

**ASIAN DEVELOPMENT BANK**

**SOCIAL PROTECTION STRATEGY**

**August 2001**

## ABBREVIATIONS

ADB	–	Asian Development Bank
DFID	–	Department for International Development United Kingdom
DMC	–	developing member country
HIV/AIDS	–	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IDB	–	Inter-American Development Bank
ILO	–	International Labour Organization
IMF	–	International Monetary Fund
NGO	–	nongovernment organization
TA	–	technical assistance
SPS	–	Social Protection Strategy
WB	–	World Bank
UN	–	United Nations
UNDP	–	United Nations Development Programme

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SUPPLEMENTARY APPENDIXES (Available upon request)

## I. INTRODUCTION

1. Social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.<sup>1</sup> Social protection consists of five major elements: (i) labor markets, (ii) social insurance, (iii) social assistance, (iv) micro and area-based schemes to protect communities and (v) child protection. When implemented properly, these policies and programs can make a major contribution to the overarching goal of the Asian Development Bank (ADB) of reducing poverty. Social protection, as an integral part of social development, one of the three pillars of the ADB Poverty Reduction Strategy,<sup>2</sup> aims to assist individuals to break the cycle of poverty and enhance the ADB's developing member countries (DMCs) quality of growth by investing in human capital, increasing productivity, and reducing citizen's vulnerability to risks.

2. Recent events underscore the need for greater attention to social protection issues in the Asia and Pacific region

- (i) The countries affected by the Southeast Asia crisis have discovered that inadequate and underdeveloped social protection systems have exposed their working populations to excessive risk, increased the incidence of poverty, and threatened to undermine longer term human capital investment efforts.
- (ii) Transition economies are discovering that the comprehensive social protection systems they traditionally maintained have become too expensive to sustain, are poorly designed for a market economy, and create barriers to further economic development.
- (iii) Modernization has been accompanied by a process of social mobility, migration, urbanization, and disintegration of family and community networks. Household informal safety nets are no longer adequate—modernization requires the provision of social protection systems for the workforce to ensure higher productivity gains, increased domestic demand, and economic growth.
- (iv) Globalization, while increasing the opportunities for growth, will also increase the risks of future macroeconomic shocks. As unemployment and poverty result from economic downturns, the adequacy of social protection and assured future progress in social development are issues in the forefront of the development agenda of many DMCs.

3. Different kinds of reforms and policies are needed in different economies. Where social protection systems have become too expensive and are no longer appropriate to serve a country's vulnerable populations, they need to be restructured and consolidated. Where these systems are inadequate to deal with the major risks faced by rural and urban populations, social protection needs to be extended and expanded. The vision of the ADB's Social Protection Strategy (SPS) is the provision of social protection to all citizens of the Asia and Pacific region through the development of sustainable, statutory programs with universal coverage to effectively assist DMCs to reduce poverty, achieve growth by enhancing productivity, and create opportunities for individual self-reliance.

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<sup>1</sup> "Social safety net" and "social security" are sometimes used as an alternative to "social protection." Of the two terms, "social protection" is the most commonly used internationally. The term "social safety net" appears to have a less precise meaning; some people use it to mean the whole set of programs and policies discussed in this strategy, others use it to refer only to welfare programs targeted to the poor. On the other hand, the term "social security" is generally used to refer to the comprehensive mechanisms and coverage in high-income countries, and is less applicable to new areas such as community and area-based schemes.

<sup>2</sup> R179-99: *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*, 19 October.

4. This strategy paper reflects three years of research and consultations at ADB and its DMCs, to build strategies for effective social protection for the Asia and Pacific region. The consultation process is described in Supplementary Appendix A. The paper begins with a discussion of the social protection needs in Asia and the Pacific, the components of social protection, the social protection systems in the region, and the work of ADB and other development agencies. It then focuses on the criteria that might be used to prioritize social protection interventions in a determined DMC. Social protection policies will vary from one country to another owing to variations in needs, available resources, institutions, and the political economy of reforms. Once a specific intervention is chosen, or a mix of them, selected programs will have to attend to critical principles such as coverage, targeting of vulnerable populations, sustainability, good governance, and institutional and political capacity for reforms, this topic is explored next. The paper ends with the recommendations to ensure proper implementation of this Social Protection Strategy in ADB's DMCs.

## II. OVERVIEW OF SOCIAL PROTECTION

### A. Social Risks and Social Protection

5. The Asian and Pacific region has half the world's population. Of the total 3.1 billion, 900 million are poor (30 percent), and 1.2 billion are children and youth (40 percent). Thus, a main development challenge for the region is to achieve sufficient sustainable growth to secure the inclusion of the poor and young new entrants in the development process. However, growth alone is not a sufficient condition for generating inclusive societies. Populations, households, and individuals face various risks that can plunge them into poverty, so societies have to take steps to reduce their vulnerability and to cope with the effects when shocks occur. Risks may include natural disasters; civil conflicts; economic downturns, of which the 1997 Asian financial crisis is the most recent example; or idiosyncratic household reversals, such as crop failures, unemployment, illness, accident, disability, death, and old age, threatening the future of the household and its members. Development interventions may themselves create new vulnerability and risks through involuntary effects such as less affordable goods and services, temporary job loss, loss of common property, displacement, and loss of community support networks and social capital.

6. Generally, four main types of risk to the poor can be identified: (i) those related to the individual lifecycle, (ii) economic, (iii) environmental and (iv) social/governance related (Table 1). Some risks affect all population groups equally; others have more intense impacts on the poor. The poor are highly vulnerable to risks and are constantly preoccupied with risk-averse and coping strategies to avoid sinking further into poverty. Social risk is a dynamic concept—insecurity means exposure to risks of events that if they occur, result in further vulnerability. While anyone can be vulnerable, the poor and the near poor are particularly at risk since they have fewer assets, reserves, or other opportunities to fall back on.

7. There are many risk reduction mechanisms, formal and informal, public and private sector delivered. Table 1 shows some of the informal strategies to cope with risk; many rely on community arrangements and women's support. However, as urbanization and industrialization gradually undermine the effectiveness of traditional and informal protection mechanisms, new public and/or private systems need to be put in place to reduce risks to the population. Social protection presents a variety of instruments to deal with the diversification of most of these risks. The long-term solution to vulnerability depends on good social and economic development decisions that address the structural causes of vulnerability. Development policies should therefore (i) involve proactive interventions to reduce vulnerability and support populations to overcome poverty; and (ii) try not to alter existing informal family and community-based mechanisms to cope with risk, given that these

provide a level of social protection to the population, and when possible, encourage community-driven interventions (social funds, microinsurance, etc).<sup>3</sup>

**Table 1: Social Risks–Risk Assessment and Risk Reduction Measures**

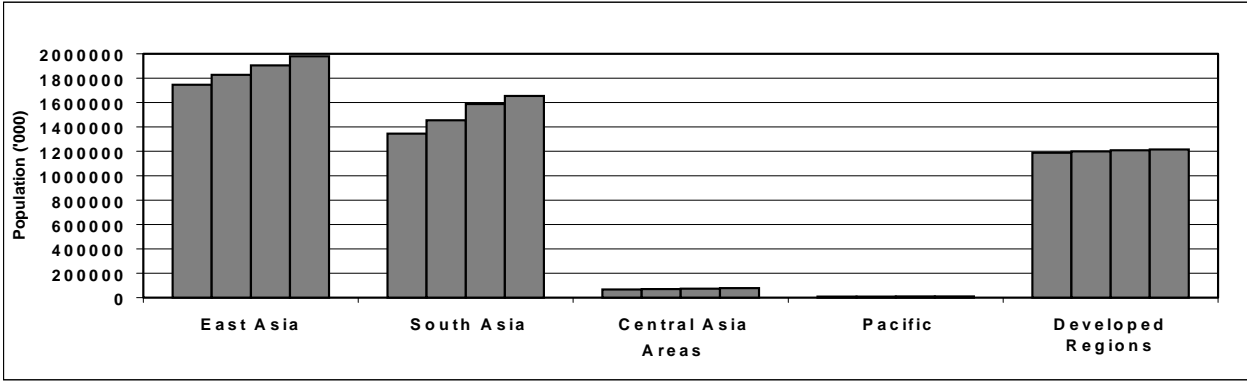
Risk Assessment		Risk Reduction Measures	
Types of Social Risks to the Poor	Household or Informal Mechanisms	Options for Public Sector Intervention	Options for Private Sector Mechanisms
<b>Lifecycle</b>			
<ul style="list-style-type: none"> <li>• Hunger, children's stunted development</li> <li>• Illness/injury/disease (including HIV/AIDS)</li> <li>• Disability</li> <li>• Old age</li> <li>• Death</li> </ul>	<ul style="list-style-type: none"> <li>• Women as family welfare providers</li> <li>• Extended family, community support</li> <li>• Hygiene, preventive health</li> <li>• Asset/savings depletion</li> <li>• Debt</li> </ul>	<ul style="list-style-type: none"> <li>• Health nutrition policy/services</li> <li>• Social insurance policy; mandatory insurance for illness, disability, life, old age; microinsurance</li> <li>• Social assistance</li> <li>• Child protection</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of health services</li> <li>• Health, disability, life insurance, and reinsurance</li> <li>• Microinsurance</li> <li>• Old-age annuities</li> </ul>
<b>Economic</b>			
<ul style="list-style-type: none"> <li>• End of source of livelihood (i.e., crop failure, cattle disease)</li> <li>• Unemployment</li> <li>• Low income</li> <li>• Changes in prices of basic needs</li> <li>• Economic crisis and/or transition</li> </ul>	<ul style="list-style-type: none"> <li>• Diversified sources of livelihood</li> <li>• Private transfers/extended family support, child labor</li> <li>• Depletion of assets/savings</li> <li>• Reduced consumption of basic goods</li> <li>• Debt</li> <li>• Migration</li> </ul>	<ul style="list-style-type: none"> <li>• Sound macroeconomic and sector policies to promote economic opportunities</li> <li>• Particularly, regional and rural development policies, including microinsurance</li> <li>• Labor market policies</li> <li>• Education and training</li> <li>• Social funds</li> </ul>	<ul style="list-style-type: none"> <li>• Employment generating private sector investment</li> <li>• Agricultural/livestock insurance, reinsurance, microinsurance</li> <li>• Banking services to the poor, microfinance</li> <li>• Providing training</li> </ul>
<b>Environmental</b>			
<ul style="list-style-type: none"> <li>• Drought</li> <li>• Flood, rains</li> <li>• Earthquake</li> <li>• Landslides</li> </ul>	<ul style="list-style-type: none"> <li>• Migration</li> <li>• Community action for resource management</li> <li>• Private transfers/extended family support</li> <li>• Assets/savings depletion</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental policy and infrastructure investment</li> <li>• Catastrophe prevention, mitigation programs including insurance against natural disasters</li> </ul>	<ul style="list-style-type: none"> <li>• Agricultural, livestock catastrophe insurance and reinsurance</li> </ul>
<b>Social/Governance</b>			
<ul style="list-style-type: none"> <li>• Exclusion, losing social status/capital</li> <li>• Extortion, corruption</li> <li>• Crime, domestic violence, social anomie</li> <li>• Political instability</li> </ul>	<ul style="list-style-type: none"> <li>• Maintaining community networks (reciprocal gifts, arranging marriages, religious networks)</li> <li>• Community pressure</li> <li>• Women's groups</li> <li>• Migration</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting good governance, antidiscriminatory policies, and anticorruption practices</li> <li>• Public information campaigns</li> <li>• Providing security and equal access to justice</li> </ul>	<ul style="list-style-type: none"> <li>• NGOs and CBOs</li> <li>• Good corporate governance securing fair employment opportunities and provision of services regardless of race, gender, age, social status, or political affiliation.</li> </ul>

Legend: CBO = Community based organization, HIV/AIDS = Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome, NGO = nongovernment organization.

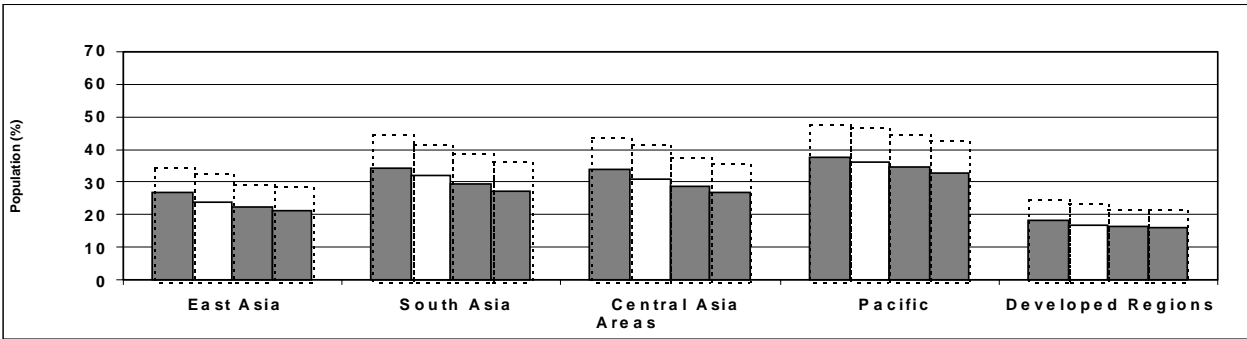
8. The large variety of risks is not addressed through social protection alone. Social protection is not the entirety of development activities. Social protection instruments are generally not considered for risk reduction; for this, other instruments are available. Sound development policies and investments are ways to reduce the probability of or even eliminate such risks (e.g., infrastructure investment for flood control). Social protection programs are built primarily to mitigate the impacts of shocks or to help people cope with risks if they occur. The boundaries between social

<sup>3</sup> However, attention should be paid to possible negative interactions with other development policies—for instance, maintaining the responsibility of informal family welfare on women limits women's capacity to develop in other social and economic areas.

**Figure 1: Demographic Trends for World Population, 2000-2015 ('000)**

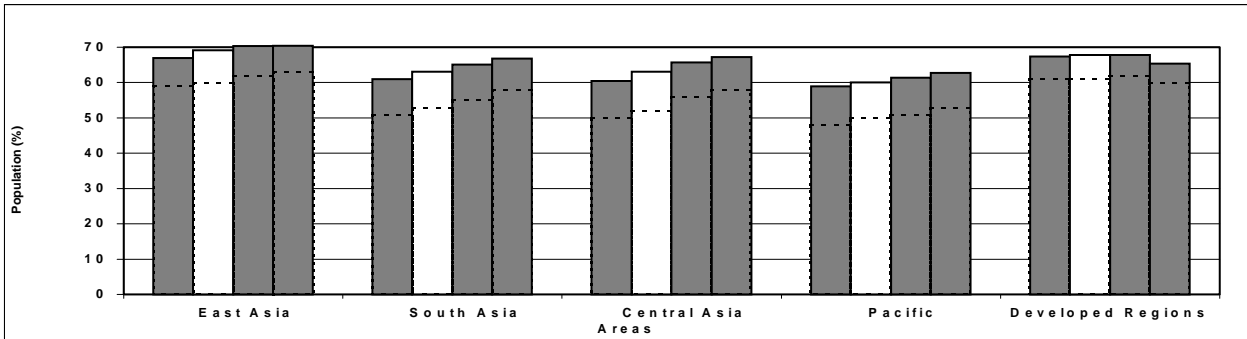


**Figure 2: Demographic Trends for Age Group 0-14/0-19, 2000-2015 (Percentage of Total Population)**



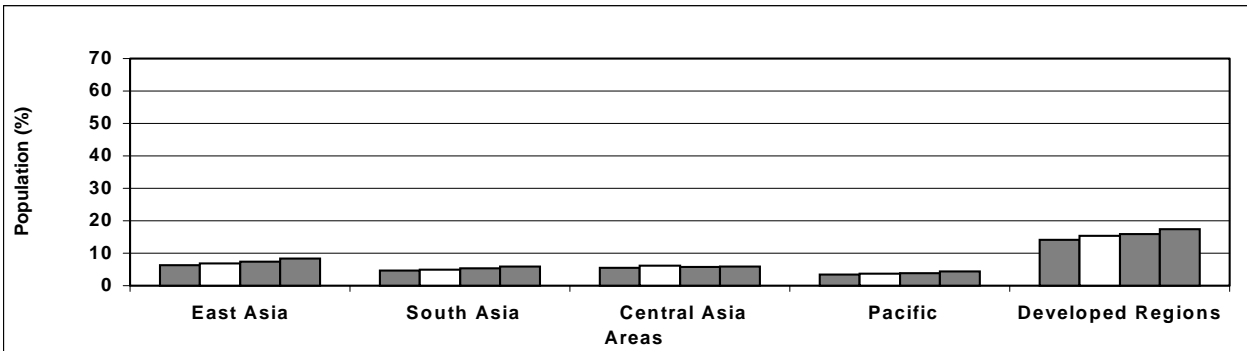
\* Dotted lines refer to 0-19 age group

**Figure 3: Demographic Trends for Age Group 15/20-64, 2000-2015 (Percentage of Total Population)**



\* Dotted lines refer to 20-64 age group

**Figure 4: Demographic Trends for Age Group 65+, 2000-2015 (Percentage of Total Population)**



Source: UN World Population Prospects, NY, 1999 (medium variant projections)

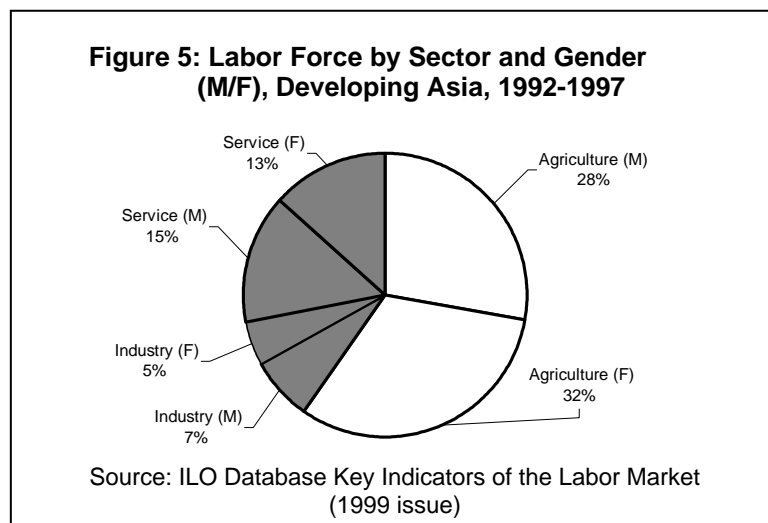
Legend: ■ 2000 □ 2005 ■ 2010 ■ 2015

protection and related activities are somewhat arbitrary and have to take account of regional characteristics and practical links to distinct and well-established disciplines such as education, health, and agriculture. With these considerations in mind, ADB has developed a definition of social protection based on labor markets and small-scale agriculture, in line with ADB's overarching goal of reducing poverty in the Asia and Pacific region.

## B. Characteristics of the Asia and Pacific Region

1. Asia is a largely young, rural, and poor continent: social protection programs and policies should be built to respond to Asia's needs. The Asia and Pacific region does not have adequate protection systems in place to reduce the impact of shocks on its population; as a result, risks will continue to have devastating implications for poverty, inequality, and the prospects of long-term growth. Social protection schemes should be planned on the basis of a thorough assessment of needs across the entire range and the costs of meeting them in the short, medium, and long term in a sustainable manner. Demographic trends have important implications for this process. The Asia and Pacific region is still experiencing the effects of the demographic explosion; the total population is 3.1 billion, of which 40 percent are children and youth. Figures 1 to 4 reflect the most pronounced general effects. The demographic transition has started in Asia with a progressive decrease in the number of infants and a progressive increase in the elderly. However, the major issue in the years 2000-2015 will be the predominance of children and the young new entrants into the labor market. In 2000, 30 percent of the population was below 14, which is projected to fall to 25 percent by 2015, still a remarkably high proportion. According to the international definition of children (0-18), this group comprised as much as 40 percent of the total population in 2000, and is expected to decline to 34 percent in 2015.<sup>1</sup> This has clear implications for education, health, population, child protection, and labor market policies for the realization of human potential and the creation of opportunities for self-reliance to transform the vicious cycle of poverty into a virtuous cycle of growth and human development.

2. In contrast to the developed regions and the industrialized countries in Asia, people over 65



comprise only about 5.5 percent of the total population of developing Asia. This percentage is expected to rise gradually to 7.2 percent by 2015 as fertility rates fall and life expectancy increases.<sup>2</sup> At present, older people in Asia reside primarily in rural areas, but with urbanization trends the percentage of older people living in rural areas is expected to decrease. Moreover, the decrease in the percentage of older persons living in extended families will leave more elderly living alone thus forcing them to look for assistance for housing and living standards from Governments

<sup>1</sup> Source of data: medium variant projections, from *UN Population Prospects*, New York, 1999. The period 2000-2015 has been selected given (i) the international development targets (set by 2015), and (ii) ADB's long-term strategic framework. Detailed tables can be found in Supplementary Appendix B.

<sup>2</sup> East Asia has a more pronounced aging pattern compared to the other three Asian sub-regions due to the effects of aging in China, where the proportion of the population aged 65 and over is expected to reach 9.3 percent by 2015.

and NGOs. Policy makers will need to plan for labor market and other social assistance and social insurance schemes. The considerable size of the workforce combined with decreasing fertility rates could indicate that the Asian countries will likely face serious old-age challenges in 25 to 30 years, as the dependency ratios will be negatively affected. However, old-age policies should not be precipitated but carefully evaluated; the fact that most of the population remain children and working age people allows many policy design options. Short-term priorities remain addressing the urgent social issues of supporting children and poverty reduction.

3. More than 60 percent of the population in Asia lives in rural areas. Most of the poverty in the region is also rural-based, although urban poverty is increasing. About 900 million people, 30 percent of the population of the Asia and Pacific region, are poor. More women than men live in poverty and poverty is increasingly a condition found among older persons. Social divisions of a class, caste, ethnic, or racial nature are often intensified by differing poverty levels; and recently arrived immigrants tend to be poorer than others. Further, the high levels of poverty in Asia constrain the expansion of traditional social protection instruments given that these products are not affordable or attractive to the poor. The priorities of the poor are sustaining their sources of livelihood; securing food, shelter, and clothing; avoiding natural disasters; and maintaining the health of the breadwinner—and not, for instance, old-age insurance.

4. The new century starts with profound changes. Globalization is shifting trade, capital, technology and information flows, changing values and social structures. The increased opportunities resulting from access to new ideas, goods, services, and technology are also accompanied by increasing risks. Interdependence may lead to possible economic shocks and downturns; if no social policies and safety nets are in place, countries may experience mounting unemployment, poverty, marginalization, and political conflict. Most of the political opposition to globalization is due to the absence of adequate transitional compensation systems, which makes implementation of reforms very difficult given that populations may have to pay the costs of reform in the short term.

**Box 1: APEC Finance Ministers Recommendations on Social Safety Nets for a Globalizing Asia and Pacific Region**

The main recommendations include: (1) social safety nets should be in place before a crisis occurs since they can address the needs of the poor in good economic times, and should be adaptable to combat the effects of crisis; (2) pre-crisis planning is essential to effectively address the social effects of crises and includes the availability of reliable and timely information on the poor and frequent evaluation of safety net programs; and (3) countries can select from a wide range of available instruments depending on their administrative capacity and target populations. In selecting the appropriate instruments, governments should ensure that the measures: (i) provide adequate protection to the poor; (ii) promote efficient targeting; (iii) avoid creating a culture of dependency among recipients by limiting size and duration of benefits; (iv) are consistent with economic incentives and overall targets of fiscal and macroeconomic policy; and (v) encourage transparency and accountability in the design and implementation of programs and in the use of resources. From *Social Safety Nets in Response to Crisis: Lessons and Guidelines from Asia and Latin America*, approved by the Asia Pacific Economic Cooperation (APEC) Finance Ministers, May 2001.

Globalization requires the development of effective social protection systems in both developed and developing countries. The world's forward-looking development agenda gives social protection a primary role to sustain growth and well-functioning markets.

### C. The Components of Social Protection

5. The policies and projects included in social protection can be thought of as involving five major kinds of activities, summarized below. Box 2 shows the target clientele for social protection. A glossary of social protection terms is presented in Appendix 1. The main social protection sub-sectors are:

- (i) **labor market** policies and programs designed to facilitate employment and promote the efficient operation of labor markets;
- (ii) **social insurance** programs to cushion the risks associated with unemployment, health, disability, work injury, and old age;
- (iii) **social assistance and welfare service** programs for the most vulnerable groups with no other means of adequate support;
- (iv) **micro and area-based schemes** to address vulnerability at the community level; and
- (v) **child protection** to ensure the healthy and productive development of the future Asian workforce.

<b>Box 2: Components of Social Protection–Intended Clientele and Targeted Vulnerable Groups</b>	
Labor Market Programs	Population in working age, being either wage or nonwage employees (formal or informal), employed, unemployed, or underemployed.
Social Insurance	The sick, elderly, widowed, disabled people, pregnant women, unemployed, eligible for insurance schemes
Social Assistance and Welfare Services	The mentally and physically disabled, ethnic minorities, substance abusers, orphans, single-parent households, refugees, victims of natural disasters or civil conflicts, sick, elderly, widowed, disabled, pregnant women, and unemployed ineligible for insurance schemes.
Micro and Area-based Schemes	Rural and urban communities at risk
Child Protection	Children and youth (0-18 years)

## 1. Labor Markets

6. The focus on labor adjustments and the efficient operation of labor markets recognizes that, as economic development proceeds, employment will become the major source of economic support for most workers and their families. Improving labor market operations is an important element of strategies to reduce poverty, facilitate human capital development, and address gender discrimination. It will also help allocate a country's human capital resources to their most productive uses, enhancing general economic welfare and encouraging growth and development.

7. Labor market improvements to enhance social protection include the following.

- (i) **Labor market assessments** describing demographic trends, labor-absorbing sectors, unemployment, migration flows, and the size and causes of the informal sector can help identify a country's needs and development options.
- (ii) **Active labor markets programs** include (a) direct employment generation (promoting small and medium enterprises, public works); (b) labor exchanges or employment services (job brokerage, counseling) linking supply of with demand for labor; and (c) skills development programs (training and retraining of labor).
- (iii) **Passive labor market policies** include (a) unemployment insurance, (b) income support, and (c) an appropriate legislative framework that strikes a balance between economic efficiency and labor protection. An appropriate legislative framework will include provisions on issues such as minimum age, maximum hours and overtime, labor contracts, industrial relations, special protection appropriate for new mothers, and antidiscrimination provisions to protect women and minorities. Internationally recognized labor standards, when ratified, are also part of the legislative framework of a DMC. With regard to the Core Labor Standards, no explicit ratification is needed for them to be part of the legislative framework of a country. The Core Labor Standards consist of (a) freedom of association and the effective recognition of the right to collective bargaining, (b) the abolition of all forms of forced or compulsory labor, (c)

the elimination of discrimination in respect of employment and occupation, and (d) the elimination of child labor. All Asian and Pacific DMCs,<sup>3</sup> by virtue of being member of the International Labour Organization (ILO), are held to respect, promote, and realize the fundamental Core Labor Standards.

- (iv) **Safeguards:** appropriate steps should be taken to ensure that procurement of goods and services, contractors, subcontractors, and consultants, comply with the country's labor legislation (e.g., minimum wages, safe working conditions, social security contributions, etc.) as well as with the Core Labor Standards.

### Box 3: Mass Lay-offs and Retrenchment Plans

The three major causes of mass layoffs are (i) market shifts (cyclical or structural); (ii) privatization and/or deregulation; and (iii) technological and/or organizational change, including enterprise restructuring. Unemployment and mass layoffs are problematic in any society, but present special challenges in developing countries because the number of affected workers is normally larger than in developed societies, the political context is often not favorable to collective bargaining, and the labor market is likely to be saturated and the demand for labor is low. The three major policy options to avoid or mitigate the negative impacts of lay-offs are (i) prevention of lay-offs, (ii) compensation to laid-off workers, and (iii) redeployment of laid-off workers. There is no best solution and each situation will require a tailored plan. Optimally, employers can benefit from raising productivity and lower wage costs to enhance enterprise competitiveness, and workers can benefit from alternative employment options. The available policies are based on (i) legal regulations, (ii) income support, (iii) retraining, and (iv) improved labor market information and counseling. Aspects such as the age and skills of the labor force, financial solvency of companies, fiscal impacts, the local labor market situation, income levels of employees, the existence of adequate social protection institutions (e.g., unemployment insurance, vocational and technical training centers, and labor exchanges) are critical elements when assessing a retrenchment plan. Mitigation options should always aim to adequately balance social fairness and economic sustainability.

## 2. Social Insurance

8. Participating in labor markets exposes workers to several kinds of risks. Reducing these risks allows workers who have lost their jobs to search for a good alternative, removes barriers that might otherwise discourage workers from acquiring education and training, and helps ensure that the health and education of their children are not sacrificed in an economic downturn. Social insurance programs mitigate the risks by providing income support in the event of illness, disability, work injury, maternity, unemployment, and old age. Such programs include

- (i) **unemployment** insurance to deal with frictional (sometimes structural) unemployment;
- (ii) **work injury** insurance to compensate workers for work-related injuries or diseases;<sup>4</sup>
- (iii) **disability and invalidity** insurance, normally linked to old-age pensions, to cover for full or partial disability;
- (iv) **sickness and health** insurance to protect workers from diseases;<sup>7</sup>
- (v) **maternity** insurance to provide benefits to mothers during pregnancy and post delivery lactating months;
- (vi) **old-age** insurance to provide income support after retirement; and
- (vii) **life and survivors** insurance, normally linked to old-age pension to ensure that dependents are compensated for the loss of the breadwinner;

<sup>3</sup> With the exception of the Kingdom of Bhutan, Cook Islands, Maldives, Marshall Islands, Federated States of Micronesia, Nauru, Samoa, Tonga, Tuvalu and Vanuatu.

<sup>4</sup> These programs should be accompanied by adequate programs to promote safety at work and minimize occupational health hazards.

9. As countries develop, some form of government intervention is needed to deal effectively with these risks. Family resources, even those of an extended family, are no longer sufficient to deal with the individual risks. A wide variety of approaches are available for structuring and operating social insurance programs. They may be contributory, in that eligibility is based on the payment of premiums each year, or noncontributory; and handled either by public sector or private sector institutions. Where such programs are managed by the private sector, however, government retains a major role in overseeing and regulating their operation. Traditionally, private insurance companies have had difficulty providing products affordable to low-income groups because of problems associated with high transaction costs, adverse selection, and moral hazard.

10. Most countries have evolved toward a multipillar mixed public-private system that contains two basic elements: (i) public programs to assure minimum income to the aged, unemployed, and other vulnerable groups; and (ii) private programs that encourage voluntary supplementation by individuals. In the case of old-age pensions, a second intermediate pillar is added: public or private programs that provide retirement benefits scaled to individual contributions. The design of a particular social insurance intervention involves selecting the approach that seems most appropriate, considering the country's stage of development and its social traditions. A proper balance must be maintained between the social gains from improved protection and the economic losses that can occur if a system becomes too generous.

### 3. Social Assistance

11. Social assistance and welfare services provide protection to those who cannot qualify for insurance payments or would otherwise receive inadequate benefits. Social assistance programs are designed primarily to enhance social welfare by reducing poverty directly. Programs targeted to younger people can also promote longer term growth and development by encouraging greater investment in human capital.

12. Social assistance interventions may include

- (i) **welfare and social services**, institutionalized or community-based, to highly vulnerable sections of the population, such as the physically or mentally disabled, orphans, and substance abusers;
- (ii) **cash or in-kind transfers** such as, food stamps and family allowances to vulnerable groups;
- (iii) **temporary subsidies**, such as energy life-line tariffs, housing subsidies, or support of lower prices of staple food in times of crisis;
- (iv) **safeguards**: attention should be paid to possible short-term negative impacts of policy reforms: in cases of a rise in prices and/or loss of entitlements to the poor, adequate mitigation measures are needed to prevent any adverse effect on the poor and the vulnerable; in the case of infrastructure, it should be designed to allow disabled populations to benefit from public investments.

### 4. Protecting the Informal Sector: Micro and Area-Based Schemes

13. Micro and area-based schemes provide the same sort of social protection to small-scale agriculture and the urban informal sector that the more traditional social insurance programs supply to the labor force. Microinsurance offers the option to insure the poor against their main risks at affordable prices. Crop insurance programs can provide the protection necessary to encourage the adoption of new and innovative farming techniques, thereby removing an important barrier to

economic development in rural areas. Together with well-designed risk reduction initiatives such as disaster management, and community-based support programs such as social funds, these programs can reduce vulnerability at the community level and promote more sustainable rural livelihoods.

14. **Microinsurance.** Microinsurance involves voluntary and contributory schemes for the community, handling small-scale cash flows to address major community risks. Often such schemes are of a local character and have a very small membership. The primary aim of many of these schemes (Box 4) is to help their members meet the unpredictable burden of out-of-pocket expenses,

such as a hospital emergency, death, or funeral expenses. In recent years, groups of workers in the informal economy have set up their own microinsurance schemes, normally assisted by grants or government subsidies. Such schemes may operate within the context of a microfinance scheme, which has already had experience collecting contributions and administering payments. Microinsurance is an emerging topic with high potential. Microinsurance can provide social insurance at affordable prices, expanding coverage by having a realistic understanding of the problems that

**Box 4: The SEWA Microinsurance Scheme, India**

The Self-Employed Women's Association (SEWA) is a registered trade union working mainly with women in the informal sector. Since 1972, its struggle has been to ensure that the minimum wage is obtained, to provide legal recourse where necessary, and to ensure democratic representation at every level of the organization. The trade union has almost 250,000 members. They are mostly hawkers and vendors, home-based workers, and laborers. The scheme covers health insurance (including a small maternity benefit component), life insurance (death and disability), and asset insurance (loss of damage to housing unit or work equipment). SEWA members can choose to become members of the insurance scheme (at present, approximately 14 percent of all SEWA members are insured). The asset and health components come as a package and life insurance is an option. The total premium is approximately \$1.5 (Rs60) per annum for the combined asset and health insurance package and an additional Rs15 provides life insurance as well. Premiums and benefits are presently being restructured. Membership and claims processing is done through the SEWA Bank, along with considerable field presence and grassroots organizing from SEWA Bank and SEWA Union staff. Mobile services are also available for premium collection (normally associated with microfinance deposits and loan repayment collections).

communities face, and promoting community involvement. There are good historical examples of microinsurance, for instance, mutual societies played an important developmental role in early 20th century in Europe. Options for the future include pooling existing organizations, promoting reinsurance, and providing private-public partnerships. More effort needs to be placed in marketing microinsurance, as a large percentage of the target population is not well informed of the benefits of being insured, and the credibility of microinsurance needs strengthening.

15. **Agricultural Insurance.** This form of protection could be available for farming communities. It is a financial mechanism in which the uncertainty of loss in the farms is minimized by pooling a large number of uncertainties that impact on agriculture so that the burden of loss can be distributed. The loss may be due to a number of natural perils like storms, floods, droughts, hail, frost, earthquakes, volcanic eruptions, plant pests, diseases, etc. The risks of loss can be spread temporally or spatially. With reinsurance, the risks can be further spread across national boundaries. For instance, during natural disasters of widespread proportion when a nation's finances are at a low ebb, other countries share the burden. Agricultural insurance can be reexamined as an effective tool for the development of the rural economy when implemented as part of a package of support services in the rural areas, cautiously accompanied by adequate reinsurance mechanisms.

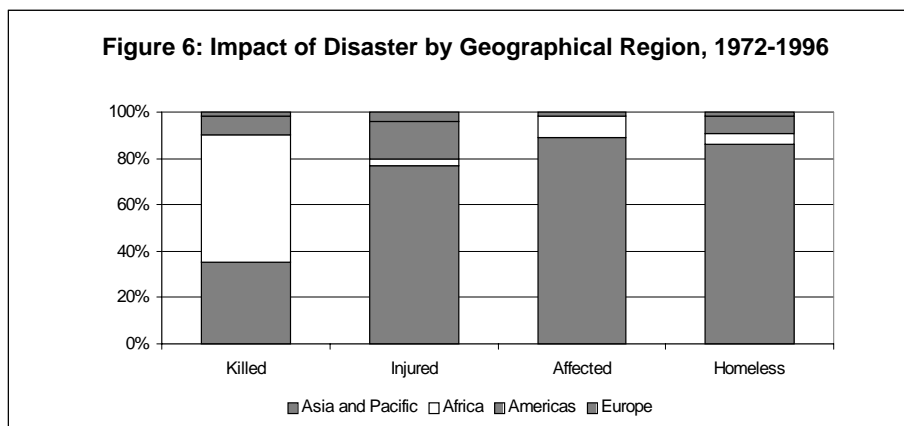
16. **Social Funds.** Such funds have evolved recently outside the Asia and Pacific region as mechanisms to channel public resources to meet particularly pressing social needs. Community-based social funds are agencies, typically managed at the local level, empowering communities,

NGOs, and local governments that provide finance for small-scale projects, such as infrastructure schemes and livelihood programs to community groups. They provide direct poverty relief and encourage skills development while contributing to a community's social capital. The 1997 financial crisis and the growth in the number of countries undergoing economic transition have led to an increase in social funds projects in Asia. Social fund methodology is now used by local governments to promote good local governance and pilot test decentralized management and financing of small-scale infrastructure in some Asian countries.

**Box 5: Post-conflict Poverty Reduction and Community-building: The SZOPAD Social Fund, Philippines**

The Special Zone of Peace and Development (SZOPAD) Social Fund, for \$15.33 million, was approved in 1998 following the September 1996 agreement between the Government and the Moro National Liberation Front (MNLF) to end the long-running conflict in Mindanao. The objectives of the fund are to (i) increase the access of the poor and those affected by the conflict in Mindanao to economic and social infrastructure, services, and employment opportunities; and (ii) strengthen the capacity of local governments and communities to manage development. The fund covers the 14 provinces and 9 cities in the special zone and gives priority to helping the poor, MNLF combatants, indigenous peoples, and communities affected by the armed conflict. The fund provides grant finance to local governments, organizations, and community groups for small-scale social and economic infrastructure including rural access roads, rural water supply and sanitation, small-scale irrigation schemes, communal clinics, and schools. The maximum eligible scheme size is \$250,000. Financing is also available for education and health supplies and equipment, and essential medicines. The fund duration is three years, with the possibility of an extension, expansion or replication. The fund was established by Executive Order of the Philippine President in October 1997 as an independent legal entity, principally to avoid political interference. The fund has a policy-making board of directors and an executive committee, appointed by the President, responsible for approving schemes proposed by local organizations. The salaries of fund staff were set above prevailing government rates to attract competent and motivated individuals and reduce the risk of corruption. Streamlined procurement and disbursement rules and regulations have been agreed to speed up implementation.

17. **Disaster Preparedness and Management.** This is essential to assist communities in risk coping and mitigation. As shown in Figure 6, the Asia and Pacific region is where most people are injured, affected, and homeless as a result of disasters. Victims of catastrophes are usually assisted by public relief programs;<sup>5</sup> however, given the important economic and human loss caused by disasters, the critical issue is to invest in disaster preparedness. Several countries in the Asia and Pacific region have established disaster management centers for assessing hazards, planning risk



reduction and monitoring programs, providing emergency assistance, and strengthening local-level risk reduction capacity. Two principal trends have developed over the past decade in disaster management: (i) improved hazard forecasting through computer models on climatic behavior; and (ii) an increased focus on local

vulnerabilities given that community-based preparedness is the best mechanism to reduce loss of human life and the scale of damage.

<sup>5</sup> Including ADB through its rehabilitation assistance window—ADB's Operations Manual (OM) Section 25: *Rehabilitation Assistance After Disasters*, revised 1995.

## 5. Child Protection

18. Given that children and youth constitute 40 percent of DMC populations, investing in child protection is of profound significance to the development of the region. The realities of child deprivation are alarming in Asia and the Pacific, which holds three quarters of the world's stunted, underweight children. Lack of adequate protection can result in undernourishment, poor health, and intellectual underdevelopment which can lead to being less productive adults. Educating children and youth is essential to allow social mobility and better job prospects, and an indispensable instrument to help DMCs maintain their international competitive advantage, raise productivity, and continue economic growth. Additionally, as defined in the United Nations Convention on the Rights of the Child, society through good governance must provide measures to ensure that the child is protected from all forms of abuse and exploitation, such as child labor, child prostitution, or the adversities faced by the girl child, streetchildren, children with disabilities, and children under armed conflict. Investment in children is a key factor in poverty reduction and economic growth but it is usually a small proportion of national budgets, despite ample evidence that the small investments currently made bring considerable future benefits to society as a whole.

19. High child/adult dependency ratios indicate the need to provide social protection for the young, such as

- (i) **early child development** to ensure the balanced psychomotive development of the child through basic nutrition, preventive health, and educational programs;
- (ii) **school feeding programs, scholarships, or school fee waivers;**
- (iii) **Waiving of fees** for mothers and children in health services;
- (iv) **streetchildren** initiatives;
- (v) **child rights advocacy/awareness programs** against child abuse, child labor etc;
- (vi) **youth programs** to avoid social anomia in teenagers, criminality, sexually transmitted diseases such as HIV/AIDS, early pregnancies, and drug addiction;
- (vii) **family allowances**, either means-tested cash transfers or coupons/stamps for basic goods and services (i.e., food, clothing) to assist families with young children to meet part of their basic needs

### D. Social Protection Systems in the Asia and Pacific Region

20. The experience of the Asia and Pacific region has been diverse in the past, and the motivations and approaches for future reform differ from one country to another. Generally in South Asia, Southeast Asia, and the Pacific most of the debate has focused on expanding coverage and identifying financing sources to fight poverty and provide long-term protection to the population. In transition economies, the focus has centered on adjusting existing systems to a market economy.

21. As shown in Table 2, most DMCs have some form of institutionalized social protection system, but often these programs are ineffective due to (i) limited coverage, serving only a portion of the formal sector (often the wealthiest segments of society); (ii) insufficient funds, incorrectly distributed among programs; (iii) inadequate instruments, often copied from developed countries but not appropriate to serve specific in-country needs; and (iv) factors restricting access to statutory social protection schemes, such as legal restrictions, administrative bottlenecks, and problems with compliance.

**Table 2. Programs by Country**

Country	Labor Market Programs					Social Insurance				Social Assistance	Micro and Area Based Schemes				Child Protection	
	Active		Passive			Old Age Disability, Death	Sickness, Maternity	Medical Care <sup>c/</sup>	Work Injury		Micro-insurance	Agricul-tural Insu-rance	Disaster Manage-ment	Social Funds		Family Allowances
	Labor Exchan-ges	Train-ing	Employ-ment Generation	Unemploy-ment Insurance	Labor Stan-dards <sup>a/</sup>											
<b>Developed Regions</b>																
Japan	•	•	•	•	•	•	•	•	•	•		•	•	•		
Australia	•	•	•	•	•	•	•	•	•	•		•	•	•		
New Zealand	•	•	•	•	•	•	•	•	•	•		•	•	•		
Canada	•	•	•	•	•	•	•	•	•	•		•	•	•		
United States	•	•	•	•	•	•	•	•	•	•		•	•	•		
European Union	•	•	•	•	•	•	•	•	•	•		•	•	•		
<b>Developing Asia</b>																
<b>East Asia</b>																
Cambodia			•		•							•		•		
China, People's Republic of		•	•	•	•	•	•	•	•	•		•	•	•		
Indonesia		•	•		•	•			•	•		•		•		
Lao People's Democratic Republic		•			•											
Malaysia		•	•		•	•			•	•		•		•		
Philippines	•	•	•	•	•	•	•	•	•	•	•	•	•	•		
Thailand	•	•	•		•	•	•	•	•	•		•	•	•		
Viet Nam		•	•		•	•			•	•		•	•	•		
<b>South Asia</b>																
Bangladesh		•	•	•	•		•	•	•	•		•	•	•		
Bhutan																
India		•	•		•	•	•	•	•	•		•	•	•		
Maldives																
Nepal		•	•		•	•			•	•		•		•		
Pakistan		•	•		•	•	•	•	•	•		•	•	•		
Sri Lanka		•	•		•	•			•	•		•	•	•		
<b>Central Asia</b>																
Azerbaijan		•		•	•	•	•	•	•	•				•		
Kazakhstan		•	•	•	•	•	•	•	•	•				•		
Kyrgyz Republic		•	•	•	•	•	•	•	•	•		•	•	•		
Mongolia	•	•	•	•	•	•	•	•	•	•	•	•	•	•		
Tajikistan		•	•	•	•	•	•	•	•	•			•	•		
Turkmenistan		•	•	•	•	•	•	•	•	•				•		
Uzbekistan		•	•	•	•	•	•	•	•	•			•	•		
<b>Pacific</b>																
Fiji Islands					•	•			•			•		•		
Guam					•											
Kiribati					•	•			•							
Marshall Islands												•				
Micronesia, Federated States of																
New Caledonia					•											
Papua New Guinea		•	•		•	•			•			•		•		
Samoa					•	•			•			•		•		
Solomon Islands					•	•			•			•		•		
Vanuatu						•										

<sup>a/</sup> DMCs by virtue of being a member of the ILO are held to respect and promote the fundamental core standards (1) freedom of association; (2) freedom from forced labor; (3) elimination of discrimination at the work place; and (4) prohibition on child labor

<sup>b/</sup> Sickness and Maternity refers to cash benefits for sickness and maternity; countries must provide both benefits to be included.

<sup>c/</sup> Denotes that medical care and/or hospitalization coverage are provided in addition to cash benefits and maternity benefits.

Source: International Social Security Association and United States Social Security Administration: Social Security Through the World, 1999; consultations with DMCs.

**Table 3: ADB Social Protection Priorities by Subregion**

Subregion	Vulnerability Issues	ADB Social Protection Priorities
<b>Central Asia and Mongolia</b>	Since the transition in the early 1990s populations have experienced a steep decline in living standards, greater vulnerability. Unemployment rose due to SOE reform and insufficient economic activity. Coverage of social services is good but benefits are inadequate due to lack of funds. Human development remains high due to earlier achievements—high levels of education and women development. However, the next generation will show much lower standards unless immediate action is taken.	<ul style="list-style-type: none"> <li>▪ Given the large increase on poverty, SP should target interventions to priority areas (i.e., children, rural communities) and generally adjust earlier SP systems to reduced budgets and decentralized management.</li> <li>▪ Labor markets: low demand for labor will persist unless economic activity is created—microenterprise development and other employment generation programs are feasible due to high education levels; on the other hand, labor markets need to be more flexible.</li> <li>▪ Due to poverty incidence, social insurance reforms based on linking contribution to benefits are not priority at this stage.</li> </ul>
<b>East and South East Asia</b>	Generally, growth has led to important reductions in poverty, however growth alone does not ensure sustainable poverty reduction. New vulnerable groups emerge—unemployed because of economic shift/downturns, migrants, the new urban poor, youth, etc. Limited investments in SP have resulted in precarious conditions for the population—children and rural areas still need of support. Major vulnerabilities by subarea include:	Different investments in SP are needed in the variety of countries of the large East Asia region. Common to all: <ul style="list-style-type: none"> <li>▪ labor market interventions to increase productivity in this growth-oriented area while raising working standards; deal with redundant workers in SOEs,</li> <li>▪ child protection,</li> <li>▪ micro and area approaches to protect communities, and</li> <li>▪ developing comprehensive and effective SP systems.</li> </ul> Specific priorities by subarea are:
Indonesia, Malaysia, Philippines, Thailand	Informal safety nets, once the major support of populations in Southeast Asia, are disappearing due to modernization and migration patterns. 40 percent are children and youth. Child labor is prevalent and the informal sector remains large. Investments in all SP areas are much needed; programs exist nominally but are underbudgeted and coverage is low. Short-term social safety nets were prominent during the crisis and generated a public debate on SP.	<ul style="list-style-type: none"> <li>▪ Southeast Asia has developed labor training and initiated some labor services—given demographic trends, they should be continued.</li> <li>▪ Child protection and micro and area based approaches are also critical investments to deal with a large informal sector, particularly in countries where poverty is a major priority such as Philippines.</li> <li>▪ Safety nets developed during the crisis should be converted into longer term formal comprehensive SP systems.</li> <li>▪ Projects targeted at women and girls remain priority.</li> </ul>
PRC, Cambodia, Lao PDR, Viet Nam,	In the PRC, SOE reform is a pressing issue that will require significant investments in labor markets and social protection; most welfare provision comes through SOEs and public service. In the Mekong and inner rural PRC, poverty is prevalent. Labor laws are generally rigid and needs to be made flexible.	<ul style="list-style-type: none"> <li>▪ The transition economies need labor markets interventions.</li> <li>▪ Comprehensive and effective social protection systems should be built in parallel with SOE reforms and rural development to ensure enhanced welfare provision.</li> <li>▪ In the Mekong transition economies and inner rural PRC, where poverty is prevalent, micro and area-based approaches and child protection are needed.</li> </ul>
<b>Pacific</b>	Generally the Pacific has done little to develop comprehensive SP systems. As much as 50 percent of the population is below 19—a challenge is to deal with youth unemployment.	<ul style="list-style-type: none"> <li>▪ Labor market policies to reduce labor rigidities while ensuring fair working conditions, employment generating activities, and child protection are general priorities in the region.</li> </ul>
<b>South Asia</b>	The area suffers from very high levels of poverty and populations are highly vulnerable to all types of risks, from lifecycle to natural disasters. Poverty reduction should be the first priority; about 70 percent of the population live in rural areas, 45 percent of the population are children and youth below 19. Child labor is prevalent; life expectancy and woman development is low. The formal sector is very limited; formal SP systems reach a small portion of the population.	<ul style="list-style-type: none"> <li>▪ Child protection interventions</li> <li>▪ Projects targeted at women and girls.</li> <li>▪ Micro and area-based approaches to protect communities (urban and rural); financial intermediation (microfinance) has been generally successful in the area and should be expanded to areas such as microinsurance.</li> <li>▪ Labor markets: Public works have been popular and labor market interventions should be expanded.</li> <li>▪ Formal SP policies such as insurance programs (e.g., pensions) are not priority at this stage.</li> </ul>

Legend: PRC = People's Republic of China, Lao PDR = Lao People's Democratic Republic, SOE = state-owned enterprises, SP = Social protection

1. In considering the demands for social protection within Asian subregions it is important to identify the circumstances faced by their vulnerable groups. Table 3 summarizes the social protection priority issues by subregion. The countries of East and Southeast Asia are still recovering from the regional financial crisis and high levels of unemployment, and need substantial investments in social protection to overcome poverty and reduce social risk and vulnerability. The transition economies, Central Asian republics, People's Republic of China, Viet Nam, and (to a lesser extent) Cambodia and Lao People's Democratic Republic, are restructuring and consolidating their systems to a market-oriented society; existing state-funded and state-controlled social protection schemes are being dismantled, reformed to adjust to reduced budgets, and made more flexible to labor market changes. South Asian countries (Bangladesh, India, Pakistan, and in a lesser degree Sri Lanka) have large proportions of the rural population living in poverty with high levels of illiteracy, and state-funded social protection schemes exist only nominally and are supplemented by some limited programs operated by NGOs. The region needs substantial investments in social protection and human development targeted to children and the informal sector and truly vulnerable groups. The Pacific region presents a variety of experiences, with some countries having developed social protection systems and others still to do so. A common trait to all countries in the region is the need to address child and youth priorities, extend coverage to poorer communities, improve governance, and promote institutional development. In general, all subregions have reduced expenditure on social protection schemes in the last decade in an attempt to balance budgets and achieve macroeconomic stabilization. Since the Asian Crisis, the effect has been to increase poverty, insecurity, and social exclusion for many vulnerable groups.

#### **E. The Experience of ADB and Other Aid Agencies**

2. In response to the critical need to address vulnerability in development, following the experience of poverty reduction programs in the regions where they operate, multilateral and bilateral aid agencies produced different definitions of social protection. The World Bank definition of social protection is based on social risk management; the Inter-American Development Bank (IDB) emphasizes social protection as a means to address macroeconomic and catastrophic shocks; the United Kingdom Department for International Development (DFID) uses a rights-based approach to define social protection, with an emphasis on promoting integrated livelihoods. ILO, which is the senior agency dealing with social protection topics, maintains a structured view of social security based mostly on social insurance and labor standards.

3. ILO was founded in 1919 to promote social justice and ensure effective social protection systems among its member countries, provide social and economic security, implement fundamental labor rights, increase work opportunities, and strengthen social dialogue. The definition of social security and the focus of ILO's work have changed often during the last eight decades. ILO has recently adopted as its strategic objective to enhance coverage and effectiveness of social protection for all, by focusing on income security with an emphasis on the poor, identifying cost-effective and equitable ways by which social protection can be extended to all groups, and shifting from a state-led focus to emphasis on provision of social protection to the informal sector.<sup>1</sup> However, social protection is still conceived mainly in terms of labor and social insurance. ILO provides technical assistance primarily in the fields of social security systems, social protection administration and expansion of coverage, social expenditure management, labor relations, vocational training, employment policy, labor administration, labor law and industrial working conditions, management

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<sup>1</sup> ILO 2000. *World Labor Report: Income Security and Social Protection in a Changing World*, Geneva. Van Ginneken (ed). 1999. *Social Security for the Excluded Majority*. Geneva: ILO.

development, cooperatives, labor statistics, and occupational safety and health. From this perspective, ILO should be a partner in any social protection initiative.

4. The World Bank focus uses social risk management as the conceptual framework for its Social Protection Strategy Paper, consistent with its Comprehensive Development Framework and Poverty Reduction Strategy Papers (PRSPs). Social protection is defined as public interventions oriented to human capital to (i) help individuals, households, and communities better manage risk; and (ii) provide support to the incapacitated poor.<sup>2</sup> The concept of social risk management asserts that all individuals, households, and communities are vulnerable to multiple risks from different sources, whether they are natural (such as earthquakes, floods, and illness) or man-made (such as unemployment, environmental degradation, and war). Poor people are typically more exposed to risk and have inferior access to effective risk management instruments than people with greater assets. 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, or coping) and arrangements (informal, market-based, or publicly provided or mandated) in any given situation depends on the type of risk and on the direct and opportunity costs and effectiveness of the available instruments. On the organizational side, the World Bank has established its Social Protection Department under its Human Development Network, with units in most of the World Bank's human development regional divisions. The World Bank Board of Directors endorsed its comprehensive Social Protection Strategy on 7 September 2000.

5. IDB defines social protection as prevention and compensation systems to reduce the impacts of shocks on the Latin American poor.<sup>3</sup> The definition owes much to the needs and economic history of the region, after the macroeconomic and structural crisis of the 1980s and 1990s (debt crisis and structural adjustment shocks) and frequent natural disasters (hurricanes such as Mitch in 1998, earthquakes like the ones in Mexico in 1985 and Colombia in 1994, and floods and droughts resulting from El Niño). The key objectives of the IDB social protection strategy are to (i) guarantee minimum consumption levels and access to basic services for those permanently unable to provide for themselves (i.e., the aged and disabled); (ii) strengthen the asset base of the poor to reduce their vulnerability to shocks; (iii) ensure continued investment in human capital during periods of crisis in order to avoid irreversible long-term consequences for children; and (iv) provide security to the poor to improve their economic choices and allow them to take entrepreneurial risks and earning capacity.

6. To achieve the International Development Goal of halving poverty by 2015, DFID emphasizes requirements of economic growth, equity, and security.<sup>4</sup> DFID supports a rights-based approach to poverty reduction. Decent living standards, access to services and security are part of the fabric of rights of poor people. These rights are enshrined in national laws, international agreements and covenants, including Core Labor Standards, and form the basis on which development organizations formulate their policies. Participation in the formulation of such policies by poor people is an equally important part of a rights-based approach. And the issue of security, in a broad sense, is central among poor people's priorities. DFID has worked extensively on the notion of sustaining livelihoods to promote opportunities for all citizens and reduce poverty. In this context,

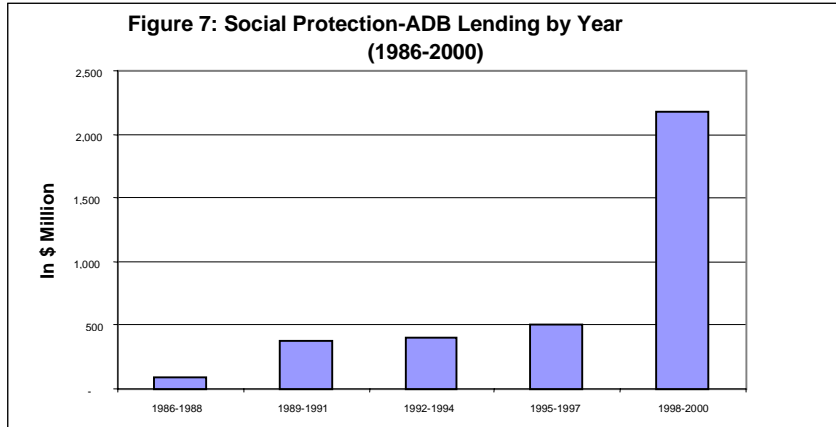
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<sup>2</sup> World Bank. 1999. *Social Risk Management: Intellectual Underpinnings of the Social Protection Strategy*. Washington, DC. Holzmann, R., and Jorgensen, S. 2000. *Social Risk Management: A new conceptual framework for Social Protection*. Washington, DC; World Bank. 2000. *Social Protection Sector Strategy*. Washington, DC.

<sup>3</sup> Lustig, N. (ed.). 2000. *Social Protection for Equity and Growth*. Washington, DC: Inter American Development Bank.

<sup>4</sup> DFID is one of the leading bilateral agencies committed to realize the International Development Goals focused on reducing poverty

social protection refers to the public actions taken in response to levels of vulnerability, risk, and deprivation for those who fall temporarily or persistently under levels of livelihood deemed acceptable within a given polity or society.<sup>5</sup>



7. ADB has developed different types of social protection interventions over the years, either as stand-alone loans or as components of other loans where social protection is not the primary objective. Since 1985, where social protection projects were only about 1 percent of the total ADB lending, the portfolio has been expanding. In 1998-2000, it represented 13 percent of the total ADB lending volume. This

significant increase is due to the support to safety nets interventions after the Asian Crisis. The demand for rapid social support projects will hopefully not be necessary in the future—instead, ADB should concentrate on developing more comprehensive and effective social protection systems to assist DMCs to reduce poverty and vulnerability. The trend, however, reflects an important increase in lending in the sector. Social protection is an emerging sector that needs to be properly addressed. An analysis of the areas served shows that ADB has mostly invested in labor markets (39.5 percent of the social protection portfolio, by volume), followed by micro and area-based schemes to protect communities (27.5 percent), and child protection interventions (19.5 percent). Social insurance and social assistance had a lesser share of the portfolio (6.5 and 7 percent respectively, by volume). Appendix 2 presents list ADB social protection interventions from 1985 to 2000.

8. As social protection took on a new urgency at ADB, the need for more effective coordination strategies became clear. In October 1998, an interdepartmental working group was formed to explore options for ADB's future interventions in social protection.<sup>6</sup> A framework for operations on social protection was developed in July 1999, after close consultations among departments, to be distributed and discussed with selected DMC governments, NGOs, and other aid agencies. The consultation process is presented in Supplementary Appendix A. Given the demographic structures and characteristics of poverty in the Asia and Pacific region, ADB has developed a definition of social protection based on labor markets and small-scale agriculture, in line with ADB's overarching goal of reducing poverty in the region.

### III. PRIORITIES FOR SOCIAL PROTECTION

9. Improving national social protection systems is of major importance in all regions. However, the motivations for reform and the approaches adopted differ dramatically from one country to the

<sup>5</sup> DFID. 2000. *Social Protection: New Directions of Donor Agencies*, London; and DFID-ODI, 2000. *Social Protection Concepts and Approaches: Implications for Policy and Practice in International Development*, London.

<sup>6</sup> Financed through regional technical assistance (TA) 5703: *Support for Implementing the Agenda for Action for Social Development in Asia and the Pacific*, for \$307,000, approved in September 1996, and followed up through TA 5897: *Strategies for Improved Social Protection in Asia*, for \$700,000, approved in December 1999. The TAs developed 12 background studies on labor markets, social insurance, social assistance, micro and area-based schemes, and child protection, which are the basis of this strategic framework

other. In much of the Asia and Pacific region, the debate is dominated by concerns about reducing poverty, expanding coverage, and identifying financing mechanisms to serve the vast majority of the population, 40 percent of which are children and youth, who remain unprotected. In transition economies, adjusting programs and institutions to reduced budgets under a market economy is the priority. Many Latin American reforms are motivated by a desire to insulate social protection systems from political interferences. The reform debate in Japan, North America, and Western Europe tends to focus disproportionately on dealing with the costs of aging societies. Country priorities differ substantially and the problems and solutions of one region are not applicable to another.

10. Given the broad variety of reform priorities and possible interventions (labor markets, social insurance, social assistance, area-based schemes, and child protection), the strategy sets the parameters to prioritize investments, based on the principles of reducing poverty and vulnerability; strengthening country focus; enhancing strategic alliances and partnerships with development agencies, private sector, and civil society; and taking a long-/medium-term approach to promote effective social protection systems in Asia and the Pacific. Well-developed social protection systems are large and complex undertakings that can become an integral part of the fabric of a society and have important implications for social and economic development. Social protection priorities are different in the variety of Asian and Pacific DMCs. The selection of interventions will require an evaluation of the country needs, available resources, institutional capacity, and the political economy of reform, explained in paras. 40-49. Once a set of specific social protection interventions has been chosen for a DMC, project design should attend to the following principles: coverage; targeting of vulnerable population groups; sustainability, good governance, and optimal delivery mechanisms; and an integrated approach to social protection, as described in paras. 50-69.

## A. Identifying Country Priorities

11. Social protection strategies will vary from one country to another as a result of differences in needs, institutions, and available resources. Country preferences will also be influenced by the political support and social consensus needed to implement reforms. An analysis of these four factors determines the social protection priorities of a country.

### 1. Country Needs

12. The main objective of social protection is to reduce poverty and vulnerability. A summary **vulnerability and risk profile** will help to determine the country-specific social protection needs. A description of major risks to the population, demographic structures, levels of urban-rural population, poverty, and the size of the formal sector influence the type of social protection mechanisms that are feasible and appropriate. Where population projections<sup>7</sup> show a significant number of children and new entrants into the labor market in the near future, social protection should address the needs of the young. Where population growth rates are low or negative, there is a rapidly aging population and the child/adult dependency ratios are low, social protection systems should address the priorities of the elderly. Where the most acute problems may be others—i.e., migrant workers, victims of disasters, or any other vulnerable population group—social protection planning should accommodate the specific country needs. The results will differ from one DMC to another.

13. A summary **labor market analysis** should further help determine country priorities, not only in social protection but also in the selection of other development interventions, by revealing

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<sup>7</sup> Care has to be taken with the assumptions used in projections. Arguments can be easily manipulated by developing models that either magnify or minimize issues (e.g., aging). As a rule, ADB discourages high or low scenarios and advises to carefully evaluate medium term variant projections.

employment patterns. The size of the formal and informal sectors; the sectoral distribution (population engaged in agriculture, industry, and services); rural and urban active population; evolution of real wages; the role of women in the labor force; working conditions; compliance with national and international labor laws and standards including the reported existence of child or bonded labor and violations to other Core Labor Standards—all will provide additional information to help determine the country priorities. In some countries, the priority attention will be to assist unemployed or underemployed working age population to find employment opportunities; or to fight child labor. In others, the rural areas may have been forced to shoulder a disproportionate burden of the country's social problems, and strengthening rural systems may be a priority. Labor absorption is essential to avoid poverty. The country labor market analysis should evaluate which sectors/subsectors and geographical areas have a demand for labor and identify which areas may have an unmet supply of labor, to identify the right mix of public policies. Labor market analysis is a key element in the strategic link between economic growth and poverty reduction, and the analysis should provide recommendations to ensure efficient and inclusive development patterns.

14. A summary vulnerability profile, supported by a summary labor market analysis, are essential to determine country-specific needs. The country social protection needs assessment with a rational prioritization of the country's top social protection needs, based on quantitative evidence gathered in the vulnerability profile and labor market analysis, to ensure a rational and well-demonstrated prioritization of possible development interventions. Collaboration with other agencies—including ILO, World Bank, UNICEF, World Health Organization (WHO), United Nations High Commission for Refugees (UNHCR), and the Red Cross/Red Crescent—is essential to ensure coherent views and avoid repetition of surveys, profiles, or analyses.

## 2. Available Resources

15. The level of resources available for social protection will also influence a country's social protection choices. Many existing social protection systems and programs are underbudgeted, receive random funding, or have mistargeted benefits. Where allocated public funds are limited and the country needs large, public programs should be targeted to those most in need. An evaluation of the effectivity of current programs and resources to reduce poverty and vulnerability in the country will immediately point the need for reforms (paras. 57–59). If a country lacks the fiscal resources to achieve the development of a comprehensive social security system with significant coverage, it should opt to concentrate on poverty reduction and improvements in the labor force through the combination of labor market policies and programs, child protection, micro and area-based schemes, social assistance, and minimal social insurance benefits.

16. **Social expenditures reviews** are a key instrument to determine fund allocations intra and intersectorally, showing the administrative costs of social protection, the relative weight as compared to other social expenditures, the distribution of funds among social protection programs; the benefit incidence and effectivity in reaching vulnerable and poor populations; and last, but not least, distribution issues—who is paying and who benefits. The matching of the social expenditure review with the country needs assessment (paras. 41–43) will provide the key to the needed social protection reforms. Social expenditure reviews, in line with the public expenditure reviews developed by governments and aid agencies, particularly ILO and World Bank, will thus be critical in assessing the effectivity of current allocations to reduce poverty and vulnerability and discussing the options for social protection reform.

## 3. Existing Institutions

17. Where social protection programs already exist, conscious decisions will have to be made about whether reform efforts should build on the existing institutions or whether new institutions should be created. Societies almost always have at least some form of formal social protection institutions, but the institutions that exist may be very weak or cover only an extremely small fraction of the population. Where the existing institutions are neither very large nor very important, they may not impose serious constraints on the reform process. Where they are large, however, their influence cannot be ignored. Existing institutions influence policies about the structure and philosophy of social protection in several ways. They form a point of reference for comparing alternatives. Where the current approaches are generally viewed favorably among the population, the political path of least resistance will be to build on and extend them. The country's institutional history, including the relative credibility of the public and private sectors and the extent of previous government social protection commitments, inevitably affects the scope and character of any new intervention. Given that existing institutions have staff and stakeholders who are likely to protect themselves, large government bureaucracies are not dismantled easily and private concerns that are profiting from the existing arrangements will resist change. A good stakeholder analysis of old and new providers and recipients of social protection may facilitate discussions during country programming and project design, by making the trade-offs transparent. Reforming social protection policies is likely to be easier—and the odds of success are correspondingly higher—if the new approach preserves an important role for the existing institutions.

18. The decision whether to invest in social protection will require an understanding of the country-specific institutional capacity to deliver reforms, including (i) the efficiency and coverage of existing social protection programs, and (ii) the possible roles and risks involved in using public, market-based, and civil society/NGO mechanisms for new social protection programs, as described in paras. 60-67. Before embarking on reforms, the institutional prerequisites of different social protection approaches need to be taken into account. The risks involved in engaging the public and private sectors need to be assessed to ensure that the proposed reforms will effectively reduce poverty and vulnerability, the main objective of a social protection system. For instance, market-based companies often find disincentives to serving the poor; unless a proper public-private arrangement is envisaged, the poor will likely remain uncovered. Pension reform projects often involve development of privately funded mechanisms to encourage the development of sophisticated financial market institutions, but they can function effectively only if the domestic capital market has already reached a minimum level of development; where the preconditions for advance funding are absent, provident funds or basic pay-as-you-go approaches may be important transition measures to ensure that the objectives of a social protection system are accomplished. Targeted poverty and social assistance interventions that rely on formal means-testing operate on the assumption that institutions have the sufficient capacity to collect, process, and store information; investments should ensure that either this capacity is built or other institutional arrangements are found. Paragraphs 60-67 provide more details on different institutional options.

#### **4. The Political Economy of Reform**

19. The potential gains must be balanced against the likely losses from reforming a social protection system. This will involve a careful review of the conditions under which benefits are provided and the ways in which subsidies are constructed or abolished, the relationship between the value of the assistance offered and prevailing wages or prices, the affordability of the services provided, the incentives established in the program for delaying taking benefits and/or returning to work as quickly as possible, and the balance between the costs and benefits of new regulations. Reforms that may encounter large resistance need more intense consultations with relevant stakeholders.

20. Successful programs are those supported by the serious political commitment of the country's leadership. Social protection systems normally reflect the country's social architecture. To be effective, social protection strategies should be articulated in an integrated manner and discussed with all relevant social players as reforms are an opportunity to rethink the country's social contract. This, however, is often not the case, and reforms are precipitated by crises that have exposed or exacerbated flaws in existing policies. The experience of the transition economies and countries affected by the Asian Crisis has shown that governments should not be asked to pursue policies that will require a consensus that has not yet formed within the society. A social protection agenda should be framed taking into account DMCs national policies and priorities as well as ADB's overarching goal of reducing poverty, ensuring that social protection is integrated with other development activities and into ongoing country dialogue.

## **B. Strategic Principles for Social Protection Interventions**

21. Once one or a combination of social protection policies within the five different components (labor markets, social insurance, social assistance, micro and area based approaches, and/or child protection) have been selected in a determined DMC, the design of the specific program selected should attempt to balance several trade-offs to effectively reduce poverty and vulnerability and promote human development. The assessment should focus on the following considerations: (i) the program's coverage and benefits, (ii) its effectivity in targeting vulnerable groups and specific gender issues, (iii) the sustainability of the program (except perhaps for certain temporary interventions motivated by an economic crisis) and the adequacy of its institutional arrangements, and (iv) the program's integrated approach. Investments in program design may not to be worthwhile where the program does not contribute to reduce poverty and vulnerability, sustainability is open to question, coverage is likely to be limited, and population groups in need are not served.

### **1. Coverage**

22. Expanding access to social protection programs should be the main objective of the formal social protection agenda of Asian and Pacific DMCs. In most DMCs, both public and private sectors have failed to provide effective social protection to the population. The rate of expansion will vary across countries in the region and depend on the financial and institutional resources available. **Coverage gaps** occur due to statutory exclusions, poor enforcement, or the lack of attractive benefits despite high contributions for particular groups.

23. **Statutory Exclusions.** Labor market regulations and standards and contributory social insurance programs designed for universal coverage in the medium/long term, have serious coverage gaps in the Asia and Pacific region. These programs normally cover the larger enterprises in the formal sector. Smaller employers, particularly in industries that compete with the informal sector, are often excluded from many of the provisions, as are household workers, daily laborers, farmers, fishermen, and many urban self-employed. The informal sector thus operates outside the scope of regulations, with low and unstable levels of income, and poor working conditions. The result of the statutory exclusions is that many of the most vulnerable people are not protected.

24. The first **priorities for the poor and the informal sector** are strengthening prospects of survival and improving incomes, rather than investing scarce resources in social insurance schemes. The poor normally have shorter lives due to hardship—only 5 percent of the Asia and Pacific population is over 65. Additionally, old people in the informal sector who are fortunate enough to live beyond that age do not retire but are likely to remain economically active as long as

they can, to support themselves and help their families survive. Efforts to expand coverage should start by addressing the needs of the poor and informal sector clientele: improvement of their productive potential and their employment and income-generating capacity, improvement of the household's welfare, and mitigation of risks that keep households in poverty. A major area of development for informal sector groups in both urban and rural areas is microinsurance for health care, death of the breadwinner, and short-term risks, through voluntary schemes established by mutual benefit societies, cooperatives, and similar organizations, or civil society groups that rely on trust engendered through occupational groupings or community solidarity.

25. Even where most formal employees and self-employed people are covered according to the statute, the reality may be quite different due to poor enforcement. **Lax enforcement** often has the same impact as a statutory exclusion. Where enforcement is lacking or lax, labor market regulations are likely to have little impact even for those who are nominally covered. Poor enforcement can also undermine the protection offered under contributory social insurance, since benefit entitlements usually depend to some degree on how contributions have been collected. A close link between contribution payment and subsequent benefit entitlement helps to insulate a contributory program from the financial consequences of poor enforcement, but does this by reducing benefits and restricting protection. Effective enforcement requires institutions that have the necessary statutory authority to establish liabilities and enforce collections. These institutions must also have adequate operating budgets, the willingness and ability to use their resources and authority to enforce the law, and the political support necessary to sustain the enforcement effort. For this reason, assessing social protection coverage necessarily involves assessing the effectiveness of the implementing institutions.

26. Market-based schemes have often found servicing low-income communities unattractive, as compared to the higher

returns received from servicing higher income groups. The poor have discontinuous income and are more prone to risk, thus the higher transaction costs are unattractive to insurance companies and customers. Efforts should be made by governments to arrange public-private partnerships that offer low-income communities access to social protection services.

#### Box 6: Expansion of Social Protection Coverage in Japan

Since the 1880s, when Japan's Meiji revolution modernized the country, mutual aid societies were formed to protect workers in leading industrial and mining companies. However, poverty was a widespread phenomenon in rural areas; after World War I and the Great Depression, the economic crisis raised the levels of rural household poverty. In the 1920s, the Japanese government asserted that poverty was a sign of backwardness and that modernization required the eradication of poverty. The main social protection policies on which Japan based its poverty reduction strategy were (i) labor markets, mostly wage and employment policies; and (ii) social insurance, focusing on health. The Japanese embraced the principle of full employment as a value to be preserved in a stable society and labor market imbalances were seen as a national problem. As Japan developed and industrial restructuring was needed, the Government supported firm's skills upgrading and training programs to preserve employment and find alternative production suitable for the changing market. In 1922, the Diet (the Japanese Parliament) passed the first health insurance law, modeled on the German sickness funds. The lack of adequate and affordable medical care had been a focal point of the peasants' protest, as many farmers suffered from starvation, malnutrition, and infectious diseases associated with poor living conditions. In the 1930s, the Japanese community health insurance scheme was supported by a 50 percent government subsidy, with a planned reduction of the subsidy as society modernized. Local societies were required to provide primary health care but left free to set contribution rates and decide on optional additional benefits. Most provided maternity benefits while a few also opted for funeral grants. Societies built clinics and employed medical staff. These societies eventually numbered 10,000 and formed the basis of the Japanese national health scheme—full insurance coverage was achieved in 1961. At the end of the twentieth century, Japan had accomplished the lowest infant mortality rate and highest life expectancy in the world. The success of the Japanese experience suggests some good development practices—the first being that poverty reduction requires political commitment and active government budgetary and technical support. It is interesting to note also that employment and primary healthcare were the first social protection priorities.

27. **Adequacy of Benefits.** Many systems in the Asia and Pacific region are underbudgeted or receive erratic yearly funds so that the benefits they provide do not achieve their intended social objective. Often, the transaction costs are larger than the benefits provided. It is critical that social protection systems are built to effectively provide protection given available resources. On the other hand, benefits should not be so generous that they generate disincentives. Continuity and predictability about the conditions under which benefits are to be provided and the approximate amount to be made available is also necessary in order to realize the social gains promised by social protection programs.

## 2. Targeting Vulnerable Population Groups and Gender Issues

28. Where formal systems do not have sufficient human and financial resources to cover identified needs, the priority will be to target available resources to vulnerable groups. Progressively, comprehensive social protection systems will be developed but, in the short term, resources will be channeled to those most in need. Matching the results of the social expenditure reviews and vulnerability analysis will show the need to either pursue the development of a formal social protection system or concentrate scarce resources into priority needs. When the vulnerability analysis shows high child/adult dependency ratios and children exposed to risks, the country's social protection system should target children. When most vulnerable people live in the rural areas, resources should be decentralized and programs be put in place to target these priority population groups. A distribution analysis, as pointed out in the following section, should ensure any proposed social protection program achieves its targeted objectives.

29. Special consideration should be paid to **gender issues**. Although half of the population of all population are women, they receive much less assistance and opportunities than do men. Many poverty reduction and social development programs are focused on households and do not consider intrahousehold differences. Assets and labor are normally distributed in a different and unequal manner between men and women, boys and girls within a same household. Unless particular attention is paid to women's unique problems and life patterns when social protection policies and programs are developed, approaches that might appear to be gender-neutral may actually disadvantage women. Positive discrimination maybe needed to ensure women's development in Asia and the Pacific. For example, labor market reforms must go beyond a purely traditional agenda to adequately address such special concerns of women as a higher incidence of home work, competing demands from household responsibilities, and the particular needs surrounding child bearing. In child protection, the benefits of investing in the girl child are large—educated girls become more responsible and better informed mothers. Social insurance programs need to be designed to take into account the longer life expectancies of women in most societies; the additional implications for women of the risk of loss of support due to death, abandonment, or divorce; and the less stable earning patterns commonly found among women.

30. The most vulnerable populations are often not reflected in household surveys—migrant workers, orphans, the homeless, victims of disasters, refugees, nomads and marginalized indigenous groups. These groups may require special attention owing to both extreme poverty and social exclusion. As with women, they may be seriously disadvantaged by programs that appear otherwise to be uniform and fair, owing to the effects of labor market discrimination and alternative cultural traditions. Special outreach strategies are normally required for those.

## 3. Sustainability and Good Governance

31. The design of any social protection scheme is directly linked to an analysis of how it can be financed and how it can best be delivered. There is no prescription or preferred social protection model, as the structure and operations will change from country to country depending on the available financial and institutional resources. Social protection interventions should include assessments of how to ensure efficient and sustainable operations to deliver the proposed coverage of social protection needs.

32. **Financing Sources.** The variety of social protection programs (labor markets, social insurance, social assistance/welfare services, micro and area-based schemes, and child protection) may be financed through budgetary support, income-related contributions, charitable donations, or a mix of all these. Enforcement of revenue collection may result in higher tax collections, particularly in countries with young demographic pyramids. Higher tax revenues can in turn support the promotion of statutory programs. In addition to encouraging adequate tax collection, there is merit in systems in which individuals cofinance services, contributing individually or through community-based arrangements. This is the case for social insurance, micro and area-based schemes, social funds, and selected labor market and child protection programs. However, most programs, particularly those targeted to lower income groups, require a degree of public support. Financing from charitable or aid organizations is discontinuous and does not allow sustainable social protection programs. Such financing may help to fill the gaps on a temporary basis only. In social insurance programs, accumulated savings/contributions can be invested in financial markets.<sup>8</sup> Diversification of income sources is desirable to spread risks and ensure the overall sustainability of the program.

33. Potential financial commitments under a program need to be evaluated to be sure that they can be borne from the resources likely to be available, including the program's contingent liabilities.<sup>9</sup> Will insurance premiums cover projected losses? Will sufficient resources be available to cover operating costs once a facility has been created for delivering social services?

34. **Redistribution Issues.** Financing issues are directly linked to distribution aspects. The design of any social protection program should carefully evaluate its distribution impacts to (i) ensure that vulnerable and poor benefit; and (ii) above all, avoid regressive redistribution issues, e.g., building systems with public resources that mostly benefit upper income groups. Since the main objective of a social protection system is to support vulnerable populations to overcome their exposure to risks, it results in more equitable societies. Financing social protection systems implies some transfer of resources, either from taxed citizens to those outside the formal sector, or from the working age generation to younger and older people. Even when building contributory social insurance schemes, the normally expensive transition costs are passed to the public sector and thus financed by taxpayers. This does not imply that the purpose of a social protection system is merely income redistribution—the purpose is to build mechanisms that assist individuals to overcome vulnerability; for this, a degree of redistribution and support is needed. Identifying the adequate mix of financing resources to ensure, if needed, adequate redistribution and support to vulnerable

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<sup>8</sup> Relying on capital market returns to help finance pension costs can reduce the size of the contributions needed, but as illustrated by the recent economic crisis, can also introduce greater variance in the amount of protection offered.

<sup>9</sup> Many social insurance programs, including those operated directly by the government and those operated by the private sector under a government mandate, incorporate some form of minimum guarantee by the government—the guarantees may be of minimum incomes, minimum benefits, or the financial solvency of private financial intermediaries. The guarantees may be either explicit in the law or implicit in the way the political system operates. In either case, they create contingent liabilities, which come due if the social protection programs fail to supply the guaranteed degree of protection. Analyses of social protection policies too often ignore the size and expected cost of these contingent liabilities, and may result in costly reforms.

populations should be assessed after careful cost-benefit evaluation of the proposed social protection program.

35. Social protection success depends on the **effective administration** of adequately designed programs. Common operational problems among agencies include corruption, cronyism, and favoritism; inadequate information processing, storage and retrieval systems; and organizational cultures that are hostile to customer service. **Good governance** is crucial for sound macroeconomic management, progressive taxation, and equitable allocations of funds for social development. The impact of basic social services is reduced by governance defects such as inadequate budgets and wasteful, inefficient, and unresponsive administrations. The poor suffer most due to poor access, low bargaining power, and little influence on local officialdom and service providers. The effects of such deficiencies in governance are exemplified by the highly unsatisfactory coverage in social insurance schemes. These schemes have been in force for decades in many countries but have failed to reach those most in need of protection. Fundamental governance issues that should be considered when designing any social protection scheme include identifying (i) the most appropriate social protection system to serve all citizens, (ii) the most suitable institutional arrangements for the administration of schemes, and (iii) the best way to achieve operational efficiency.

36. **Institutional Structure.** Often, public social protection programs do not have sufficient human and financial resources to cover identified needs. Most DMCs need to allow flexible and innovative institutional arrangements, bringing all possible development partners together under well-regulated sectoral policies, government's administrative oversight to ensure good governance and affordable services. The four main social protection delivery mechanisms are (i) public-based, normally best to achieve expansion of coverage; (ii) market-based, normally best for efficient delivery for the formal sector of the economy and voluntary schemes for higher income groups; (iii) NGOs and charitable institutions, normally good to target low-income communities; and (iv) a mix of these. However, each mechanism has important limitations. A summary is presented in Table 4. The public sector should not crowd out the potential role of the private sector in delivering social protection. Instead, the public sector should concentrate its efforts to serve areas and populations that are not covered by the private sector. Decentralization of public programs offers the great potential to improve effectiveness of social programs and bring decision making closer to communities. The private sector is often not attracted to lower income groups and/or remote areas because the associated transaction costs are high and returns low. Private-public partnerships can be agreed between governments and private companies to secure inclusion of those excluded from any form of protection. Where NGOs are already significant providers of social protection programs, they can be encouraged to continue. However, NGOs often have limited and discontinuous funding and their presence is scattered, and normally not broad enough to ensure equal expansion of coverage, limiting their ability to reduce vulnerability. A mixed delivery system may be best to diversify risks and address social protection priorities.

37. **Avoiding excessive administrative charges** is a major challenge for certain kinds of social protection programs. Administrative charges siphon away resources from the intended beneficiaries, needlessly increasing the cost of social protection and reducing society's capacity for providing protection. In addition to the threat they pose to program integrity, inefficient and unresponsive government bureaucracies often cause excessive administrative costs. The result is administrative resources wasted due to duplicative and inefficient service delivery structures.

**Table 4: Typical Advantages and Disadvantages of Social Protection Service Delivery Mechanisms**

Mechanism	Advantages	Disadvantages
Public-Based Local Government	<ul style="list-style-type: none"> <li>▪ Responsible for vulnerable groups within local community</li> <li>▪ Lower program delivery costs due to proximity location</li> <li>▪ Able to implement programs using existing infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unable to pool larger area risks (e.g., agricultural)</li> <li>▪ Poorer regions suffer from lower revenue base and therefore smaller spending base</li> <li>▪ Untrained and inexperienced staff in policy design, development, monitoring and evaluation</li> </ul>
Public-Based Central Government	<ul style="list-style-type: none"> <li>▪ National consistency and equity in program access and delivery</li> <li>▪ Opportunities for redistribution mechanisms from wealthier regions to poorer regions</li> <li>▪ Able to monitor, evaluate, and compare cost-effectiveness of programs from national perspective</li> <li>▪ Coordination at national level across sectors (e.g., health, education, housing, labor, and finance)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Less knowledgeable of local circumstances and needs</li> <li>▪ Takes longer to implement programs</li> <li>▪ Risk of limited efficiency and governance problems</li> </ul>
Market-Based Mechanisms	<ul style="list-style-type: none"> <li>▪ More efficient</li> <li>▪ Ideal to serve middle and upper income groups – commercial insurance and pension funds, training, job placement agencies, institutional care for the disabled and elderly</li> <li>▪ Sustainability</li> <li>▪ Political insulation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Not serving low income groups given high transaction costs and low returns</li> <li>▪ Insurance premiums and service costs are not affordable to the poor</li> <li>▪ As government normally guarantees minimum incomes/benefits, if companies become financially insolvent the state may have to provide financial support</li> </ul>
NGOs, Charitable Institutions	<ul style="list-style-type: none"> <li>▪ Lower costs</li> <li>▪ Near vulnerable groups, programs offered based on household and community needs</li> <li>▪ Quick and flexible in implementation</li> <li>▪ Use participatory approaches with vulnerable groups</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inconsistent nationally therefore questionable regarding issues of equity</li> <li>▪ Sporadic funding and discontinuous programs, affecting the overall effectivity of their interventions</li> <li>▪ Limited efficiency and uncoordinated delivery</li> <li>▪ No consistent evaluation, monitoring, audits, or accountability</li> </ul>
Mixed Delivery System	<ul style="list-style-type: none"> <li>▪ Use strengths of each provider; may be a best option given a mixed system spreads both the risks and opportunities for success</li> <li>▪ Provide common, consistent set of national social protection policies combined with flexible local programs to meet local needs</li> <li>▪ Enables some form of redistribution to occur to balance poorest and wealthiest regions in countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ May be more costly to maintain involvement of all providers</li> <li>▪ Can create competition rather than cooperation between service providers</li> </ul>

38. **Cost-Effectiveness.** The development of social protection programs may be affected by the different viewpoints on the positive and negative links between social protection and economic development. It is easier to calculate the costs borne by taxpayers or contributors in the short term than to assess the advantages gained from each program. Expenditures on children and youth through education, health, and training programs are all investments in future generations, critical for long-term growth and poverty reduction. Evaluating the cost-effectiveness of social protection programs requires an impartial assessment of the following issues: (i) the cost of the programs (as a percentage of gross domestic product and total public expenditure), including contingent liabilities as a result of possible government guarantees to the programs; (ii) performance (the percentage of vulnerable targeted groups covered by the programs, the percent of benefits going to poor and nonpoor groups, and the extent to which the benefits are adequate to servicing identified needs); (iii) administrative cost (the administrative cost as a percentage of the total cost, and how the cost compares with other programs); (iv) long-term social benefits; and (v) feasible options to improve cost-effectiveness, including the cost to society (determining who pays for reforms and which groups benefit from the proposed reform agenda). Careful attention should be paid to the comparative value of social protection interventions against other necessary social development programs (e.g., health, education, and rural development programs). Social protection programs should be developed after careful evaluation of the country-specific priorities to reduce poverty.

#### 4. Integrated Approach to Social Protection

39. Social protection should be seen as one of several measures that work together to promote socially inclusive human development, reduce poverty, and support enhanced productivity and growth. Close collaboration is needed to ensure that social protection and other development policies are consistent and mutually supportive. Many problems of existing social protection programs are due to lack of cohesion in social and economic planning or inconsistencies between different parts of the social protection system. For instance, serious difficulties in the labor market may lead to proposals for early retirement on advantageous terms as a part of the solution to over-employment in public enterprises, but without sufficient consideration of the long-term implications for pension funds. Another example of malpractice could be social protection interventions displacing necessary health and education investments. **Integrated and coordinated national policies** on social protection must be established. Sound policy formulation in social protection requires less emphasis on short-term priorities and the creation of medium- and long-term social development plans. Close coordination in policy formulation is vital when several government departments and agencies are involved.

40. Consulting institutions such as DMC's **National Social Protection Coordination Commissions**, with responsibility for strategic planning and coordination, can facilitate the formulation of an overall strategy for strengthening social protection. If inexistent or ineffective, such bodies can be created. This integrated planning machinery should include government, external funding agencies, and civil society groups in order to achieve consensus on priorities, objectives, and the necessity for encouraging pro-poor sustainable growth and social development. The role of ministries of finance and national planning authorities is crucial in working out balanced views on realistic and affordable priorities with the ministries directly responsible for the management and development of programs. Dialogues on these matters can improve mutual understanding of the wide range of issues involved, and the right sequencing of reforms. Aid agencies could provide necessary advise and help generate a consensus. Integrated planning is complex but essential for policy cohesion and the efficient use of resources. Controversial issues, including the extent of redistributive policies, changes in policies on subsidies in particular sectors, and increases in pension ages should be settled through this process. This participatory approach is critical to ensure long-term success.

#### IV. OPERATIONAL IMPLICATIONS

##### A. Investing in Social Protection

41. **Rationale.** The overarching mission of ADB is to help its DMCs achieve accelerated and irreversible reductions in poverty. Social protection, as part of social development, the second pillar of the ADB Poverty Reduction Strategy, is an integral component of that mission by assisting vulnerable populations to better manage risks and develop their human capital. Since 1985, ADB has assisted its DMCs to improve their social protection systems. The share of social protection interventions have increased noticeably in the total ADB portfolio, particularly since 1995. Of the social protection portfolio, investments have centered on labor markets (39 percent of volume), micro and area-based approaches to protect communities (27 percent), and child protection (19 percent). ADB will continue to support its DMCs in their efforts to reduce poverty and provide effective protection for the Asia and Pacific population in the social protection sub-sectors that ADB has demonstrated expertise.

42. **Regional Need for Reforms.** Asia and the Pacific is a largely young, rural, and poor region: social protection programs and policies should be built to respond to its needs. The region is still experiencing the effects of the demographic explosion and 40 percent of its population is below 19.

The region's population is 3.1 billion, half of the world's total, and of this, 900 million people are poor. About 60 percent of the total population live in rural areas and most of the population belongs to the informal sector. The majority of DMCs have some form of institutionalized social protection system; however, most social protection programs have low effectivity due to limited coverage, insufficient funds, and inadequate instruments. Most employees in the informal sector are unable or unwilling to contribute a relatively high percentage of their incomes to financing social protection benefits that do not meet their priority needs. In general, the informal sector prioritizes immediate needs, such as health, employment or the source of livelihood, shelter, food, clothing, and survival from natural disasters, rather than traditional social security schemes such as old-age insurance. A host of other factors restrict access to statutory social protection schemes, including legal impediments, administrative bottlenecks, and problems with compliance. Reforming existing social security systems to extend protection to the majority of citizens in the Asia and Pacific region is a critical priority.

43. **Economic Justification.** Welfare systems have not been a priority for most DMC policy-makers in the Asia and Pacific region; social protection has been largely neglected, or at best addressed with inadequate resources. However, a closer look at economic history shows that the most advanced economies of the region—Japan; Hong Kong, China; Republic of Korea; Singapore; and Taipei, China—built development policies through active public or public-private interventions in medical care, social and housing assistance, minimum retirement levels, and education. Investing in social protection was an essential part in the modernization programs of these wealthier societies at the early stages of their development. Precisely, higher levels of social security allowed high productivity gains in the workforce, expanded domestic demand, and increased economic growth. Social protection is a logical extension of ADB's overarching objective to reduce poverty because the benefits of economic growth will not automatically reach to all poor. Lack of adequate social protection may actually put a severe limit on future economic growth. In children, malnutrition and poverty damage health, cause death, harm reproduction, reduce intelligence, and lower productivity and opportunities for the future adult, a high tax on future economic development. Social protection is an economic need in the Asia and Pacific region.

44. **Priorities.** The social protection priorities for the Asia and Pacific region in the period 2000-2015 are the design of sound, comprehensive social protection programs to effectively reduce poverty and vulnerability, including (i) interventions to protect communities and the informal sector; (ii) child protection; and (iii) labor market programs to ensure productive employment, good working conditions and improved human capital development. In its policy dialogue, ADB will encourage DMC governments to improve social protection systems and shift away from funding activities that either benefit the wealthy upper income groups or that have low benefit-cost ratios. The specific country priorities will be determined in the country poverty analyses and country strategic programs, as described in paras. 77-78. Investments in social protection should never undermine necessary expenditures for other social development areas such as education and health.

45. **Creating Synergies with other ADB Priorities.** ADB has developed social protection interventions either as stand-alone loans or as components of other loans where social protection is not the direct objective of the loan. ADB should maintain this existing practice. This will generate positive synergies with other priority sectors. For instance, child protection programs can easily be attached to basic education or health projects, reinforcing the development effectiveness of interventions, as requested by ADB Board of Directors in recent sector policies.<sup>10</sup>

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<sup>10</sup> WP2-01: *Education Policy*, 2001; or microinsurance could be integrated as a part of a larger microfinance or agriculture project, as pointed in the WP2-00: *Microfinance Strategy*, 2000.

46. **Project Lending vs. Program Lending:** ADB assistance in social protection should focus on project lending, or a combination of project and program lending, with selective technical assistance. Particular attention needs to be paid to (i) the development of in-country capacity to sustain interventions, and (ii) the creation of domestic expertise to monitor performance and the extent to which interventions meet their objectives. Care must be taken to ensure a balance between the two areas. Experience shows that one of the most common causes of failure in social protection lending is a result of the lack of attention to these aspects. Program lending alone is not an adequate instrument and good practice to develop social protection systems.

## B. Operational Implications for ADB

47. Within ADB operations, social protection issues arise in six contexts: (i) country poverty analysis and programming strategies, (ii) ADB project activities, (iii) safeguards, (iv) staffing and staff skills, (v) operational assignments and responsibilities, (vi) strategic partnerships, and (vii) monitoring progress.

### 1. ADB Country Poverty Analysis and Country Strategy and Program

48. The decision on whether ADB should assist a specific DMC to address social protection priorities will require an assessment of social protection issues and priorities in the context of the country poverty analysis, to be reflected in the country strategy and program. The assessments should be brief and concise, attending to the objective of prioritizing which interventions, if any, maybe necessary for a specific DMC. Given the variety of reform priorities and possible interventions (labor markets, social insurance, social assistance, area-based schemes, and child protection), the ADB Social Protection Strategy recommends prioritizing investments based on ADB's goals<sup>11</sup> of reducing poverty, promoting country focus and ownership, enhancing strategic alliances and partnerships, and having a long-term approach. This is summarized below:

- (i) **Country Needs.** The country needs assessment will include a vulnerability profile and labor market analysis, and will conclude with a rational prioritization of the country's top social protection needs, based on quantitative evidence. The summary **vulnerability and risk profile** will identify the main causes of vulnerability and social risks, and quantify affected populations by age group, geographical area, and other relevant criteria. A summary **labor market analysis** will critically review the capacity of the labor market to absorb new entrants and recommend ways to ensure efficient and inclusive development patterns. Such an analysis is a key element in the poverty assessment's strategic link to economic growth.
- (ii) **Available Resources.** The resources available for social protection programs will be assessed in a social expenditure review as part of the country governance assessment,<sup>12</sup> in coordination with the ILO, IMF, World Bank, and aid assistance organizations. **Social expenditure reviews** evaluate the capacity of current support programs in assessing the effectivity of current allocations to reduce poverty and vulnerability, including distribution issues. Many existing social protection systems and programs are underbudgeted or their benefits mistargeted to upper/middle income groups; the level of resources available for social protection will influence a country's social protection choices.

<sup>11</sup> SECM62-00: *The Long Term Strategic Framework of the Asian Development Bank (2001-2015)*. 2001.

<sup>12</sup> R2299-00: *ADB Governance Strategy*, 2000. This was endorsed by the ADB Board on 1 December 2000, and included in the Medium-Term Agenda and Governance Action Plan 2000-2004.

- (iii) **Existing Institutions.** The efficiency and coverage of existing social protection programs, and the possible roles, and risks involved, in using public and market-based and civil society/NGO mechanisms will be evaluated to assess the feasibility of new social protection programs.
- (iv) **Political Economy of Reform.** Social protection strategies are complex undertakings in which some groups may benefit more than others—reforms should be articulated in an integrated manner and discussed with all relevant stakeholders.

49. ADB operations may appropriately include social protection lending and nonlending activities to serve country-specific needs. The proposed social protection policies should complement one another and help countries to meet their international commitments for poverty reduction and social development (e.g., International Development Goals, Basic Social Services 20:20,<sup>13</sup> and UN conventions and laws).

## 2. Strategic Guiding Principles for ADB Social Protection Activities

50. ADB interventions in social protection should be selective. If any social protection intervention (labor markets, social insurance, social assistance, micro and area-based schemes, or child protection) has been identified as a priority in a DMC, the project should ensure the following:

- (i) **Adequate Coverage.** Formal social protection systems should be built with the ultimate objective of ensuring effective protection for the majority of the population so poverty and vulnerability are effectively reduced; this is a top priority in Asia and the Pacific as most citizens are excluded from any formal social protection system.
- (ii) **Targeting Vulnerable Population Groups and Gender Issues.** Where allocated public funds are limited and country needs are large, public programs will likely be unable to provide adequate coverage; resources should thus be targeted to those most in need. Priority vulnerable groups will have been identified and prioritized in the country's vulnerability profile. Given the status of women in the region, gender development, including positive discrimination policies, deserve particular attention to ensure inclusive societies.
- (iii) **Sustainability and Good Governance.** Sound financial management, good governance; and adequate institutional arrangements are essential to secure effective administration and minimize charges and impacts on the budget. Evaluating the distribution impacts and cost-effectiveness of interventions will further assist in determining priorities and economic and social benefits.
- (iv) **Integrated Approach.** Establishing or consulting existing National Commissions for Social Protection is the best institutional mechanism to ensure consistency across programs, appropriate prioritization of in-country social protection needs, and adequate sequencing of reforms.

51. The principles described in the earlier sections are also applicable to social protection components in loans where social protection is not the direct objective of the loan.

52. Examples of ADB's role in technical assistance and lending programs for the priority social protection interventions include

- aligning current social protection programs to ensure that available resources serve priority needs;

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<sup>13</sup> The United Nations's initiative to allocate 20 percent of budgetary expenditures to basic social services.

- assisting governments to improve labor market operations to reduce poverty, facilitate human development, address gender inequalities, remove obstacles to job creation, improve productivity, and create an environment enabling economic activity;
- continuing to support direct interventions that contribute to the elimination of violations of the Core Labor Standards;
- expanding the role of microfinance to include new objectives such as microinsurance and reinsurance;
- promoting the development of social funds;
- designing projects that empower communities and develop disaster preparedness programs to secure less vulnerable and more self-reliant communities; and
- increasing child protection programs either as stand-alone projects or components of basic education and health projects.

53. Social insurance and social assistance are areas where the ADB has lesser expertise and, if any, interventions should be developed in close collaboration with strategic development partners. Such assistance might include

- rethinking pension reform programs and insurance/nonbanking financial services, to ensure that, additional to market-based mechanisms and sustainability aspects, pension reform programs are designed to balance equity considerations, addressing issues such as expansion of coverage and provision of adequate benefits to the population; and
- ensuring adequate distribution impacts in the reform of social assistance programs.

### 3. Collateral Issues and Safeguards

54. Social protection issues also emerge as important collateral issues in lending where social protection is not the direct objective of the loan. Incorporating social protection dimensions in such cases and where feasible, will extend the reach of social protection concerns.

- (i) The existing ADB social impact assessments, mandated by Management and the Board since 1991 (*Operations Manual OM 47: Incorporation of Social Dimensions into Bank Operations*) will continue to ensure that vulnerable groups are not negatively affected by an ADB intervention. Specific social protection issues include the following:
  - (a) vulnerable groups that maybe negatively affected by an ADB intervention must be adequately compensated and mitigation measures put in place to avoid creating further poverty (e.g., in case of public or private sector restructuring, workers, particularly low income workers, should not be unfairly disadvantaged, regardless of race, skills, gender, age, or religious and political beliefs)<sup>14</sup>; mitigation measures should always aim to adequately balance social objectives and economic sustainability; and
  - (b) in the design and formulation of its loans, ADB will comply with the internationally recognized core labor standards;
- (ii) Take all necessary and appropriate steps to ensure that for ADB financed procurement of goods and services, contractors, subcontractors and consultants will

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<sup>14</sup> Other typical examples are loans dealing with shifts toward market-determined pricing of energy, water, telecommunications, and housing. Ideally such development interventions should take place after appropriate regulatory institutions have been created and safety nets established. Often, however, interim measures may have to be adopted to ease the effects on households (e.g., tiered pricing of utilities, or exemptions from user charges).

comply with the country's labor legislation (e.g., minimum wages, safe working conditions, and social security contributions, etc.) as well as with the Core Labor Standards;

- (iii) As part of its regular loan reviews, ADB will monitor that (i) and (ii) are complied with.

### **C. Staffing and Staff Skills**

55. Dealing with social protection demands skills in social development, public administration, law, finance, economics, poverty reduction, and targeting mechanisms; and knowledge and/or experience on the five components of social protection – labor markets, social insurance, social assistance, micro and area-based schemes to protect communities and child protection. Accordingly, the skills mix required for a “social protection specialist” would require exposure in all or most of the above fields. Considering the high share of social protection in relation to total Bank lending, more specialized skills in this field are required in order to further enhance ADB’s contributions to this emerging sector; higher costs are justified on the grounds of higher development impact.

56. The assessment of staffing and skills requirements suggests that at least one social protection specialist will be required in Office of Pacific Operations and one in each of the social sector divisions of the regional departments to provide direct operational support. In addition, one such specialist will also be required in the central support department to ensure implementation of the Social Protection Strategy and support networking with other responsible divisions. The staffing needs will be met through outside recruitment, internal reskilling, and external retraining.

57. Training programs will consist of a mix of short-term external training for redeployed specialists, and in-house training for other ADB staff. Both internal and external training should start in 2002. The ADB Institute should also become an active partner in providing training to DMC officials.

### **D. Operational Assignments and Responsibilities**

58. The implementation of the strategy will require the institutional arrangements presented in the Action Plan (Appendix 3),<sup>15</sup> and the following assignment of responsibilities:

- (i) determination of country priorities: country division/unit, resident missions, social sector divisions, assisted by the social development division in the central technical department, i.e., regional and sustainable development department (RSD);
- (ii) design of social protection interventions: social sector divisions, and other sector divisions;
- (iii) labor trade unions to have an official interlocutor at ADB’s NGO Center;
- (iv) reinforcement of collateral issues and safeguards: sector divisions, resident missions, office of the general counsel, operation services offices, overview by the social development division in RSD;
- (v) recruitment of staff and internal training: human resources division;
- (vi) external training: ADB Institute, human resources division;
- (vii) strategic partnerships: country division/unit, resident missions, social and other sector divisions, strategy and policy department;

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<sup>15</sup> The Action Plan is based on the proposed working paper Reorganization of ADB (dated 5 July 2001); if needed, the action plan will be modified to reflect Board recommendations on ADB’s organization, and its pages replaced.

- (viii) coordination and monitoring the implementation of SPS, including issuing of manuals and guidelines: social development division of RSD.

## **E. Strategic Partnerships and Coordination among Development Agencies**

59. ADB should consider the strategic alliances it can develop in order to avoid duplication of efforts, mobilize additional resources, and ensure coordination of development interventions in DMCs. Coordination of development efforts is essential for long-term success. Strategic partnerships are also important to ensure optimal use of resources by coordinating the strengths of each institution in a determined DMC.

60. The Action Plan (Appendix 3) identifies specific issues with relevant development partners. ADB has started to strengthen and formalize its collaborative efforts with other development partners such as the World Bank and the United Nations Development Programme (UNDP).<sup>16</sup> Collaborative efforts include (i) policy dialogue and knowledge sharing, including cooperation in vulnerability profiles, labor market analyses, and social expenditure reviews; (ii) staff exchanges and joint training; and (iii) selective joint activities at the country level. The ADB will also formalize a memorandum of understanding with ILO.

## **F. Monitoring Progress**

61. To monitor the development impacts of its interventions in social protection, ADB will pay increased attention to measuring the social returns of project and policy-based lending. Loans should aim to provide, as part of their logical framework and project performance monitoring system (i) a set of clearly defined, objective indicators of success; and (ii) benefit incidence analysis of social protection investments. As much as possible, ADB loans should contribute to build the capacity of DMC governments to collect, collate, and analyze social protection data to facilitate national planning and policy formulation.

62. The need for social monitoring, early warning and planning, is essential for social risk management at the macro level (e.g., to anticipate effects of events such as economic crisis, earthquakes, and droughts). ADB will support countries in their efforts to build capacity on social monitoring and early response.

## **V. RECOMMENDATION**

63. It is recommended that the Board approves the Social Protection Strategy as presented in this document and summarized in the attached Action Plan (Appendix 3)<sup>17</sup>.

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<sup>16</sup> Memorandums of understanding are being prepared with IADB, UNDP, and World Bank.

<sup>17</sup> As indicated earlier, the Action Plan is based in the proposed working paper Reorganization of the ADB; if needed, the Action Plan will be modified to reflect Board recommendations on the ADB organization, and its pages replaced.

## DEFINITION OF SOCIAL PROTECTION TERMS

### A. Social Protection

1. **Social protection** is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income. The policies and procedures included in social protection involve five major kinds of activities: labor market policies and programs, social insurance programs, social assistance, micro and area-based schemes, and child protection.

2. **"Social safety net"** and **"social security"** are sometimes used as alternative terms to "social protection." The Asian Development Bank Interdepartmental Working Group on Social Protection found that in describing the range of concerns with which this strategy is dealing, the term "social protection" was the more common in international usage and decided to use that term. The term "social safety net" appears to have a less precise meaning. Some people use it to mean the whole set of programs and policies discussed in this strategy, while others use it to refer only to welfare and targeted programs for the poor. On the other hand, the term "social security" is used to refer to the comprehensive mechanisms and coverage in developed countries and is less applicable to new areas such as community, micro, and area-based schemes.

### B. Labor Market

3. **Labor market** policies and programs are designed to facilitate labor adjustments and promote the efficient operation of labor markets. Labor market is a term used in labor economics to indicate the exchange between the demand and supply of labor for a nation, region, industry, or occupation. The outcomes of this process include the level of (un)employment, pay, and employment conditions.

4. **Labor codes** are regulatory frameworks containing provisions on labor relations as well as standards for working conditions including, for example, provisions on working hours, minimum age, minimum wage, occupational safety and health, social security, and provisions regarding the special needs of women.

5. **Active labor market programs** are interventions to encourage people to take positive action to improve their employment prospects. They include vocational training and retraining, employment services, job search assistance, and job fairs.

6. **Labor exchanges and employment services** are designed to help match employers' job vacancies with workers looking for jobs. They may be operated by the state, particular employers or groups of employers, nongovernment organizations (NGOs) or the private sector.

### C. Social Insurance

7. **Social insurance** programs cushion the risks associated with unemployment, disability, work injury, and old age. These programs are usually tied to replace a specified percentage of a worker's previous earnings, with the percentage a function of work years, level of pay, and often social criteria such as family size and credit for certain nonwork periods (e.g., child care and registered unemployment) or below-average earnings. These programs may be contributory or noncontributory. The former are financed, at least in large part, through earnings-related contributions from employers and/or employees,

whereas the latter are financed from the general budget. Eligibility for benefits under contributory programs is usually limited to those who have made a minimum number of contributions.

8. **Demogrant** is a noncontributory benefit paid to individuals solely on the basis of meeting specified demographic criteria (e.g., age, residence, and disability); normally demogrant benefits are financed on a pay-as-you-go basis.

9. **Unemployment insurance** is a program designed to replace a percentage of prior earnings in covered employment for those who have lost their jobs. Benefits are usually limited to those who were previously employed and tend to last for only a specific period of time. Unemployment insurance is tied to job search requirements and registration with labor exchanges but is not means-tested. Unemployment insurance is usually designed to deal with frictional and structural unemployment. In its latter aspect, it is a tool of macroeconomic policy as well as a means of social protection in that it allows consumption levels to be maintained in the face of temporary declines in employment and output.

10. **Severance pay** programs mandate that employers provide workers who are terminating their employment with a sum of money that is related to past periods of employment and pay. They usually are a liability of the employer for which separate provision has to be made (see “funding”, para. 15).

11. **Work injury or workmen compensation** programs are designed to compensate workers for work-related injuries or diseases. Employers pay premiums to finance costs, with the premiums often related to an employer’s claims experience. In some countries, these programs, although mandated by law, are run through private insurers.

12. **Disability or invalidity insurance** (pension) is usually linked with old-age and survivors’ insurance. Such programs cover both nonwork and work-related injuries or diseases that render a person incapable of working in full or in part. Some countries have programs only for permanent and total disability. Others have programs that compensate a worker for disabilities that limit the hours or type of work an individual can perform. Although tied to initial and ongoing reviews of work capacity, disability insurance programs are not means-tested. Most countries provide disability insurance through public programs, usually financed on a pay-as-you-go basis, but some countries have moved to requiring the purchase of disability cover through private insurance companies.

13. **Survivors’ insurance** (pension) is usually linked with old-age and disability insurance. Two types of protection are involved: (i) death of the insured before retirement, and (ii) death of a pensioner in retirement. In the case of “young survivors” insurance, the primary focus is on surviving children and the surviving caretaker parent, although other dependent family members may be covered. In the case of post-retirement death, the focus is on the survivor of an aged spouse-pensioner. Most countries provide survivors’ protection through public programs, usually financed on a pay-as-you-go basis, but some countries have moved to requiring the purchase of term insurance for young survivors through private insurance companies.

14. **Old-age insurance** or pensions are usually linked with disability and survivors’ pensions, but the options for old-age provision are larger.

- (i) **Pensions**, strictly construed, are periodic payments after retirement for the life of the pensioner (and usually surviving aged spouse). Many countries’ old-age schemes, however, only allow for lump sum withdrawals upon retirement (e.g., provident funds), leaving it to individuals to allocate the sum over their retirement years.

- (ii) **Defined benefit schemes** are ones in which a worker's promised pension or lump sum is a function of a formula tied to years worked, earnings, and social criteria and in which some entity—state, employer, insurance company—bears the financial risk that the promise or entitlement embedded in the formula. **Defined contribution schemes** are ones in which a worker receives an accumulation based on contributions and investment returns and bears the financial risk. Many hybrid schemes exist that contain both defined contribution and defined benefit elements.
- (iii) Many countries finance their mandatory old age (and related disability and survivors) pensions through a state scheme on a **pay-as-you-go basis**. That is, current revenues—mostly from a specific contribution (payroll tax)—are used to cover current benefits. (Such schemes, however, often will have some assets to cover periods of cyclical unemployment or negative wage growth). Some countries finance their mandatory monopoly state pension schemes through a combination of pay-as-you-go financing and funding (see funding). These so-called **partially funded schemes** have large asset reserves designed to hold down future contribution levels.
- (iv) Many countries finance old age provision on a **fully funded basis**. This might be done through a state monopoly scheme, which is usually called a **provident fund**. Another means is a legal mandate imposed on employers, workers, or both to accumulate assets in a special or general purpose financial intermediary (e.g., as in Latin America and Europe) equal to promised benefits or targeted account levels. Such mandated pensions are usually defined contribution pensions.
- (v) Many countries also have **voluntary occupational pension schemes** that are **tax-advantaged** such that accumulations receive a tax-free return and lifetime compensation is more lightly taxed. These tax advantages are sometimes extended to **voluntary individual retirement savings**.
- (vi) Countries often support mandatory and, in some instances, even voluntary funded pensions with explicit guarantees, thus introducing a defined benefit element to what might otherwise be a defined contribution system. These guarantees create **contingent liabilities** for governments.
- (vii) Some countries require coverage through both a **universal state scheme** (entirely pay-as-you-go or partially funded) and a **fully funded scheme** that operates as a mandate on employers or workers.

15. **“Funding”** is a term that has several meanings. The strictest meaning is that the entity that is responsible for the promised pension or the retirement accumulation must hold title to a diversified portfolio of marketable assets equal to the promised pension or the recorded accumulation. However, the term is also used to cover many provident schemes where the accumulation is backed solely or primarily by government bonds that are not generally marketable. Similarly, the term is used by some to cover cases where an employer is making a pension promise backed solely or primarily by its future earnings (“book reserve”).

16. **Universal programs** are not contribution-related and are financed from the general budget. In a few countries, such benefits—typically a children's allowance or a citizens' old-age pension—are a function only of age and citizenship (or residence), though they may be taxable.

#### D. Social Assistance and Welfare Service

17. **Social assistance and welfare service** programs protect those with no other means of adequate support. A few countries use means-tested programs to cover a very large portion of the population against the contingencies of old-age, disability, death, or unemployment.

18. Most countries, however, use a combination of social insurance programs and means-tested social assistance, with the latter reserved for filling the cracks. Social assistance includes government and nongovernment institutions that provide residential care and in-home services to particular groups such as orphans and frail elderly.

19. Four main targeting methods are available:

- (i) **Group targeting** provides benefits to a specific population group (e.g., mothers, children, and communities in a particular geographical area); this is the easiest targeting method, but leakages to the nonpoor are normally large.
- (ii) **Means testing:** means-tested targeted programs provide benefits to households below a certain income level; means testing is more accurate in targeting poverty but has larger transaction costs than group targeting.
- (iii) **Proxy-means testing** is a subset of means-testing, in which targeting is done through other (easy-to-collect) indicators or proxies to correlate the level of income/poverty of beneficiaries; on a temporary basis, it is possible simply to give discretion to local public officials or to a local NGO.
- (iv) **Self-selection** avoids moral hazards by imposing disincentives to participants into programs, either because the benefits are too low or because there is some social stigma associated with them (e.g., food-for-work programs and public works because normally only those truly in need accept them). However, given that benefits are normally below market wages, these programs are not effective in bringing people out of poverty.

20. Most social assistance programs are **means-tested**. Formal means-testing involves conditioning benefits as a function of a person's or household's other income and assets. Some means-tests exclude some income and particularly some assets from the testing. A common exclusion is the house and a minimum amount of agricultural land. Where formal means-tests are not practical, informal approaches to targeting benefits, or **proxy-means testing**, can be employed. These involve using proxies such as household size and composition (e.g., single parent), geographic area, age, and disability as an alternative measure of the need for assistance.

#### E. Micro and Area-Based Schemes

21. **Social funds** are financed by national governments to operate in local communities, sometimes through NGOs, to provide temporary employment in public works and services. Projects selected tend to be those that will improve the local social infrastructure, such as schools, hospitals, and roads. The projects are usually designed to create new facilities and provide employment opportunities to unemployed and underemployed local residents.

22. **Agricultural insurance** is a financial mechanism that aims to reduce the uncertainty of loss by pooling together large numbers of uncertainties so that the burden of loss can be distributed. Agricultural insurance extends the concept of insurance to the different types of agricultural undertakings. Crop insurance is a mechanism through which farmers are protected from losses due to natural causes, including flood, fire, drought, disease, pestilence, wind, hail, etc. Crop insurance can cover a variety of agriculture pursuits, including grain cultivation, livestock, beekeeping, and prawn cultivation. Crop insurance tends to be financed by a levy equal to a modest percentage (usually less than 5 percent) of the value of the crop being insured. Insurance payments may compensate most (e.g., 80 percent) to virtually all of the loss. Agricultural insurance has so far had very limited success, but it is an area of possible intervention if adequately accompanied by reinsurance mechanisms.

23. **Reinsurance for agricultural insurance** allows carriers of agricultural insurance business access to the underwriting capacity and capital of the world market. However, such reinsurance facility can be provided only to technically viable agricultural insurance programs. It is also important for international reinsurers to have trust and confidence in the objectivity of loss estimations, absence of adverse selection/moral hazards, and independence of the program from political interference. A reinsurance facility may be proportional or nonproportional. A proportional or quota share facility is one wherein the reinsurer takes a share in the premium collected (e.g., 40 percent) and assumes the same percentage of a loss. In a nonproportional facility (an example is an excess of loss cover), the reinsurer quotes a fee (sometimes unrelated to the premium charged by the insurer to its policy holders) against which it will pay a loss when it exceeds a set percent of the sum insured up to a higher designated percentage of the sum insured. Reinsurance is an effective risk-transfer mechanism for covariant catastrophic risks to spread the burden of loss globally. It can be a major source of much-needed foreign exchange that can provide a stabilizing effect when a country is reeling from a huge loss.

24. **Microinsurance** refers to voluntary and contributory schemes for the community, handling small-scale cash flows, by way of both income and expenditure, to address community risks. Such schemes are often of a local character and have a very small membership. The primary aim of many of these schemes is to help their members meet the unpredictable burden of out-of-pocket expenses, such as a hospital emergency, death, or funeral expenses. Microinsurance offers the possibility to provide social insurance at affordable prices, expand coverage by having a realistic understanding of the problems that community face, and promote community involvement.

#### **F. Moral Hazard and Adverse Selection Problems**

25. **Moral hazard** refers to the presence of incentives for individuals to act in ways that incur costs that they do not have to bear.

26. **Adverse selection** may occur when the act of providing support against certain risk can increase the likelihood that the undesired risk occurs.

## ADB SOCIAL PROTECTION LOANS 1985-2000

**Table 1: Social Protection - ADB Lending by Year**  
(1986-2000)

	1986-1988	1989-1991	1992-1994	1995-1997	1998-2000	Total	Percent
<b>A. In Amount</b>							
1 Labor Markets	85	243	198	172	704	1,402	39.4
2 Social Insurance	-	-	-	116	111	227	6.4
3 Social Assistance	-	100	105	1	55	260	7.3
4 Micro and Area-Based	-	32	102	175	668	977	27.5
5 Child Protection	-	-	-	45	645	690	19.4
<b>Total Social Protection</b>	<b>85</b>	<b>375</b>	<b>405</b>	<b>509</b>	<b>2,182</b>	<b>3,556</b>	<b>100</b>
ADB Lending	7,452	12,015	13,618	19,868	16,373	69,325	
<b>Percentage SP/ADB Lending</b>	<b>1.1</b>	<b>3.1</b>	<b>3.0</b>	<b>2.6</b>	<b>13.3</b>	<b>5.1</b>	
<b>B. In Numbers</b>							
1 Labor Markets	2	7	5	3	9	26	40.0
2 Social Insurance	-	-	-	2	3	5	7.7
3 Social Assistance	-	1	2	1	1	5	7.7
4 Micro and Area-Based	-	1	4	6	12	23	35.4
5 Child Protection	-	-	-	1	5	6	9.2
<b>Total Social Protection</b>	<b>2</b>	<b>9</b>	<b>11</b>	<b>13</b>	<b>30</b>	<b>65</b>	<b>100</b>
ADB Lending	155	178	181	243	207	964	
<b>Percentage SP/ADB Lending</b>	<b>1.3</b>	<b>5.1</b>	<b>6.1</b>	<b>5.3</b>	<b>14.5</b>	<b>6.7</b>	

**Table 2: Social Protection Loans 1985-2000: Labor Markets**

Year	Country	Name	Amount (\$ million)	Source	Department
1987	MAL	Third Vocational Education	68.8	OCR	AED
1988	PHI	Agricultural Technology Education	15.9	ADF	AED
1989	INO	Second Vocational Education	100.0	OCR/ADF	AED
1989	NEP	Technical Education and Vocational Training	11.8	ADF	AWD
1990	BHU	Technical and Vocational Education Training	7.1	ADF	AWD
1990	BAN	Rural Training	16.3	ADF	AWD
1990	BAN	Rural Women Employment Generation	8.0	ADF	AWD
1991	INO	Technical Education Development	100.0	OCR	AED
1993	PHI	Nonformal Education	25.2	ADF	AED
1993	MON	Employment Generation Project	3.0	ADF	AED
1994	INO	Vocational and Technical Education	85.0	OCR	AED
1994	INO	Vocational and Technical Education	85.0	OCR	AED
1995	MAL	Technical and Vocational Education	72.0	OCR	AED
1995	CAM	Basic Skills	20.0	ADF	AWD
1996	THA	Skills Development	80.0	OCR	AWD
1998	THA	Social Sector Program	500.0	OCR	AWD
1998	VIE	Vocational and Technical Education	54.0	ADF	AWD
1999	PNG	Employment-Oriented Skills Development	20.0	ADF	OPO
1999	SRI	Skills Development	18.8	ADF	AWD
2000	PHI	Technical Education and Skills Development	25.0	OCR	AED
2000	PHI	Fund for Technical Education and Skills	19.9	OCR	AED
2000	PNG	Microfinance and Employment	9.6	ADF	OPO
2000	KGZ	Skills and Entrepreneurship Development	25.0	ADF	AED
2000	RMI	Skills Training and Vocational Education	6.8	ADF	OPO
2000	THA	SME Investment and Restructuring Fund	25.0	Equity	PSG
<b>TOTAL</b>			<b>1,402.1</b>		

Note: Labor markets include (i) active labor markets programs; (ii) direct employment generation (promoting small and medium enterprises, public works); (iii) labor exchanges or employment services (job brokerage, counseling) linking supply with demand of labor; and (iv) skills development programs (vocational and technical training). Passive labor market policies include (i) unemployment insurance, (ii) income support, and (iii) an appropriate legislative framework that strikes a balance between economic efficiency and labor protection.

**Table 3: Social Protection Loans 1985-2000: Social Insurance**

Year	Country	Name	Amount (\$ million)	Source	Department
1997	MON	Health Sector Development Program	15.9	ADF/ADF	AED
1997	KAZ	Pension Reform Program	100.0	OCR	IED
1999	KGZ	Financial Intermediation and Resource Mobilization Program	35.0	ADF	IED
2000	FSM	Basic Social Services	8.0	ADF	OPO
2000	VIE	Rural Health	68.3	ADF	AWD
<b>TOTAL</b>			<b>227.2</b>		

Note: Social insurance includes unemployment insurance, work injury insurance, disability and invalidity insurance, sickness and health insurance, maternity insurance, old-age insurance and life and survivors insurance.

**Table 4: Social Protection Loans 1985-2000: Social Assistance**

Year	Country	Name	Amount (\$ million)	Source	Department
1985	THA	Shelter Sector	38.0	OCR	AWD
1990	PHI	Earthquake Damage Reconstruction	100.0	ADF	IED
1992	PHI	Pinatubo Damage Reconstruction	37.0	ADF	AED
1992	CAM	Special Rehabilitation Assistance	67.7	ADF	PWD
1997	COO	Cyclone Emergency Rehabilitation	0.8	ADF	OPO
2000	BAN	Southwest Flood Damage Rehabilitation	54.8	ADF	IED
<b>TOTAL</b>			<b>298.3</b>		

Note: Social Assistance consists of programs for the most vulnerable, not eligible for any other social protection scheme. Beneficiaries may include orphans, single-parent households, refugees, victims of natural disasters or civil conflicts, the destitute poor; etc. Social assistance interventions may include (i) welfare and social services, institutionalized or community-based, to highly vulnerable sections of the population, such as the physically or mentally disabled, or substance abusers; (ii) cash or in-kind transfers such as, food stamps and family allowances to vulnerable groups; and (iii) temporary subsidies, such as energy life-line tariffs, housing subsidies, or support of lower prices of staple food in times of crisis. Emergency projects have been considered only if based employment-generating public works or other social protection policies.

**Table 5: Social Protection Loans 1985-2000: Micro and Area-Based Approaches to Protect Communities**

Year	Country	Name	Amount (\$ million)	Source	Department
1985	INO	Forestry Development	28.0	OCR	AED
1989	PHI	Low Income Upland Communities	32.0	ADF	AED
1992	PAK	Northwest Frontier Area Development	32.8	ADF	AWD
1992	SRI	Participatory Forestry	10.5	ADF	AWD
1992	INO	Upland Farmer Development	30.0	ADF	AED
1992	BAN	Rural Poor Cooperative	28.9	ADF	AWD
1996	CAM	Basic Health Services	20.0	ADF	AWD
1997	PHI	Fisheries Resource Management	35.2	OCR/ADF	AED
1997	INO	Coastal Community Development and Fisheries	41.0	OCR/ADF	AED
1997	INO	Rural Income Generation	78.6	OCR	AED
1998	BAN	Rural Livelihood	42.6	ADF	AWD
1998	KGZ	Social Services Delivery and Finance	10.0	ADF	AED
1998	PHI	Agrarian Reform Communities	93.2	OCR	AED
1999	INO	Community and Local Government Support	320.0	OCR	AED
1999	TAJ	Social Sector Rehabilitation Project	20.0	ADF	AED
2000	INO	Community Empowerment for Rural Development	115.0	OCR/ADF	AED
2000	INO	Marine and Coastal Resources Management	50.0	ADF	AED
2000	MON	Agriculture Sector Development Program	17.0	ADF/ADF	AED
<b>TOTAL</b>			<b>1,004.8</b>		

Note: Micro and area-based schemes for the informal sector (urban or rural) include schemes such as microinsurance, agricultural insurance, community-based social funds, and disaster preparedness. Disaster relief is excluded. Microfinance projects are also excluded, except when they include microinsurance, promote community self-help or other social protection policies.

**Table 6. Social Protection Loans 1985-2000: Child Protection**

<b>Year</b>	<b>Country</b>	<b>Name</b>	<b>Amount (\$ million)</b>	<b>Source</b>	<b>Department</b>
1996	INO	Family Health and Nutrition	45.0	OCR	AED
1998	PHI	Early Child Development Project	24.5	OCR/OCR	AED
1998	LAO	Basic Education (Girls)	20.0	ADF	AWD
1998	INO	Social Protection Sector Development	300.0	OCR	AED
1999	INO	Health and Nutrition Sector Development Program	300.0	OCR	AED
<b>TOTAL</b>			<b>689.5</b>		

Note: Child protection activities may include matters pertaining to early child development, school feeding programs, scholarships or school fee waivers, mother and child fee waiving in health services, street children initiatives, child rights advocacy and awareness programs against child abuse, child labor, and family allowances to meet children's basic needs. Basic education and health projects are excluded.

**ADB SOCIAL PROTECTION STRATEGY ACTION PLAN**  
(as per 5 July W-paper Review of the Organization of the ADB)

Issue	Proposed Action:	Timing	Responsible ADB Division	Strategic partners
<b>Determination of Social Protection Country Priorities</b>				
ADB to selectively develop social protection interventions in DMCs. Priorities determined by <ul style="list-style-type: none"> <li>▪ country needs,</li> <li>▪ available resources,</li> <li>▪ feasible institutional arrangements, and</li> <li>▪ ensuring success by taking into account the political economy of reform.</li> </ul>	Country poverty analysis will determine if social protection intervention are necessary/adequate in a DMC, and if so, prioritize needs through a vulnerability profile, a summary labor market analysis, a social expenditure review (part of the governance assessment), and evaluation of institutional and political capacity for reforms. The selected interventions and their justification will be reflected in the country strategy and program (CSP)	Starting 2002	<ul style="list-style-type: none"> <li>▪ Country division unit</li> <li>▪ Resident missions</li> <li>▪ Social sector divisions</li> </ul>	DMC, Governments, WB, ILO, UN
<b>Lending and Nonlending Project Activities</b>				
Selected ADB interventions in social protection (either in labor markets, social insurance, social assistance, micro and area-based schemes or child protection) to ensure that vulnerable populations, particularly the poor, effectively reduce their exposure to risks and improve their prospects for human capital development.	Selected social protection interventions (loans/TAs) to address the following priorities: <ul style="list-style-type: none"> <li>▪ Adequate coverage,</li> <li>▪ Targeting vulnerable population groups and gender issues,</li> <li>▪ Sustainability and good governance, and</li> <li>▪ Integrated approach to social protection.</li> </ul>	Starting 2002	<ul style="list-style-type: none"> <li>▪ Social sector divisions</li> <li>▪ Other sector divisions</li> </ul>	DMC, Governments, WB, ILO, UN, private sector, NGOs
<b>Collateral Issues and Safeguards</b>				
Ensure that vulnerable groups are not negatively affected as a result of an ADB intervention.  ADB to promote good social protection practices.	<ul style="list-style-type: none"> <li>▪ Vulnerability and labor issues identified in the projects' social impact assessments (OM 47)</li> <li>▪ If needed, and as mandated by OM 47, mitigation plans developed to compensate affected populations and avoid creating poverty, such as               <ul style="list-style-type: none"> <li>▪ Labor retrenchments</li> <li>▪ Temporary safety nets for adversely affected vulnerable populations (e.g., tiered pricing of utilities, exemption from user charges, allowances)</li> </ul> </li> <li>▪ ADB to design and formulate interventions ensuring they comply with the international Core Labor Standards.</li> <li>▪ ADB to take all necessary and appropriate steps to ensure and monitor that ADB-financed procurement of goods and services, contractors, subcontractors, and consultants will comply with the country's labor legislation (e.g., minimum wages, safe working conditions, and social security contributions, etc.) as well as with the Core Labor Standards.</li> </ul>	Starting 2002	<ul style="list-style-type: none"> <li>▪ Sector divisions</li> <li>▪ Office of the general counsel</li> <li>▪ Resident missions</li> <li>▪ Social dev't division (RSD)</li> <li>▪ Operation services office</li> </ul>	DMC, Governments, private Sector NGOs, ILO
<b>Institutional Issues</b>				
Social protection demands new skills and staff.	<ul style="list-style-type: none"> <li>▪ At least one new staff as social protection specialist in each subregional social sector division, including the Office of Pacific Operations (OPO);</li> <li>▪ One staff person in the Social Development Division (RSD)</li> <li>▪ Staff to be (i) recruited, and (ii) retrained.</li> </ul>	Starting 2002	<ul style="list-style-type: none"> <li>▪ BPMS</li> </ul>	Possibility of staff exchanges WB, ILO and ADB
Training.	<ul style="list-style-type: none"> <li>▪ External training.</li> <li>▪ Internal training.</li> </ul>	Starting 2002	<ul style="list-style-type: none"> <li>▪ BPMS</li> <li>▪ ADBI</li> <li>▪ Social dev't division (RSD)</li> </ul>	WB, ILO, other aid agencies
Formalizing ADB strategic partnerships.	<ul style="list-style-type: none"> <li>▪ MOUs with ILO, WB, UN.</li> </ul>	2001-02	<ul style="list-style-type: none"> <li>▪ SPD</li> </ul>	ILO, WB, UN
Trade unions to have an official interlocutor at ADB.	<ul style="list-style-type: none"> <li>▪ NGO center attending to trade unions.</li> </ul>	2001	<ul style="list-style-type: none"> <li>▪ NGO center</li> </ul>	-
Coordination implementation social protection strategy.	<ul style="list-style-type: none"> <li>▪ Issuing manuals and guidelines.</li> <li>▪ Monitoring implementation of SPS.</li> </ul>	Starting 2002	<ul style="list-style-type: none"> <li>▪ Soc dev't division (RSD)</li> </ul>	DMC Governments