

Appendix 2:

Glossary of Social Protection

Terms¹

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.

"*Social safety net*" and "*social security*" are sometimes used as an alternative to "social protection." The Asian Development Bank (ADB) Interdepartmental Working Group found that in describing the range of developmental concerns with which this volume is dealing, however, 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 volume, 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.

Labor market policies and programs 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 and/or occupation. The outcomes of this process include the level of (un)employment, pay and employment conditions.

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.

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

¹. Source: ADB Interdepartmental Working Group on Social Protection.

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, by particular employers or group of employers, by NGOs or by the private sector.

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 family size and credit for certain nonwork periods (e.g., child care, registered unemployment) or below-average earnings. These programs may be either 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.

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

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.

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" below).

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

Disability or invalidity insurance (pensions) 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. Though 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.

Survivors' insurance (pensions) is usually linked with old age and disability insurance. Two types of protection are involved: (a) death of the insured before retirement, and (b) 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.

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

- *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.
- *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 of 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. The worker bears the financial risk. Many hybrid schemes exist that contain both defined contribution and defined benefit elements.
- 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 below). These so-called *partially funded schemes* have large asset reserves designed to hold down future contribution levels.
- Many countries finance old age provision on a *fully funded basis*. This might be done either 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.
- 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*.

- Countries often surround 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.
- 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.

“*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”).

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.

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.

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 also includes government and nongovernment institutions that provide *residential care and in-home services* to particular groups such as orphans and frail elderly.

Four main targeting methods are available:

- *Group targeting*. provides benefits to a specific population group (e.g., mothers, children, communities in a particular geographical area); this is the easiest targeting method but leakages to the nonpoor are normally large.
- *Means testing*. Means-tested targeted programs provide benefits to households below certain income level; means testing is more accurate in targeting poverty but it has larger transaction costs than group targeting.
- *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.
- *Self-selection* avoids moral hazard 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, public

works because normally only those in truly need would accept them). However, given that benefits are normally below market wages, these programs are not effective in bringing people out of poverty.

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, disability as an alternative measure of the need for assistance.

Social funds are parastatal agencies financed by national governments to operate in local communities, sometimes through NGOs, to provide temporary employment in public works and essential basic services. Projects selected tend to be those that will improve the local social infrastructure and services, such as schools, hospitals, and roads.

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 very limited success, but it is an area of possible intervention, if adequately accompanied by reinsurance mechanisms.

Reinsurance for Agricultural Insurance allows carriers of agricultural insurance business to have 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 non-proportional. 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 non-proportional 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 sum insured up to a higher designated percentage of the sum insured. Reinsurance is an effective risk-transfer mechanism for co-variant 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.

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 in meeting the unpredictable burden of out-of-pocket expenses, such as a hospital emergency, death, and funeral expenses. Microinsurance offers the possibility to provide of social insurance at affordable prices, expand coverage by having a realistic understanding of the problems that community face, and promote community involvement.

Disaster preparedness and management refers to those programs designed to reduce an area's vulnerability to hazards and catastrophic natural disasters. The variety of interventions comprises from highly sophisticated weather forecasting systems at the regional and national levels to community-based disaster preparedness programs.

Micro and area-based approaches include small-scale programs to protect those in the informal sector and reduce vulnerability in rural or urban communities. Examples of micro and area-based approaches include microinsurance, agricultural insurance, sustaining community livelihoods, social funds, and community-based disaster preparedness.

Child protection is the set of social policies and programs targeted to children to avoid all forms of abuse and exploitation, such as child labor, child prostitution, or discrimination against the child girl, and ensure the healthy and adequate development of the future labor force. Children, as defined by the United Nations Convention on the Rights of the Child, comprise persons under 18 years old. In Asia and the Pacific, children and youth below 19 constitute 40 percent of the population—child protection is a highly relevant social protection topic in the region.

Early Child Development (ECD) programs refer to integrated health, nutrition and psychological/educational development interventions for pre-schoolers, both though institutional care (nurseries and kindergartens) and family environments to ensure that children are immunized, well-nourished with adequate micronutrient and vitamin supplementation, and that parents provide an intellectually stimulating, socially adjusting and emotionally supportive environment for their children. ECD programs rank among the most cost-effective social development interventions