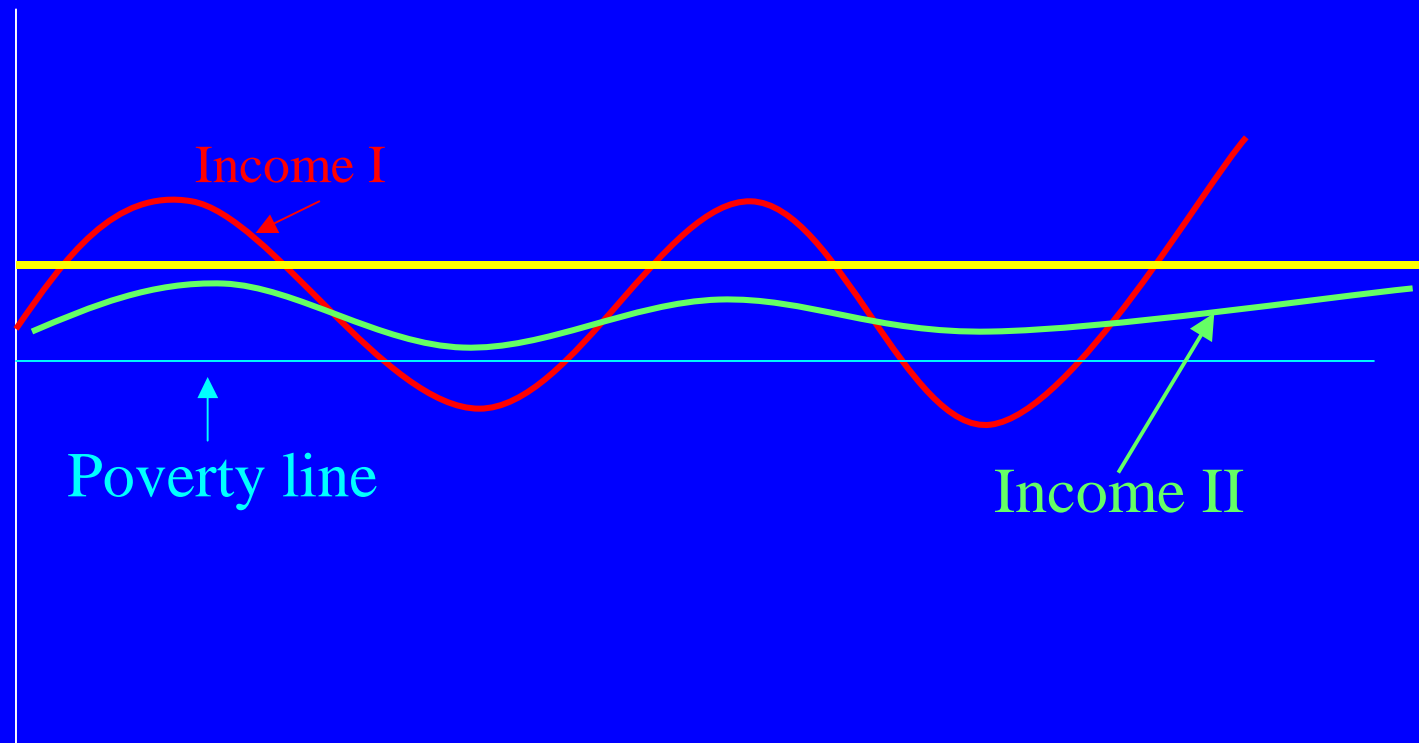
Income/Consumption



Time

Income Smoothing

Income/Consumption



Time

Poverty and Vulnerability

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

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

Why do we care?

Vulnerability has **intrinsic** value

- *To be well, a person must not only have enough to live a comfortable life today, he must also have good prospects today that he will have enough tomorrow.*

Vulnerability has **instrumental** value

- *In the absence of sufficient means to cope with income shocks ex post, people often engage in risk mitigating strategies ex ante. Such strategies often yield low average returns, trapping people in perpetual poverty. Addressing risk management is an integral part of addressing poverty.*



Need to address poverty and vulnerability
simultaneously

Measuring Vulnerability

- Vulnerability is the probability NOW of consumption shortfall in FUTURE
- Ideally, we need panel data sets for two years to be able to measure vulnerability. If we do have these data, we can set up the problem, in simple terms, as follows:
- Consumption in period T1 of a given household or community as a function of the characteristics of that household or community in time T0.

Measuring Vulnerability

- Time horizon over which future shortfalls are assessed
→ Period (s) ahead.
- Indicator of well-being → consumption, income, etc.
- Estimation of probability distribution $f_t(c_{t+1})$
- Threshold for consumption → poverty line
- Threshold for vulnerability
→ Vulnerable: whose probability of shortfall exceeds the threshold

Risk, poverty and vulnerability

- *Risk:*
 - uncertain event that may damage people's well-being
- *Poverty:*
 - not having enough now of something valuable
- *Vulnerability:*
 - probability now of not having enough of something valuable in the future

Poverty and vulnerability

# communities (cell%)	Not poor in 1994	Poor in 1994	Total
Not vulnerable in 1994 ($V_0 < 0.5$)	59.9	20.8	80.7
Vulnerable in 1994 ($V_0 \geq 0.5$)	11.4	7.9	19.3
Total	71.3	28.7	100



Poverty and vulnerability related, but distinct dimensions of well-being in theory and also in practice

What have we found?

- Rural non-pastoralist communities relatively vulnerable: in 1994 20 % \geq 50 % chance to fall below the poverty line in the future
- Promising interventions to reduce vulnerability are :
 - Targeted interventions to reduce malaria incidence
 - Improved access to food markets
 - Enhancement of adult literacy ratio
 - Promotion of off-farm employment opportunities
 - ➔ Role of public workfare programs

Vulnerability reducing potential of interventions: Kenya

% change after intervention in average	Expected normalized gap squared (V_2)	
	Non-arid	Arid & semi-arid
All communities $\leq 10\%$ malaria/fever incidence past 2/wks	-44.4	-30.8
All non-arid communities $\geq 5\%$ of adult members as skilled worker in pvt sector and $\geq 10\%$ as unskilled worker; arid & semi arid communities $\geq 25\%$ of income from non-agriculture activities	-7.6	-9.0
All communities total fertilizer use per adult equivalent ≥ 100 Ksh	-3.0	-3.4
All communities $\geq 75\%$ adult members literate	-18.9	-17.2
All communities within 30 minutes from market	-10.5	-19.8

→ vulnerability can be substantially reduced among rural non-pastoral communities; public workfare programs?

A good public expenditure policy should ...

- ✚ allocate resources to facilitate growth & help the poor;

Should also be

- ✚ consistent with the overall budget constraint;
- ✚ well implemented:
 - ✚ executed (*spending as budgeted & reaching intended beneficiaries*);
 - ✚ monitored (*in a financial audit sense*) and
 - ✚ evaluated (*linking inputs with outputs/outcomes*).

In summary

⇒ A new approach:

- From ex-post poverty to ex-ante vulnerability considerations;
- From safety-nets to springboards
- From a reactive to proactive approach

⇒ A new definition:

A set of public policies aiming at:

- Helping individuals, households and communities better manage risk
- Providing support to the extreme poor

⇒ A new analytical framework:

- Social Risk Management

In Summary.....

Things to be done...

Social Risk Assessment

Assess current safety net programs and public spending,

Look for interface (or lack of it) between risks, high risk groups, programs, and public spending,

Work towards a Social Protection Strategy.