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Strategies for Improved Social Protection: Social Protection in Asia and the Pacific

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I. INTRODUCTION

Social protection is the set of policies and programs designed to promote efficient and effective labor markets, protect individuals from the risks inherent in earning a living either from small-scale agriculture or the labor market, and provide a floor of support to individuals when market-based approaches for supporting themselves fail. Social protection aims to reduce vulnerability by diminishing people's exposure to risks and enhancing their capacity to protect themselves against hazards and interruption/loss of income. When implemented properly, these policies and programs can make a major contribution to the ADB's overarching mission of reducing poverty.

Recent events underscore the need for greater attention to social protection issues in this region.

- (i) The South East Asia crisis countries have discovered that inadequate and under-developed 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) Countries now in transition from command economies to market 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 to the workforce to ensure higher productivity gains, increased domestic demand and economic growth; and
- (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, issues regarding the adequacy of social protection and social safety nets to maintain progress made to date, and assure future progress in social development are being brought to the forefront of the development agenda of in many DMCs and in the ADB.

Different kinds of reforms are needed in different places. Where social protection systems have become too expensive and are no longer appropriate for the economies they serve, they need to be restructured and consolidated. Where these systems are inadequate to deal with the major risks facing both rural and urban populations, social protection needs to be extended and expanded. The ultimate goal is the provision of social protection for all citizens of the Asia-Pacific region through the development of sound, well-design statutory programs with universal coverage.

Addressing these social protection issues in a coordinated and systematic way involves at least two new challenges for the ADB:

- (i) Social protection involves complex analytical and technical issues, many of which represent new areas of concern for the ADB; the ADB will need to invest in its own human capital to acquire the necessary new skills and work capacities; and
- (ii) Social protection policies and programs must often strike a balance among multiple social and economic objectives. The various multiple objectives have traditionally been the focus of different units within the ADB; to assure proper balance among the various objectives, the ADB will need to develop new procedures for managing work and coordinating efforts among its various units.

The Strategy begins with a discussion of the social protection needs in Asia and the Pacific, the definition and areas of social protection, and the different social protection systems in the region. It then focuses on the various criteria that might be used to judge whether a particular approach was appropriate in any given situation, including a review of critical elements such as coverage, sustainability, institutional and political capacity for reforms. It is to be expected that protection policies will vary from one country to another owing to variations in traditions, institutions, the degree of development and social preferences; this topic is explored next. The Strategy ends with a summary of the main conclusions and a discussion of operational implications for the ADB.

II. OVERVIEW OF SOCIAL PROTECTION

A. Social Protection Needs in Asia and the Pacific

With half the world's population, more than 900 million poor, and about 40 percent of the population below 19 years-old, the development challenge of the Asia-Pacific region is to achieve sufficient pro-poor sustainable growth to secure the inclusion of the poor and the 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 or towards poverty, and thus societies will have to take steps to reduce their vulnerability and to cope with the effects when risks occur. Risks may include from natural disasters, civil conflicts and economic downturns of which the 1997 Asian financial crisis is the most recent example, to idiosyncratic household reversals, which take the form of crop failures, unemployment, illness, accident, disability, death, and old age all affecting incomes and threaten 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.

Generally, four main types of risk to the poor can be identified: (i) lifecycle, (ii) economic, (iii) environmental and (iv) social/governance related (Table 1). Some risks affect all population groups equally; some have more intense impacts on the poor. The poor have high vulnerability to risk and are constantly pre-occupied with risk averse and coping strategies to avoid sinking further into poverty. Social risk is a dynamic concept - insecurity means exposure to risks, which if they eventuate, result in yet further vulnerability. Whilst vulnerability can affect everyone, the poor and the near poor are particularly at risk since they have fewer assets, reserves, or other opportunities, to fall back on.

There are many risk reduction mechanisms, formal and informal, public and private sector delivered. Social Protection presents a variety of instruments to deal with most of these risks. The long-term solution of vulnerability depends on good social and economic development decisions that address the structural causes of vulnerability. Development policies should therefore (i) include proactive interventions to reduce vulnerability and support populations to overcome poverty; and (ii) try not to alter existing community mechanisms to cope with risk given that these provide a level of social protection to the population. 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.

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

RISK ASSESSMENT	RISK REDUCTION MEASURES		
Types of Social Risks to the Poor	Household Informal Mechanisms	Options for Public Sector Intervention	Options for Private Sector Mechanisms
<p>Lifecycle:</p> <ul style="list-style-type: none"> ▪ Hunger/child stunted development ▪ Illness/injury ▪ Disability ▪ Old age ▪ Death 	<ul style="list-style-type: none"> ▪ Extended family support ▪ Hygiene/preventive health ▪ Asset depletion/consuming savings ▪ Debt 	<ul style="list-style-type: none"> ▪ Health and nutrition policy/services ▪ Social insurance policy, mandatory insurance for illness, disability, life, old age, microinsurance ▪ Social assistance, ▪ Child protection 	<ul style="list-style-type: none"> ▪ Provision health services ▪ Health, disability, life insurance and reinsurance ▪ Microinsurance ▪ Old-age annuities
<p>Economic:</p> <ul style="list-style-type: none"> ▪ End of source of livelihood (i.e. crop failure, cattle disease) ▪ Unemployment ▪ Low income ▪ Changes in prices of basic needs ▪ Economic crisis and/or transition 	<ul style="list-style-type: none"> ▪ Diversification of source of livelihood (i.e. crop diversification) ▪ Private transfers/ Extended family support, child labor ▪ Assets/savings depletion ▪ Reduced consumption of basic goods ▪ Debt ▪ Migration 	<ul style="list-style-type: none"> ▪ Sound macroeconomic and sector policies to promote inclusive economic opportunities ▪ Particularly, regional and rural development policies, including microinsurance ▪ Labor market policies ▪ Education and training ▪ Social funds 	<ul style="list-style-type: none"> ▪ Employment generating private sector investment ▪ Agricultural/livestock insurance, re-insurance, microinsurance ▪ Banking services to the poor, microfinance ▪ Providing training
<p>Environmental:</p> <ul style="list-style-type: none"> ▪ Drought ▪ Flood/Rains ▪ Earthquake ▪ Landslides 	<ul style="list-style-type: none"> ▪ Migration ▪ Community action for Infrastructure and resource management ▪ Private transfers / extended family support ▪ Assets/savings depletion 	<ul style="list-style-type: none"> ▪ Environmental policy and Infrastructure investment ▪ Catastrophe prevention/ mitigation programs including insurance against natural disasters 	<ul style="list-style-type: none"> ▪ Agricultural/ livestock/catastrophe insurance and reinsurance
<p>Social/Governance:</p> <ul style="list-style-type: none"> ▪ Exclusion, loosing 	<ul style="list-style-type: none"> ▪ Maintaining community networks (reciprocal gifts, support, arranging 	<ul style="list-style-type: none"> ▪ Promoting good governance, antidiscriminatory policies 	<ul style="list-style-type: none"> ▪ NGOs and CBOs ▪ Good corporate governance securing

RISK ASSESSMENT	RISK REDUCTION MEASURES		
Types of Social Risks to the Poor	Household Informal Mechanisms	Options for Public Sector Intervention	Options for Private Sector Mechanisms
social status/capital ▪ Extortion/ corruption ▪ Crime, domestic violence, social anomia ▪ Political instability	marriages, etc) ▪ Community pressure ▪ Women groups ▪ Migration	and anticorruption practices ▪ Public information campaigns ▪ Providing security and equal access to justice	fare employment opportunities and provision of services regardless of race, gender, caste or political affiliation.

The large variety of risks is not addressed by Social Protection alone. Social protection is not the entirety of development activities. Social protection instruments are generally not considered for risk reduction or risk diversification; for this, other instruments are available (i.e. infrastructure investment for flood control). Sound development policies and investments are ways to reduce the probability or even eliminate such risks. Social protection programs are primarily built to either mitigate the impacts of shocks or possible occurrences (e.g. old-age) or to help people cope with risks if they occur. The boundaries between social 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, and given the demographic characteristics of Asia and the Pacific, the ADB has developed a definition of social protection based on labor markets and small-scale agriculture, which links with the ADB's role of promoting growth and reducing poverty in Asia and the Pacific.

Figure 1. Demographic Trends for World Population, 2000-2015 (Thousands)

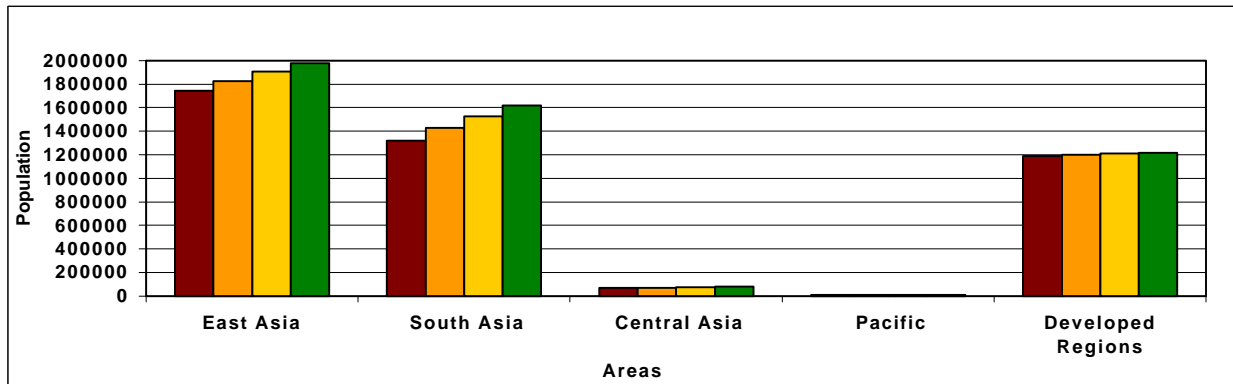
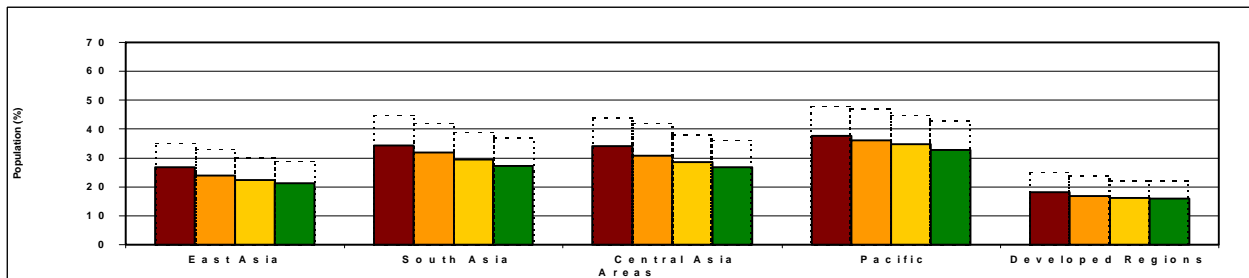
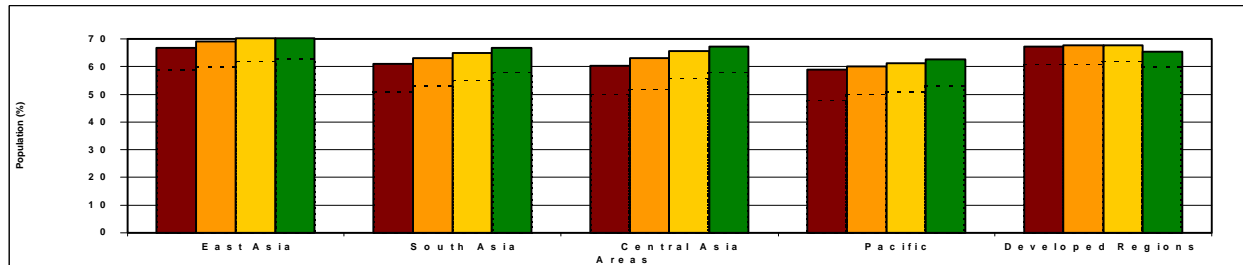


Figure 2. Demographic Trends for Age Group 0-14/0-19, 2000-2015 (Percentage of Total Population)



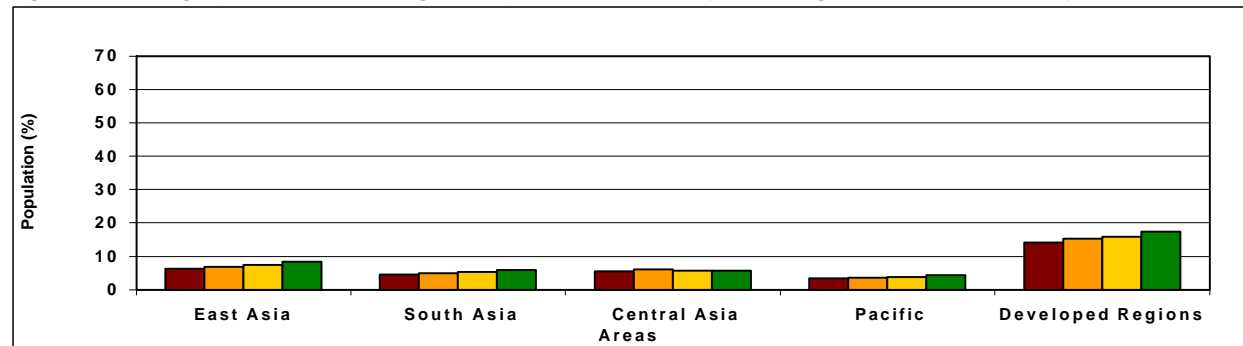
* Dotted lines refer to 0-19 age group

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)

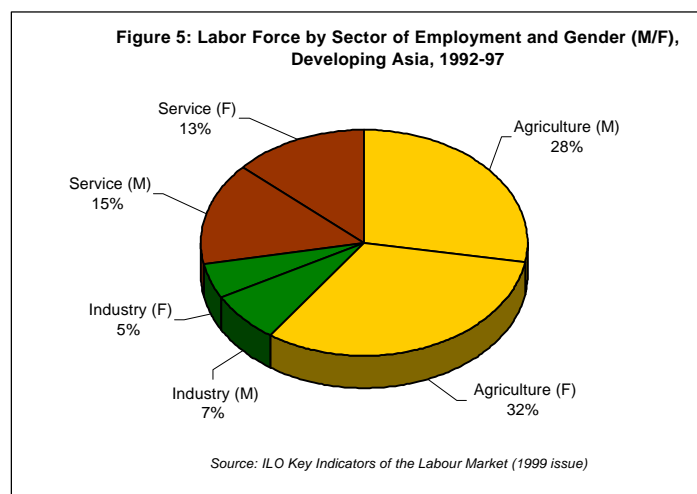


Legend:

2000 2005 2010 2015

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

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 Pacific region is still experiencing the effects of the demographic explosion; the total population is 3.1 billion, of this 40 percent are children and youth. The most pronounced general effects are reflected in figures 1 to 4. The demographic transition has started in Asia; there is a progressive decrease in the amount of infants and a progressive increase of the elderly. However, the major issue in years 2000-2015 is the predominance of children and the young new entrants into the labor market: In 2000, 30 percent of the population is below 14, the figure reduces to 25 percent of the total population in 2015, still remarkably high. If we consider the international definition of children (0-18), the population group represents as much as 40 percent of the total population in 2000, steadily declining to 34 percent in 2015. This has clear implications for education, health, population policies, child protection and labor market policies for the realization of human potential and the creation of opportunities for self-reliance in order to transform the vicious cycle of poverty into a virtuous cycle of growth and human development.



More than 60 percent of the population in Asia lives in rural areas. Inter alia, most of the poverty in the region is rural-based, although urban poverty is increasing. Around 900 million, or 30 percent of the developing Asia-Pacific population, 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 are a constraint to expand traditional social protection instruments given that these products are not affordable neither attractive to the poor. The priorities of the poor are sustaining the source of livelihood, food, shelter, clothing,

avoidance of natural disasters, and the health of the breadwinner – and not, for instance, old-age insurance.

Asia is a young, rural continent: social protection programs and policies should be build to respond to Asia's needs. The Asia 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. Developing well designed social protection systems for the excluded majority will not only have good social and political effects, but also promote economic development by increasing the productivity of the labor force, helping labor markets to allocate workers to their most productive uses, facilitating investment in human capital and encourage farmers and the informal sector to undertake more entrepreneurial activities once these groups are above survival level. Critical priorities in Asia and the Pacific are the design of affordable programs for this excluded majority and creation of sufficient economic activity to absorb all the young new entrants into the labor market.

B. The Definition of Social Protection

Social protection is the set of policies and programs designed to promote efficient and effective labor markets, protect individuals from the risks inherent in earning a living either from small-scale agriculture or the labor market, and provide a floor of support to individuals when market-based approaches for supporting themselves fail.¹ The relationship between social protection and other aspects of social development is explored later in connection with a discussion of the ADB's long-term strategic framework.

The policies and procedures included in social protection can be thought of as involving five major kinds of activities:

- (i) *Labor market* policies and programs designed to facilitate labor adjustments and promote the efficient operation of labor markets;
- (ii) *Social insurance* programs to cushion the risks associated unemployment, health, disability, work injury, and old age;
- (iii) *Social assistance and welfare service* programs to provide a floor for those with no other means of adequate support;
- (iv) *Micro and area-based schemes* to cushion the risk to agricultural incomes from crop failure or temporary market disruptions, and address reduction of risk and vulnerability at the community level; and
- (v) *Child protection*, to secure the healthy and adequate development of the Asian workforce.

1. "Social safety net" and "social security" are sometimes used as an alternative to "social protection." The ADB Interdepartmental Working Group found that in describing the range of concerns with which this strategy 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 strategy, others use it to refer only to welfare targeted programs to the poor. On the other hand, the term "social security" seems to be used to refer to the comprehensive mechanisms and coverage in OECD countries, and less applicable to new areas such as community an area-based schemes.

Box 1: Social Protection: Intended Clientele/Targeted Vulnerable Groups	
Labor Market Programs	Population in working age, being either wage or non-wage employees (formal or informal), employed, unemployed or underemployed
Social Insurance	The ill/sick, elderly, widows, disabled, pregnant mothers, unemployed eligible to the 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; and the ill, sick, elderly, widows, disabled, pregnant mothers and unemployed non-eligible to insurance schemes
Micro and Area-based Schemes	Rural and urban communities at risk
<i>Child Protection</i>	Children and youth (0-18 years)

The following sections describe each of the five components of social protection, including issues to be addressed by the ADB as safeguards of lending activities.

1. Labor Markets

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 the majority of workers and their families. Improving labor market operations is an important element of strategies to reduce poverty, facilitate human capital development and address gender inequalities. 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. Labor standards and active labor market policies can encourage investment in human capital by discouraging child labor (and encouraging continued schooling) and by encouraging both employers and workers to invest in upgrading of worker skills. They help assure that worker skills are put to their most productive uses. These programs are particularly valuable where enterprise restructuring requires reductions in employment and enhancing the skills of those that remain.

Labor market improvements to enhance social protection might include the following:

- (i) *Active labor markets programs* include (a) direct employment generation (i.e. SME promotion, public works), (b) labor exchanges or employment services (i.e. job brokerage, counseling) linking supply with demand of labor, and (c) skills development programs, labor training and re-training;

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- (ii) *Passive labor market policies* include (a) unemployment insurance, (b) income support and (c) appropriate labor legislation and labor standards that provide adequate worker protection without creating barriers to labor mobility and economic development. Appropriate standards might address minimum ages, maximum hours and the special protections appropriate for new mothers and anti-discrimination activities to protect women and minority populations. Among those, the most fundamental are the core labor standards: (a) freedom of association, (b) elimination of all forms of forced labor, (c) elimination of discrimination from the workplace, and (d) prohibition on child labor. All Asian and Pacific DMCs² by virtue of being a member of the ILO, are held to respect, promote and realize the fundamental core labor standards. Labor standards and labor legislation need to strike a balance between economic efficiency and labor protection including avoidance of excessive barriers to labor adjustments and other provisions that might discourage expansion of enterprises and productivity improvements;
 - (iii) *Labor market assessments*: In order to properly identify development options, ADB country strategies should have a labor market assessment which would at least describe demographic trends, labor absorbing sectors, unemployment, migration flows, the size/ causes of the informal sector, to understand the population patterns and country needs; and
 - (iv) *Safeguards*: In case of public or private enterprise restructuring, the ADB should ensure that employees, particularly low-income workers, are not unfairly disadvantaged as a result of an ADB intervention; and study ways to prevent mass lay-offs, compensate laid-off workers or redeploy them in some labor market program. Additionally, ADB loans should avoid dealing with contractors engaging in illegal or unfair labor practices, not complying with the country's prevalent labor legislation (i.e. minimum wages, safe working conditions, social security contributions, etc).

Box 2: Mass Lay-offs and Retrenchment Plans: There are three major sources of mass layoffs: (i) market shifts (cyclical or structural); (ii) privatization and/or deregulation; (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 given that the number of affected workers is normally larger than in western societies; the political context may not be favorable to collective bargaining; and often, the labor market is saturated and demand for labor low. There are three major policy options to mitigate possible negative impacts of lay-offs: (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 win on productivity/wage cost rationalization so as to enhance enterprise competitiveness, and workers 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 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 (i.e. unemployment insurance, vocational/technical training centers, employment bureaus) are critical elements when assessing a retrenchment

2. Social Insurance

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

- (i) *Unemployment* insurance to deal with frictional (sometimes structural) unemployment;
- (ii) *Work injury* insurance to compensate workers for injuries or diseases that are work related;
- (iii) *Disability/invalidity* insurance, normally linked to old-age pensions, to cover for full or partial disability resulting from work or non-work activities;
- (iv) *Sickness/Health* insurance, to protect workers from diseases;
- (v) *Maternity* insurance, to provide benefits to mothers during pregnancy and post-delivery lactating moths;
- (vi) *Old-age* insurance, to provide income support after retirement; and
- (vii) *Life/Survivors* insurance, normally linked to old-age pension, to ensure that dependents get a compensation for the loss of the bread-winner;

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 non-contributory; handled either by public sector or private sector institutions. Where 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 to high transaction costs, adverse selection and moral hazard. The risks that affect an entire population simultaneously are even more difficult to address through private insurance, owing to the inability to calculate the probability of their occurring and the high correlation of individual losses. Additionally, the high transaction costs associated to services low income communities and marginal areas make private insurance unattractive to both companies and customers.

Most countries evolved towards a multipillar mixed public-private system that contained 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 own unique social traditions. It is also important to strike the proper balance between the social gains from improved protection and the economic losses than can occur if a system becomes too generous.

3. Social Assistance

Social assistance and welfare services provide an alternative to social or other forms of insurance and as well as a floor of 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 on younger persons can also promote longer-term growth and development, however, by encouraging greater investment in human capital.

Social Assistance, sometimes called Social Safety Nets, to support the poor and vulnerable, may include among others:

- (i) *Welfare/social services* to highly vulnerable populations, institutionalized or community-based, such as the physically or mentally disabled, orphans, substance abusers, etc,
- (ii) *Cash or in-kind transfers* to vulnerable groups, for instance, food stamps, family allowances;
- (iii) *Temporary subsidies*, such as energy life-line tariffs, housing subsidies, or support of lower prices of staple food in times of crisis; and
- (iv) *Safeguards*. Attention should be paid to possible short-term negative impacts of Policy-Based lending, for instance, policy reforms involving increased prices and/or loss of entitlements to the poor; in those cases, adequate mitigation measures should be envisaged to ensure that no ADB intervention has an adverse effect on the poor/vulnerable. With regard to investment loans, many projects can develop handicapped-friendly infrastructure to allow disabled populations to benefit from public investments.

4. Micro and Area-Based Schemes

Micro and area-based schemes provide the same sort of social protection to small-scale agriculture and the informal sector that the more traditional social insurance programs supply to the urban labor force. Microinsurance offers the option to insure the poor from 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, they can reduce vulnerability at the community level and promote more sustainable rural livelihoods.

Microinsurance: The use of the term micro-insurance refers to voluntary and contributory schemes for the community, handling small-scale cash flows to address major community risks; often such schemes are in fact 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, funeral expenses. In recent years various groups of workers in the informal economy have set up their own micro-insurance schemes. These schemes are independently managed at the local level and sometimes the local unit links into larger structures that can enhance both the insurance function and the support structures needed for improved governance. Such schemes may operate within the context of a microcredit scheme, which has already had experience with the collection of contributions and administration of payments.

Microinsurance is an emerging topic with high potential. Microinsurance offers the possibility of providing social insurance at affordable prices, expand coverage by having a realistic understanding of the problems that community face, and promote community involvement. Options for the future include the pooling of different existing organizations, private-public partnerships, an assess the role of reinsurance. A second approach is to devote more effort to the marketing of micro-insurance, as a large percentage of the target population is still not well informed of the benefits of being insured. Linked to this is the need to strengthen the credibility of micro-insurance. Subsidization of micro-insurance is undoubtedly a promising way to expand its coverage, but this is entirely dependent on the capacity and will of the State to redistribute income through the tax system from the rich to the poor.

Box 3. The SEWA Microinsurance Scheme, India: The Self-Employed Women's Association (SEWA) is a registered trade union working mainly with women in the unorganized sector. Since 1972, its struggle has been to ensure that the minimum wage is obtained, to provide legal recourse where necessary, to target overall work-security; and to ensure democratic representation at every level of the organization. Membership in the trade union is almost a quarter of a million. They are mostly often 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 whether to become members of the scheme (at present, approximately 14% 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 Rs. 60 (or US\$1.5) per annum for the combined asset and health insurance package and an additional Rs. 15 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 staff and SEWA Union staff. Mobile services are also available for premium collection (which are normally associated with microfinance deposits and loan repayment collections).

Agricultural insurance is a form of protection that is available to the farming communities. It is a financial mechanism in which the uncertainty of loss in the farms is minimized by pooling 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, drought, hail, frost, earthquakes, volcanic eruptions, plant pests and diseases, etc. The risks of loss can be spread either temporally or spatially. With reinsurance, the risks can be further spread across national boundaries. Thus, during natural disasters of widespread proportion when the nation's finances are at their ebb, other countries share in the national burden. Agricultural insurance can be an effective tool for the development of the rural economy when implemented as part of a package of support services in the rural areas.

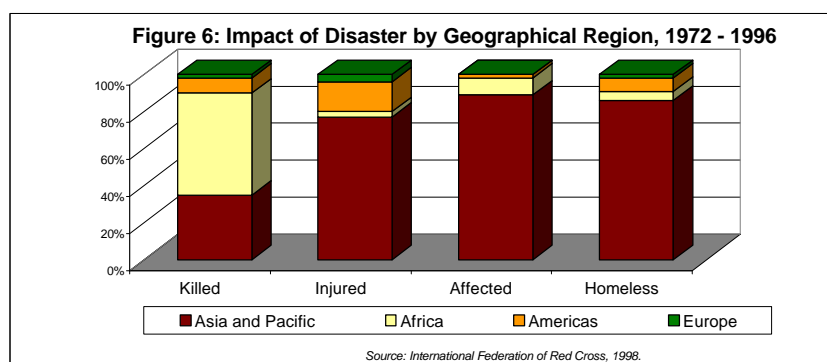
Social funds have evolved recently in other parts of the world as mechanisms to channel public resources to particularly pressing social needs. Community-based Social Funds are agencies, typically managed at the local level, empowering communities, NGOs and local governments, which provide finance for small-scale projects, normally infrastructure schemes and livelihood programs to community groups. They provide direct poverty relief and encourage skill development while contributing to a community's social capital.

Box 4. Post-conflict Poverty Reduction and Community-building: The SZOPAD Social Fund, Philippines

The SZOPAD (Special Zone of Peace and Development) Social Fund, for \$15.33 million, was approved in 1998 following the September 1996 agreement between the Government and the MNLF (Moro National Liberation Front) to end the long-running conflict in Mindanao. The objective of the Fund is to increase access of the poor, and those affected by the conflict, to economic and social infrastructure, services and employment opportunities, and to 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 prioritizes the poor, MNLF combatants, Lumads (indigenous peoples) and communities affected by the armed conflict. The Fund provides grant finance to local government, NGOs 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, equipment and essential medicine. The Fund duration is three years, with a possibility for a roll over, expansion or replication. The Fund was established by Executive Order in October 1997 as an independent legal entity, principally to avoid political interferences; 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 in order to attract competent and motivated individuals and reduce risk of corruption. Streamlined procurement and disbursement rules and regulations have been agreed to speed-up implementation.

The 1997 financial crisis, and the growth of countries undergoing economic transition have led to an increase in social funds and social fund-style projects in Asia.² The use of social fund methodology based within local government, as a means of promoting good local governance and piloting decentralized management and financing of small infrastructure is now a feature of some countries in Asia.

Disaster Preparedness and Management is essential to assist communities in risk coping and mitigation. As shown in figure 6, the Asia Pacific region is area where most people are injured,



affected and homeless as a result of disasters. Victims of catastrophes are usually assisted by Government and donor relief programs, including the ADB through its rehabilitation assistance

2. Since the first social fund was established in Bolivia in 1986, the World Bank had approved 11 social funds in Asia, for a total of \$661 million.

window.³ However, given the important economic and human loss caused by disasters, the critical issue is to invest on disaster preparedness. Different countries in Asia and the Pacific 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 activities 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.

5. Child Protection

Child Protection is key to ensure the adequate development of the Asia-Pacific workforce. Children, now defined internationally as under 18 years of age, represent a major proportion of the population in most Asia-Pacific countries – 40 percent as an average. Investment in children is a key factor in poverty reduction, economic growth and sustainability but is usually only a small proportion of national budgets, even though there is ample evidence that even the small investments currently made bring considerable future benefits to society as a whole.

In the legislation of most countries children under 15 years of age are excluded from the formal labour market. The consequence is that, to the extent that social protection is predicated on linkages to the labor market (social insurance, pensions, sickness benefits) as well as to the extent that social assistance is organised around the notion of household (and household heads are not children in official categories at least), children are excluded as individual recipients from social protection. They thus become only beneficiary endpoints through their membership of other institutions (families, households, schools, projects). Because children have not contributed to social protection schemes, and children of the poor are particularly cut off from such benefits including social assistance, they are frequently and misleadingly perceived to be a net cost to society. Yet, children may be perceived within informal systems as being in themselves a form of social insurance and social protection.

3. Operations Manual (OM) Section 25: Rehabilitation Assistance After Disasters, revised 1995.

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

- (i) *early child development* to ensure a balanced psychomotive development of the child through basic nutrition, preventive health and educational programs;
- (i) *school feeding programs*;
- (ii) *mother and child fee waivering* in health services;
- (iii) *scholarships* or school fee waivers;
- (iv) *street children* programs; and
- (v) *family allowances*.

C. Social Protection for the Formal and Informal Sectors

For the purpose of social protection, it is important to find a definition that separates those people in the labor force who usually benefit from social protection and those who don't. This purpose may be better served by defining employment in terms of wage (formal) and non-wage (informal) sectors. The wage sector⁴ is the sector regulated by contractual agreement; i.e. the sector where formal employees are. In economies largely rural and with an important informal urban economy the wage sector is quite small. Public sector employees - including the civil service, the military, medical and educational personnel – employees in private enterprises formally registered and with a certain number of employees (basically large and medium enterprises) are the core of the wage sector and those who also contribute to the various social contributions and taxation. The informal sector exists on the fringes of commerce and industry in the form of smaller retail establishments, frequently with no fixed address, and illegal manufacturing enterprises. The informal sector is also found in the urban areas among day laborers and providers of personal services and in the rural areas among the small farmers, particularly those engaged primarily in subsistence agriculture, and home workers.

As countries develop, there is a tendency for the non-wage informal sector to shrink in importance owing both to changes in the structure of the economy and to increased efforts on the

4. The wage/non-wage distinction applies to employment. However, the unemployed can also be divided following a similar approach. The registered unemployed (registered at employment services) look for wage employment while those not registered can look for both wage and non-wage employment.

part of government to extend its regulatory and taxation reach. Temporary reversals of this trend may occur, however, particularly when there is large scale restructuring of public enterprises. Among the structural changes that lead to formalization of the economy is specialization and the resulting growing importance of formal marketing chains through which inputs are purchased and products are sold. When either urban or rural enterprises begin to sell a major portion of their output through formal marketing institutions, they find it increasingly difficult to hide from the government regulator or tax collector.

Table 2: Potential Social Protection Approaches by Economic Sector

	Formal Sectors	Informal Sectors
Agriculture	Agricultural Insurance Disaster Preparedness Child protection Active labor market programs (skills development, labor exchanges/employment services, employment generation) Passive labor market policies Social Insurance Formal Social Assistance	Child Protection Microinsurance Social Funds Disaster Preparedness Social Assistance Active labor market programs (skills development, labor exchanges/employment services, employment generation) Price supports and limited agricultural insurance
Industry	Active labor market programs (skills development, labor exchanges/employment services, employment generation) Child protection Social Insurance Passive Labor Market Formal Social Assistance	Child protection Microinsurance Active labor market programs (skills development, labor exchanges/employment services, employment generation) Social Funds Social Assistance
Services	Active labor market programs (skills development, labor exchanges/employment services, employment generation) Child protection Social Insurance Passive Labor Market Policies Formal Social Assistance	Child protection Microinsurance Active labor market programs (skills development, labor exchanges/employment services, employment generation) Social Funds Social Assistance

Of the five general social protection approaches noted here, some tend to be associated primarily with formal sector enterprises and wage workers: social insurance, agricultural insurance and regulatory aspects of labor market policies. Social insurance and crop insurance usually require that individuals have made prior premium or contribution payments. The ability to levy, collect and record such payments is an indication of the fact that these individuals are in the formal sector. In contrast, most of the active labor programs, child protection, microinsurance, social assistance, social funds and other temporary employment generation programs can be used to reach those in the informal sectors of the economy. When extended to the informal sector, however, these social protection approaches almost invariably experience serious problems of benefit leakage to the non-poor since formal and effective methods of targeting benefits to those most in need are as difficult to enforce in the informal sector as other tax or regulatory provisions.

D. Social Protection Systems in Asia and the Pacific

The Asia-Pacific experience has been rather diverse in the past, and the motivations and approach for future reform differ from one country to another. Most of the debate has focussed on expanding coverage and identify financing sources to fight poverty and provide longer term protection to the population, instead of emergency assistance during times of crisis. In transition economies, on adjusting existing systems to a market economy.

Table 3. Programs by Country

Country	Labor Market Programs					Social Insurance				Social Assistance	Micro and Area Based Schemes				Child Protection Family Allowances
	Active			Passive		Old Age, Disability, Death	Sickness, Maternity ^{b/}	Medical Care ^{c/}	Work Injury		Micro- insurance	Agricultural Insurance	Disaster Manage- ment	Social Funds	
	Labor Exchanges	Training	Employment Generation	Unemploy- ment Insurance	Labor Standards a/										
Developed Regions															
Japan	●	●	●	●	●	●	●	●	●	●		●	●	●	
Australia	●	●		●	●	●	●	●	●	●			●	●	
New Zealand	●	●		●	●	●	●	●	●	●			●	●	
Canada	●	●	●	●	●	●	●	●	●	●		●	●	●	
USA	●	●	●	●	●	●	●	●	●	●		●	●	●	
European Union	●	●	●	●	●	●	●	●	●	●		●	●	●	
Developing Asia															
East Asia															
Cambodia			●		●								●	●	
China PRC		●	●	●	●	●	●	●	●	●			●		
Indonesia		●	●		●	●			●	●			●		
Lao PDR		●			●					●					
Malaysia		●			●	●			●	●			●		
Philippines	●	●	●	●	●	●	●	●	●	●	●		●	●	
Thailand	●	●	●		●	●	●	●	●	●		●	●	●	
Viet Nam		●			●	●	●		●	●		●	●		
South Asia															
Bangladesh		●	●	●	●		●	●	●		●	●	●	●	
Bhutan															
India		●	●		●	●	●	●	●	●		●	●		
Maldives															
Pakistan		●	●		●	●	●	●	●	●			●		
Sri Lanka		●	●		●	●			●	●		●	●	●	
Central Asia															
Azerbaijan		●		●	●	●	●	●	●	●				●	
Kazakhstan		●		●	●	●	●	●	●	●				●	
Kyrgyz Republic		●		●	●	●	●	●	●	●			●	●	
Mongolia	●	●	●	●	●	●	●	●	●	●		●	●	●	
Tajikistan		●	●	●	●	●	●	●	●	●			●		
Turkmenistan		●		●	●	●	●	●	●	●				●	
Uzbekistan		●	●	●	●	●	●	●	●	●			●	●	
Pacific															
Fiji					●	●			●				●		

Country	Labor Market Programs					Social Insurance				Social Assistance	Micro and Area Based Schemes				Child Protection Family Allowances
	Active			Passive		Old Age, Disability, Death	Sickness, Maternity ^{b/}	Medical Care ^{c/}	Work Injury		Micro-insurance	Agricultural Insurance	Disaster Management	Social Funds	
	Labor Exchanges	Training	Employment Generation	Unemployment Insurance	Labor Standards ^{a/}										
Guam					●										
Kiribati					●	●			●						
Marshall Islands						●						●			
Micronesia						●									
New Caledonia					●										
Papua New Guinea		●			●	●			●			●			
Samoa					●	●			●			●			
Solomon Islands					●	●			●			●			
Vanuatu					●	●									

Footnotes:

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

b/ Sickness and Maternity refers to cash benefits for sickness and maternity. Countries must provide both benefits to be included.

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

As shown in Table 3, most Asia and Pacific DMCs have some form of institutionalized social protection system, however, most of the programs have low effectivity due one or several of the following reasons: (i) limited coverage, serving only a portion of the formal sector (often the wealthiest segments of society, such as civil servants), (ii) insufficient funds, and 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.

In considering the demands for, and responses to, social protection within Asian sub-regions it is important to identify the circumstances faced by their vulnerable groups. The countries of East and South-East Asia are still in recovery from the effects of the regional financial crisis and high levels of unemployment, and are in need of substantial investments in social protection to overcome poverty and reduce social risk and vulnerability. The transition economies, the Central Asian Republics, Vietnam and China, and to a lesser extent Cambodia and Lao PDR, are restructuring and consolidating their systems to a market-oriented society; existing state funded and controlled social protection schemes are being dismantled, reformed to adjust to reduced budgets and more flexible to labor market changes. South Asian countries have large proportions of their population living in rural poverty with high levels of illiteracy, state funded social protection schemes exist only nominally, and are supplemented by some limited programs operated by non-government organisations; the region needs substantial investments in social protection and human development. The Pacific region presents a large variety of experiences, some have developed social protection systems while some countries are still to develop them; a common trait is the need to extend coverage to poorer communities, improve governance and institutional development. In general, all sub-regions have reduced expenditure on social protection schemes in the last decade in an attempt to balance budgets and achieve macroeconomic stabilization. The effect has been to increase poverty, insecurity and social exclusion for many vulnerable groups.

E. The Relationship to Poverty Reduction and other ADB Priority Objectives

The overarching mission of the ADB is to help its developing members achieve accelerated and irreversible reductions in poverty such that mass poverty in the region is eradicated and its peoples experience significant improvements in the quality of their lives. Social protection, as an analytic concept and lending activity, can be seen as integral component of that mission by making growth more efficient and equitable.

The ADB Social Protection Strategy fully supports the ADB's Long-term Strategic Framework (LTSF). By focusing on labor markets and employment, social protection is the link between private sector led economic growth and poverty reduction. As noted previously, effective social protection policies can contribute to economic growth by encouraging farmers and workers to take risks, helping labor markets to allocate workers to their most productive uses, and facilitating investment in human capital. They also increase social welfare by providing a dependable income security base. If well designed, social protection helps societies make growth more equitable by smoothing income fluctuation and broadening access to human capital development and employment opportunities.

Social protection should be seen as one of several measures that work together to promote socially inclusive human development. Social development is a process of planned social change designed to promote well-being of the population as a whole, in conjunction with economic development. It addresses equitable access to economic and social benefits, regardless of ethnicity, gender and/or other social change. Successful social development programs all contribute in some way to achieving the larger social objectives of economic growth, poverty reduction, and/or human development. Other kinds programs and projects contributing to socially inclusive human development include programs designed specifically to improve education and health, population control, promote gender equity, encourage enterprise, and improve agriculture. Where the objectives of different programs overlap, social protection policies and programs need to be structured to be consistent with and supportive of the objectives pursued through the other social development programs. Close collaboration will be necessary to assure that health, education and social protection policies are both consistent and mutually supportive.

F. The Experience of other Multilateral and Bilateral Donor Agencies

In response to the critical need to address vulnerability in development, following the experiences of and evaluation of their poverty reduction programs in their own regions, both multilateral and bilateral donor agencies produced different definitions of social protection: the World Bank (WB), based on social risk management; the Inter American Development Bank (IADB), based on macroeconomic and catastrophic shocks; DFID, based on integrated livelihoods; and the ILO, which is the senior agency dealing with social protection topics, maintained a structured view of social security based mostly on social insurance and labor standards.

The ILO deserves the first position since the institution was founded in 1919 to promote social justice and ensure effective social protection systems among its member countries, including social and economic security, implementing fundamental labor rights, increasing work opportunities, and strengthening social dialogue. The definition of social security and focus of ILO work has changed often during the last eight decades. The ILO has recently adopted as its strategic objective to enhance coverage and effectiveness of social protection for all, 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, shifting from a state-led focus to emphasis on provision of social protection to the informal sector.⁵ Social protection, however, remains conceived mainly in terms of social insurance and labor rights, and relatively little attention is given to non-insurance and non-legal instruments. The ILO provides technical assistance primarily in the fields of social security systems, SP administration, SP expansion of coverage, social expenditure management; vocational training and vocational rehabilitation; employment policy; labor administration; labor law and industrial relations; working conditions; management development; cooperatives; labor statistics and occupational safety and health – from this perspective, the ILO should become a partner in any social protection development initiative.

The WB focus uses social risk management as the conceptual framework for its Social Protection Strategy Paper, in consistence with the Comprehensive Development Framework and WB Poverty Reduction Strategy. Social protection is defined as the human capital oriented public interventions (i) to assist individuals, households and communities better manage risk and (ii) to

5. 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;

provide support to the incapacitated poor.⁶ 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 ones (such as earthquakes, floods, and illness) or man-made ones (such as unemployment, environmental degradation, and war). Poor people are typically more exposed to risk and have inferior access to effective risk management instruments in comparison to people with greater assets and endowments. 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 WB has established a Social Protection Department under the Human development Network, and units had been created in most of the WB's Human Development regional divisions. The WB Board endorsed the comprehensive SP Strategy on 7 September 2000.

The IADB defines social protection as prevention and compensation systems to reduce the impacts of shocks on the Latin American poor.⁷ The definition owes much to the needs and economic history of the region, after the macroeconomic and structural crisis of the 1980s-1990s (debt crisis and structural adjustment shocks) and frequency of natural disasters (hurricanes such as Mitch in 1998, earthquakes like the one devastating Mexico in 1985, Colombia 1994, floods and droughts as a result of El Nino). The key objectives of the IADB social protection strategy are: (i) to guarantee minimum consumption levels and access to basic services to those permanently unable to provide them by themselves (i.e. the aged and disabled); (ii) to 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 on children; and (iv) provide security to the poor to improve their economic choices and allow them to take entrepreneurial risks and earning capacity.

6. World Bank, 1999: Social Risk Management: Intellectual Underpinnings of the Social Protection Strategy, Washington D.C.; Holzmann, R. and Jorgensen, S., 2000: Social Risk Management: A new conceptual framework for Social Protection, Washington D.C., The World Bank; and World Bank, 2000: Social Protection Sector Strategy, Washington D.C., WB

7. Inter American Development Bank (Lustig ed), 2000: Social Protection for Equity and Growth, Washington D.C., IADB.

The British Department for International Development (DFID) has worked extensively on the notion of sustaining livelihoods as the framework to promote opportunities for all citizens and sustainable reduction of poverty. In this context, 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.⁸ The public character of this response may be governmental or non-governmental – or may involve a combination of institutions from each field. It may take the form of: strengthening collective, membership based forms of response to risk; statutory instruments which enhance security; interventions which enhance access to employment and secure tenure of assets; direct interventions to ensure minimum acceptable standards of livelihood for those with insufficient assets to secure a livelihood.

The institutional history of the ADB on a consolidated approach to SP was initiated in October 1998, when an Interdepartmental Working Group (IWG) was formed to explore options for ADB's future interventions in social protection.⁹ A Framework for Operations on Social Protection was developed in July 1999, and has been subject to close consultations among departments, distributed and discussed with selected DMC Governments, NGOs and other donor agencies. Given the demographic structures and characteristics of poverty in the Asia-Pacific region, as shown in earlier sections, the ADB has developed a definition of social protection based on labor markets and small-scale agriculture, which links with the ADB's role of promoting growth and reducing poverty in Asia and the Pacific.

III. DETERMINING SOCIAL PROTECTION PRIORITIES

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 both social and economic development. Their size and diversity create unique challenges both in evaluating the effectiveness of current systems and in designing alternatives. One challenge comes from the need to use multiple criteria in assessing the performance of social protection systems since the systems

8. DFID (Conway, De Haan, Norton, eds.), 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.

9. Financed through RETA No 5703: Support for Implementing the Agenda for Action for Social Development in Asia and the Pacific approved on September 1996 for \$307,000, and followed-up thorough RETA No.5897: *Strategies Improved Social Protection in Asia*, approved in December 1999 for \$700,000.

themselves have multiple objectives. A second comes from the need to consider the whole social, economic and political environment within which these systems operate since approaches that work well in one place may fail in another and no single approach is likely to be appropriate in all situations. For these reasons, social protection priorities would change from country to country, depending on the existing provision of social protection and the country characteristics.

A. Criteria for Evaluating the Provision of Adequate Social Protection

Since social protection systems serve multiple purposes, any assessment of current programs or potential reforms must recognize a multiplicity of objectives. No single approach to a social protection problem is likely to satisfy completely each of these different objectives, and evaluations need to acknowledge and assess the trade-offs inherent in selecting any one particular approach to social protection, keeping in mind that the overall objective of a social protection program is to reduce social risks and vulnerability. Such an assessment needs to focus on considerations such as: (i) the program's effective coverage, (ii) the sustainability of the program (except, perhaps for certain temporary interventions motivated by an economic crisis), and adequacy of its benefits and institutional arrangements, (iii) its contribution to pro-poor growth and social development, including addressing special vulnerable populations. Investments in program design and development may not be worthwhile where sustainability is open to question, coverage is likely to be limited and benefits are likely either to be too low or to be unreliable.

1. Coverage

Expanding coverage of social protection should be the main objective of the social protection agenda of Asian and Pacific DMCs. Coverage gaps can occur due to statutory exclusions, poor enforcement or the lack of attractive benefits as compared to the high contributions for particular groups.

Statutory exclusions: Labor market regulations, standards and contributory social insurance programs which are designed with a view to have universal coverage in the medium/long term, have serious coverage gaps in Asia and the Pacific. These programs normally cover the larger enterprises in the formal sector, but practices vary beyond this. Smaller employers, particularly those in industries that compete with the informal sector, are often excluded from many of the requirements,

as are household workers, day 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.

The first priorities for the poor and the informal sector are strengthening prospects of survival and improving incomes, rather than with investing scarce resources in social insurance schemes. The poor normally live less due to hardship – only 5 percent of the Asia-Pacific population is over 65. Priorities to expand coverage should start by addressing the needs of the poor and informal clientele: improvement of their productive potential and their employment and income-generating capacity, improvement of the household welfare, and mitigation of risks which keep households in poverty. A major area of development for informal sector groups in both urban and rural areas is microinsurance for health care, funeral costs and similar short-term risks through voluntary schemes established by mutual benefit societies, co-operatives and similar organizations or civil society groups that rely on trust engendered through occupational groupings or community solidarity.

Box 5. Expansion of Social Protection Coverage in Japan: Since the 1880s, when Japan's Meiji Revolution was determined to modernize 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 the I World War and the Great Depression, the economic crisis raised the levels of rural household poverty. In the 1920s, the Japanese Government concurred that poverty was a sign of backwardness and that modernization required the eradication of poverty. The main social protection policies in which Japan based its poverty reduction strategy were (i) labor markets, mostly wage and employment policies, and (ii) social insurance, focussing 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 perceived as a national problem. As Japan developed and industrial restructuring was needed, firms were supported by the Government in skills upgrading and training programs so as to preserve employment and find alternative productions suitable for the changing market. On the insurance side, in 1922, the Diet passed the first Health Insurance Law, modeled on the German sickness funds. Medical care had been a focal point of peasant's 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 50 percent Government subsidy, with a planned reduction of the subsidy as society was to modernize. Local societies 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 century, Japan has accomplished the lowest infant mortality rate and highest life expectancy of the world. The success of the Japanese experience suggests some good developmental practices – the first one being that poverty reduction requires political commitment and active Government budgetary and technical support. It is interesting to note also that employment and primary health care were the first social protection priorities.

Even where most formal employees and self-employed 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 among those who are nominally covered. Poor enforcement can also undermine the protections offered under contributory social insurance since benefit entitlements usually depend to some degree on the degree to which 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 it does this by producing benefit reductions and other protection restrictions. Effective enforcement requires institutions that have the necessary statutory authorities to establish liabilities and enforce collections. These institutions also must have adequate operating budgets, the willingness and ability to use their resources and authorities 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.

Adequacy of benefits: Many systems in Asia and the Pacific region are underbudgeted or receiving erratic yearly funds; consequently, the benefits they provide do not achieve their intended social objective. Often, the transaction costs are larger than not 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 too generous that they generate disincentives in people. There is no clear demarcation between income-related social insurance on the one hand, and other “universal” programs on the other. Some societies have found it more acceptable and efficient to maintain consumption levels by means of entitlements that do not depend on labor market affiliation while others place great emphasis on reinforcing the linkages between earnings and entitlement. At one extreme, non-means-tested children’s allowances and old age demogrants, which are budget financed, can help sustain consumption levels, although they rarely are adequate in themselves. At the other extreme, some countries have created social protection systems that are largely means-tested, although often not very stringently. New Zealand and Australia are developed countries in the Asia-Pacific region which have these universal, budget-financed approaches to social protection. For other countries, greater reliance on services and in-kind benefits may be more appropriate,

although these approaches can carry with them high transaction costs and constituencies (as in housing) that can resist phasing out such programs at some later date.

2. Sustainability, Financing and Good Governance

Assessing sustainability involves focusing on issues such as the program's fiscal prospects, the institutional arrangements under which the program operates, including predictability and good governance, the level of its public support, and distribution aspects.

Fiscal sustainability: Potential future financial commitments under the program need to be evaluated to be sure that they can be borne from the resources likely to be available. Will insurance premiums be sufficient to cover projected losses? Will sufficient resources be available to cover operating costs once a facility has been created for delivering social services? The financing of social protection programs tends to be uncertain as a factor in annual public budgetary decisions; further, it is precisely when economic crises occur and public expenditures are cut back that higher allocations for social assistance are required. Donor financing may help to fill gaps on a temporary basis only. In designing social insurance programs, practical, diversification of income sources is desirable to diversify risks; 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.

Financing sources and distribution issues: The variety of social protection programs (labor markets, social insurance, social assistance/welfare services, micro and area-based schemes and child protection) maybe financed through budgetary support, income/wage-related contributions, charitable donations, or a mix of all. In social insurance programs, accumulated savings/contributions can be invested in the financial markets. Enforcement of revenue collection, as described in the earlier section on coverage, may result in higher tax collections, particularly in countries with young demographic pyramids, which in turn can secure the promotion of statutory programs. Additionally to the good governance fiscal recipe of encouraging adequate tax collection/systems, the ADB generally supports systems in which individuals co-finance services, contributing either individually or through community-based arrangements. This is the case for social insurance, micro and area schemes, social funds and selected labor market and child protection programs. However, most of the programs, particularly those targeted towards the lower income

groups, require a degree of public support. Charitable/donor financing is discontinuous and does not allow sustainable social protection programs; it is desirable financing source on exceptional basis. Financing issues are directly linked to distribution aspects. The design of any social protection program should carefully evaluate its distribution impacts and avoid regressive redistribution issues. For instance, national health insurance schemes normally imply some redistribution to the poor, given that premiums are income-related but the wealthiest groups require less health care, at least until retirement. Identifying the adequate mix of financing resources to ensure sustainability should be assessed after careful cost-benefit evaluation of the proposed social protecting program.

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. Protection systems will be viewed as unreliable where qualifying conditions change frequently or are unclear and subject to bureaucratic manipulation. During a temporary crisis, it may be appropriate to create a social assistance program that relies on the discretion of local government officials and/or local NGOs to apportion aid among qualified claimants. Such programs often become unsustainable eventually, however, as the absence of a predictable allocation strategy leads to questions about the fairness of the process.

Social protection success depends on *effective administration* and good implementation of adequately designed programs. Common operational problems among government agencies include corruption, cronyism and favoritism; inadequate information processing, storage and retrieval systems; and organizational cultures that are hostile to customer service. Where implementing organizations already have these kinds of problems, the development of an organizational reform strategy will be just as important as the development of a program reform strategy. In some instances, the best approach may be to delegate operational responsibility to NGOs or other private sector institutions. Governments that delegate operational responsibility must maintain sufficient internal capacity to be able to regulate private for profit enterprises and/or supervise NGOs and other contractors effectively.

At the policy levels, the planning of social protection is affected by a wide range of social and economic factors and especially by the quality of governance. *Good governance* is crucial for sound macro-economic management, progressive taxation and equitable allocations of funds for social development. At the implementing levels, the impact of basic social services is reduced by

governance defects such as inadequate budgets and wasteful, inefficient and unresponsive administrations. It is the poor who suffer most due to poorer access, bargaining power and influence on local officialdom and service providers. The effects of such deficiencies in governance are exemplified by the highly unsatisfactory coverage situation 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. Some fundamental governance questions should be considered when designing any social protection scheme: What is the most appropriate social protection system to serve all citizens? What are the most suitable institutional arrangements for the administration of schemes? How to achieve operational efficiency?

Evaluating the cost-benefit of social protecting programs: Development of social protection programmes 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 than it is to assess the advantages gained from each programme. Expenditures on children and youth through education, health and training programmes are all investments in future generations and the elimination of poverty. Evaluating the cost-benefit of social protecting programs will require an impartial assessment of the following issues: (i) cost of the program (as percentage of GDP, as percentage of total public expenditures); (ii) performance (what percentage of vulnerable targeted groups are covered by the programs? what percent of the transfer is going to poor and non-poor groups? are the benefits provide adequate to service identified needs); (iii) administrative costs (what is the administrative cost as percentage of the total cost, and how does cost compare across other programs?), (iv) long-term social benefits, and (v) feasible options to improve cost-effectiveness, including their cost to society (who pays for reforms and which groups benefit from the proposed reform agenda?).

3. Integrated Approach to Social Protection

Many problems 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-manning in public and State-owned enterprises, but without sufficient consideration of the longer-term implications for the pension funds. There is an imperative need to

establish *integrated and coordinated national policies* on social protection. These would constitute the framework for the planning and development of programs and schemes. Sound policy formulation in social protection requires less emphasis on short-term priorities and the incorporation of the medium and long-term perspectives encompassing the social, fiscal and economic aspects. Close co-ordination of policy formulation is vital when several government departments and agencies are involved.

Integrated planning machinery would need to operate at political as well as official levels since, in furtherance of *good governance, public participation and consultation* would be an on-going process in political circles and with stakeholders and civil society groups in order to achieve consensus on priorities, objectives and the necessity for encouraging pro-poor, labor-intensive, sustainable economic growth and social development. Controversial issues, including the extent of redistributive policies, changes in policies on subsidies in particular sectors, and increases in pension ages would need to be settled through this process. This would lead to the formulation of policies across the broad range of social protection within a policy framework. The responsibility of official levels would be to provide information and advice to Ministerial channels based on monitoring and evaluation systems and to ensure effective co-ordination amongst the different programmes.

Establishing a body such as a *National Social Protection Co-ordination Commission*, with responsibility for strategic planning and co-ordination would facilitate the process of evolving an overall strategy for strengthening social protection. The role of ministries of finance and the national planning authorities would be 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 would improve mutual understanding of the wide range of issues involved. Integrated planning would be complex, exacting and difficult to accomplish but is essential for policy cohesion and careful use of resources in the most effective ways.

4. Institutional Issues: Assuring Efficient Operations

The design of any social protection scheme is directly linked to an analysis of how can it be financed and how can it best be delivered. There is no prescription or preferred social protection model, as its 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 operations to deliver the proposed coverage of social protection needs. Table 4 presents some indicative notes on the main delivery mechanisms.

Institutional structure: Assuring efficient and effective program operations among existing government agencies often involves major institutional reforms to strengthen administrative oversight and governance, redesign and streamline business processes and modernize operating procedures and methods. There are three main deliverers of social protection: (i) the public sector, normally best to achieve expansion of coverage, (ii) the private sector, normally best for efficient delivery¹⁰ for the formal sector of the economy and voluntary schemes for higher income groups; and (iii) NGOs, normally good to target communities. However, all of those have important limitations. The public sector should not crowd-out the potential role of the private sector in delivering social protection; instead, it should concentrate in efforts to serve those areas and populations uncovered by the private sector. The private sector is often not attracted to lower income groups and/or remote areas given that 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 an important deliverer of social protection programs, they could be encouraged to remain always that noticing that NGOs often have limited and discontinuous funding and their presence is scattered, normally not broad enough as to ensure equal expansion of coverage, which may result on limited effectivity in reducing vulnerability.

Avoiding excessive administrative charges is a major challenge for certain kinds of social protection programs. Administrative charges siphon protection resources away from the intended beneficiaries, needlessly increasing the cost of the system and reducing society's capacity for providing protection. In addition to the threat they pose to program integrity, inefficient and unresponsive government bureaucracies are often a cause of excessive administrative cost in all areas of social insurance, social assistance and welfare services. In many countries, social service and assistance programs have tended to proliferate as new programs are created to target particular risks or particular beneficiary groups without sufficient regard to how they will related to existing programs. The result is wasted administrative resources due to duplicative and inefficient service delivery structures.

10. Care is required, however, in designing the arrangements under which private firms will compete, particularly when they are delivering insurance-type programs. Otherwise, the social losses from excessive marketing expenditures or cream skimming of favorable risks may overshadow any social gains in operating efficiencies.

Table 4: Social Protection Service Delivery Mechanisms

Mechanism	Advantages	Disadvantages
NGOs	<p>Lower costs;</p> <p>Located close to vulnerable groups, programs offered based on individual community needs</p> <p>Quick and flexible in implementation</p> <p>Use participatory approaches with vulnerable groups.</p>	<p>Inconsistent nationally therefore questionable regarding issues of equity;</p> <p>Sporadic funding and discontinuous programs, affecting the overall effectivity of their interventions;</p> <p>Limited efficiency and uncoordinated delivery;</p> <p>No consistent evaluation, monitoring, audits or accountability.</p>
Local government	<p>Responsible for vulnerable groups within local community</p> <p>Better knowledge of needs of individual households.</p> <p>Lower program delivery costs due to nearby location.</p> <p>Able to implement programs using existing infrastructure.</p>	<p>Unable to provide adequate funding for other community needs therefore less likely to fulfil social assistance responsibilities.</p> <p>Poorer regions suffering from lower revenue base and therefore smaller spending base.</p> <p>Untrained and inexperienced staff in policy design, development, monitoring and evaluation.</p>
Central Government	<p>National consistency and equity in program access and delivery;</p> <p>Opportunities for redistribution mechanisms from wealthier regions to poorer regions</p> <p>Able to monitor, evaluate, and compare cost-effectiveness of programs from national perspective.</p> <p>Coordination at national level across sectors (especially health, education, housing, labour and finance)</p>	<p>Costly to administer and deliver;</p> <p>Competing for funding among other Ministries therefore unable to fully fund policies;</p> <p>Less knowledgeable of local circumstances and needs;</p> <p>Takes longer to implement programs;</p> <p>Risk of limited efficiency and governance problems</p>
Private Sector	<p>More efficient;</p> <p>Ideal to serve middle and upper income groups – commercial insurance and pension funds, training, job placement agencies, institutional care for the disabled and elderly.</p> <p>Sustainability</p> <p>Political insulation</p>	<p>Not serving low income groups given high transaction costs and low returns,</p> <p>Insurance premiums and service costs are not affordable to the poor</p> <p>Given that government normally guarantees minimum incomes/benefits, if companies become financially insolvent the state may end having to provide financial support</p>

Mechanism	Advantages	Disadvantages
Mixed Delivery System	<p>Use strengths of each provider; may be a best option given a mixed system spreads both the risks and opportunities for success</p> <p>Provide common, consistent set of national social protection policies;</p> <p>Combined with flexible local programs to meet local needs.</p> <p>Enables some form of redistribution to occur to balance poorest and wealthiest regions in countries.</p>	<p>May be more costly to maintain involvement of all providers;</p> <p>Can create competition rather than co-operation between service providers;</p>

Constraining the impact on the public budget. Where they are operated directly by the government, social protection programs can easily grow to become a large category of spending. Credible techniques for projecting both the future cost of social protection programs and the future total volume of public revenues are needed. Where services have potentially large client populations (e.g. social services for the young and the very old), consideration needs to be given to how demand will be limited and the consequences of the need to ration services if the programs are oversubscribed

The role of *government guarantees and contingent liabilities* also requires attention. 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, liabilities that will come due if the social protection programs fail to supply the guaranteed degree of protection. Analyses of social protection policies too frequently ignore the size and expected cost of these contingent liabilities.

5. Special Populations

When evaluating social protection systems, special consideration should be given to impacts on the very poor, *gender* equity, and indigenous populations. 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 can actually disadvantage women. 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 other household responsibilities, and the particular needs surrounding child bearing. 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 earnings patterns commonly found among women. Where benefits are tied strictly to previous earnings, discrimination against women in the labor market is likely to translate into inadequate unemployment, disability or retirement benefits and women's less regular employment patterns can mean either lower benefits or the loss of program eligibility

Indigenous populations 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 also likely to be required if a reasonable level of coverage is to be obtained.

B. The Role of Country Characteristics

Social protection strategies will vary from one country to another as a result of differences in needs, traditions, institutions, and environments. These include differences in countries' pre-existing institutions and traditions for dealing with social risks, their stage of development, and their cultures and customs. Country political preferences will also be influenced by the particular models and approaches imported in the past from more developed societies and by the earlier waves of imported expert advice that they have received.

1. Country Needs

The stage of each country's development process plays an important role in determining which protection problems are most pressing and which approaches are most promising. As countries move from being less developed and rural in their economic structures to becoming more developed and urban, they have to create social protection strategies that substitute for household and informal mechanisms. The creation of more formal systems will often accelerate the erosion of the traditional institutions, and, for a time, the society will have to maintain both informal and formal systems of social protection as an uneasy compromise.

The different demographic structures and the size of the formal sector affect the type of social protection mechanisms that are feasible and appropriate. Where population projections show that the majority of the population remains children and young entrants into the labor market, social protection should address these priorities. Where the population is rapidly ageing, social protection systems should address the priorities of the elderly. Where the most acute problems maybe others – i.e. refugees, migrant workers, or any other vulnerable population – social protection planning should accommodate for the specific country characteristics in a flexible manner.

The evolution will proceed differently in DMCs, leading to inevitable gaps and weaknesses. In some countries, the priority attention will turn to urban problems. 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. Among urban workers, protection systems tend to evolve first in the formal sectors. Where formal sector institutions are reasonably strong, the priority may turn to the more difficult challenge of extending social protection to the informal sectors. Where the formal institutions are weak, a priority may be to strengthening them in order to avoid the political and economic disruption that an economic crisis can cause when it disrupts the urban middle classes.

2. Existing Social Protection Programs

Where social protection institutions already exist, conscious decisions will have to be made about whether reform efforts should build on the existing institutions or create new institutions. 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 fairly large, however, they can not be ignored.

Pre-existing institutions influence policies about the structure and philosophy of social protection in several ways. First, the approaches already instituted to providing social protection provide 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. Given that pre-existing institutions have staffs and stakeholders who are likely to defend the existing institution from the threat of a major change that would disadvantage them. 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 both old and new deliverers and recipients of social protection may help to facilitate discussions during country programming and loan 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.

3. State of the Economy

The level of economic activity will also influence a country's protection choices. An economic crisis may call for the implementation of measures that are known in advance not to be sustainable in the long run. The crisis will also probably reduce the resources that can be marshaled either for immediate measures of social protection or for designing and building long term social protection institutions. Among the scarce resources are the time and attention of government leaders and key opinion makers. On the other hand, a prolonged span of economic growth may lull these individuals into inattention and inaction on matters of social protection.

Social protection policies are also affected by the relationship between the average benefit that a country can afford to pay and the minimum consumption level it wishes to guarantee to its aged, disabled, and unemployed. The introduction of social insurance programs offering earnings-related benefits presupposes that society can afford to pay benefits above the minimum subsistence level to some while continuing to guarantee a decent minimum to the rest of the population. If there is not sufficient fiscal room to achieve both objectives, it might be better to concentrate on poverty

alleviation and improvements in the labor force through the combination of labor market policies and programs, child protection, micro and area-based schemes schemes, social assistance and minimal social insurance benefits.

4. Institutional Pre-requisites

Country strategies will need to take into account the institutional prerequisites for different social protection approaches. The risks involved in engaging the public and private sector sectors need to be thoroughly assessed before incurring into social protection programs. Approaches that rely on formal mean-testing operate on the assumption that the value of most other resources available to the target population can be quantified and verified. Similarly, assistance and insurance programs designed to pay benefits to the unemployed usually operate on the assumption that a formal labor market institutions already exist. Systems that scale benefits to previous earnings operate on the assumption that earnings information can be collected, processed, stored and recovered quickly and easily. In a modern market economy where people move from one job to another and from one region of the country to another, this is likely to require reasonably well-developed, automated information processing systems, reliable telecommunications systems, and so forth.

Funded pension systems can be used as a mechanism to encourage the development of sophisticated financial market institutions, but they can function effectively only if institutions have already reached a minimum level of development. If the market is going to contain financial instruments other than government bonds, a minimum volume of tradable instruments must already exist as well as a legal framework for establishing and enforcing property rights and appropriate accounting and disclosure rules. The government must have the capacity to design and enforce regulations and the financial institutions must be able to work within the boundaries established, which requires that there be enough human capital to staff both the regulatory agencies and the financial intermediaries. Finally, in transition economies, such reforms are likely to succeed only where the political economy will permit large-scale privatization of enterprises to occur in a transparent manner. Where the preconditions for advance funding are absent, provident funds or basic pay-as-you-go approaches may be more important transition measures.

5. The Political Economy of Reform

There is a need to balance the potential gains with the likely losses from reforming a social protection system. This will involve 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 costs and benefits of new regulations.

Successful programs are those who are supported by serious political commitment of the country's senior leadership. An ideal relationship with a client country for social protection reform is one in which policy and project lending takes place in a country strategy that advances reforms (e.g., liberalizing labor markets or expanding coverage) that the government has taken on in partnership with the ADB, civil society and the IMF, World Bank, and other donors. 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 both social and economic development. 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 preexisting policies (e.g., the withdrawal from centrally planned economies, the Asian financial crisis). Especially in the latter context, experience suggests that governments should not be asked to pursue policies that will require a consensus over time or "time consistency" that has not yet formed within the society (e.g., structural pension reform usually demands an "all-party" consensus). A social protection agenda should be framed taking into account DMCs national policies and priorities within the ADB's overarching goal of reducing poverty, assuring that social protection is integrated with other development activities and into ongoing country dialogue.

The country's institutional history, including the relative levels of trust of the private and public sectors and the extent of previous government social protection commitments, inevitably affects the scope and character of any new interventions. Populations in transition economy countries, such as in Central Asia and Viet Nam, have expectations and institutions that cannot be easily dismantled. Governments are still viewed capable of managing essential administrative tasks, even where it no longer has the fiscal capacity to finance generous protection programs. In those

instances, there may not be a realistic alternative to a gradual process of downscaling government provision, adapting to a market environment, and making room for gradual private sector and voluntary measures. Popular expectations in other countries in East Asia are generally lower, giving them a wider range of social protection design options.

IV. The Adb's Social Protection Strategy

A. Rationale For Investing In Social Protection

The overarching mission of the ADB is to help its DMCs achieve accelerated and irreversible reductions in poverty. Social protection, as an analytic concept and lending activity, is an integral component of that mission by making growth more equitable and reducing risks to the population. Well designed social protection policies contribute to economic growth by encouraging farmers and workers to take entrepreneurial risks, helping labor markets to allocate workers to their most productive uses, facilitating investment in human capital and increasing labor productivity. If well designed, social protection helps societies make growth more equitable by smoothing income fluctuation and broadening access to human capital development and employment opportunities. By focussing on labor market an employment, social protection is the link between private sector led economic growth and poverty reduction.

Social protection is defined as the set of policies and programs designed to promote efficient and effective labor markets, protect individuals from the risks inherent in earning a living either from small-scale agriculture or the labor market, and provide a floor of support to individuals when market-based approaches for supporting themselves fail. Accordingly, the proposed definition of social protection contains five components:

- (i) *Labor market* policies and programs designed to facilitate labor adjustments and promote the efficient operation of labor markets,
- (ii) *Social insurance* programs to cushion the risks associated unemployment, disability, sickness, maternity, work injury, and old age,
- (iii) *Social assistance and welfare service* programs to provide a floor for those with no other means of adequate support,

- (iv) *Micro and Area-Based Schemes* to cushion the risk to agricultural incomes from crop failure or temporary market disruptions, and address reduction of risk and vulnerability at the community level; and
- (v) *Child Protection*, an investment to secure the adequate development of the Asia-Pacific workforce.

This definition recognizes that social protection encompasses activities that span those in both the formal and informal sectors and regardless of whether households derive their incomes from industry, services or agriculture. Of the five components, the three first (labor markets, social insurance and social assistance) are normally included in any social protection strategy. Given that most of the Asian poor are rural and part of the informal sector, and that about 40 percent of the labor force is below 19, the ADB social protection strategy must respond to the needs of its DMCs and include new approaches such as supporting children and communities. Well designed labor market policies may serve the majority of the active population of a country. Households in the formal sector will be reached by structured social insurance, crop insurance and social assistance, including child protection. Those in the informal sector are more likely to be reached by less structured social assistance, child protection, microinsurance, social funds and other community-based programs.

B. The Challenge of Social Protection in Asia and the Pacific

The ultimate goal of the ADB's Social Protection Strategy is the development of sound, comprehensive, well designed statutory programs with universal coverage, to effectively assist DMCs to reduce poverty and achieve sustainable pro-poor growth in the new millenium. One of the central issues may be how to guide and advise countries to realize aims for developing the potential of its citizens and the creation of opportunities for all for self-reliance. The overriding goal is to transform the vicious cycle of poverty into a virtuous cycle of growth and human development in which sound, suitable and integrated social protection systems can play a significant part.

Asian and Pacific DMCs confront four major challenges in social protection: (i) the effects of the population explosion; (ii) the levels of poverty and size of the informal sector; (iii) the inadequacy of most existing social protection mechanisms, and (iv) the impacts of globalization. Asia and the Pacific is a young, rural region: social protection programs and policies should be build to respond to

Asia's needs. The Asia-Pacific region is still experiencing the effects of the demographic explosion; the total population of Asia is 3.1 billion, half of the world's total, and of this, 900 million are poor. While the demographic transition has started in Asia, and a progressive decrease in the amount of infants and a progressive increase of the elderly can be observed, the major issue in years 2000-2015 is the predominance of children and the young new entrants into the labor market: In 2000, 30 percent of the population is below 14; if we consider the international definition of children (0-18), the population group represents as much as 40 percent of the total population in 2000, steadily declining to 34 percent in 2015. The development challenge of Asia and the Pacific is to achieve sufficient pro-poor sustainable growth to secure the inclusion of the poor and the new entrants in the development process.

Most Asian and Pacific DMC have some form of institutionalized social protection system, however, most of the programs have low effectivity due to limited coverage, insufficient funds and inadequate instruments. The majority of informal employees 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 more immediate needs, such as health or maintaining employment or the source of livelihood. In addition, they may not be familiar with, and/or distrust, the way the statutory social protection scheme is managed. As a result, various groups of workers outside the formal sector have set up schemes that better meet their priority needs and contributory capacity. Moreover, there are also a host of factors that restrict access to the statutory social protection schemes, such as legal restrictions, administrative bottlenecks and problems with compliance. Reforming existing social security systems to secure protection to the majority of citizens in Asia and the Pacific is a critical priority.

Globalization, while increasing the opportunities for growth, will also increase the country's vulnerability to external shocks, and the risk of increased unemployment and poverty, and likely political instability. Most of the political reaction against globalization is a result of the absence of adequate social protection systems, which makes implementation of reforms very difficult given that populations may have to pay the costs of reform in the short term. Globalization requires the development of effective social protection systems. The world's forward-looking development agendas¹¹ give a social protection a primary role to sustain growth and well-functioning markets.

11. Vid. the section on other multilateral organizations WB; ILO; IADB; G-8 Global Poverty Report, prepared by the

Social protection has been perceived by some as a concern for developed wealthy nations, which constructed sophisticated social security systems to protect their populations. It is conventionally accepted that welfare systems have repelled least developed Asian policy-makers; social protection has been largely neglected, or addressed with inadequate tools and insufficient funds. However, a closer look to the economic history of different countries show that the most advanced economies of the region – Japan, Korea, Taiwan, Hong Kong, Singapore – built social policies through active public (or public/private) interventions in medical care, social and housing assistance, minimum retirement levels, education. Investing in social protection was an essential part of the modernization programs of wealthier countries at their earlier stages of development, when they were developing. Precisely, higher levels of security allowed high productivity gains in the workforce, expanded domestic demand, and increased economic growth.

C. Operational Implications

Within ADB's operations, social protection issues arise in four contexts: (i) developing country strategies, (ii) policy lending to provide broad budget support with social protection conditionalities; (iii) project lending for institutional development and capacity building in social protection; and (iv) collateral issues associated with lending where social protection is not the central objective.

1. Country Strategies

Social Protection provides a new set of approaches to improve labor market outcomes and to address risks/vulnerability, providing a degree of protection from market failures to reduce individual and household disparities. The approaches are not alien to the ADB given some have

AfDB, EBRD, IADB, IMF, WB and ADB for the Okinawa Summit in July 2000; also the Asia Pacific Economic Cooperation (APEC)'s Social Safety Nets in Response to Crisis: Lessons and Guidelines from Asia and Latin America, draft prepared by APEC member countries, the IADB, IMF, WB and ADB, and submitted to the APEC Finance Ministers in January 2001. The main findings of the APEC report include: (1) social protection/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 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.

been used in different technical assistance, project and program lending activities. However, they were responses to specific problems and the ADB lacked the integrated approach. This should be avoided in the future by strengthening the assessment of the country's social protection needs at the country programming level.

Improving national social protection systems is a major topic in all world regions; however, the motivations for reform and approaches taken differ dramatically from one country to another. In much of Asia and the Pacific, the debate is dominated by concerns about expanding coverage and identifying financing mechanisms to fight poverty and serve the vast majority of the population, 40 percent of which are children and youth, who remain unprotected. In transition economies, on adjusting programs and institutions to reduced budgets under a market economy. Many Latin American reforms are motivated by a desire to insulate social protection systems from political interferences. Finally, the reform debates in North America, Japan and Western Europe tend to focus disproportionately on dealing with the costs of ageing societies. Program officers should carefully examine country priorities, being aware that the problems/solutions of one region are not applicable to others.

The decision whether the ADB should assist a specific DMC to address social protection priorities will require a thorough assessment of the opportunity cost of the selected interventions, and a clear country-based approach, including:

- (i) *Country needs*, analyzing the demographic patterns, labor market trends (including an estimation of the formal and informal sectors) and major sources of risk and vulnerability;
- (ii) *Existing social protection programs* and evaluation of the efficiency and coverage in delivering social protection programs; including an assessment of the trade off between existing disaster mitigation operations and the possible economic gains from developing comprehensive longer term protection mechanisms;
- (iii) *State of the economy*, to understand the development pattern and the fiscal resources available for social protection programs;
- (iv) *Institutional pre-requisites*, evaluating the optional roles and risks involved in using public and private sectors (private including for-profit and NGOs) to assess the feasibility of new social protection programs; and

- (v) *The political economy of reform:* Social protection strategies are complex undertakings in which some groups may be benefited more than others – reforms 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.

Country Strategies Papers will:

- (i) Include a labor market analysis as a critical element in determining the country's priority needs; during country consultations, discussion with Government and civil society on the main concern of absorbing all new entrants into the labor market to ensure inclusive development patterns;
- (ii) Identify the main causes of vulnerability and social risks, rank them according to their significance, and mainstream them into all aspects of ADB country strategy, including developing appropriate loans and institutional capacity to address them;
- (iii) As part of the general understanding of the country, analyze the effects of general government policies on household consumption, with particular attention to (a) vulnerable groups, and (b) the informal sector (including possible unintended subsidies from that sector to the formal sector);
- (iv) Serve country-specific needs, devising effective social protection strategies and instruments -- contributory schemes, means-tested assistance, local services, etc – to serve country-specific needs – labor market priorities, post-conflict recovery, economic crisis, transition to a market economy;
- (v) Evaluate the capacity of current support programs (design of programs and funding) to meet the needs of the poor, the youth, the aged, the non-wage informal sector, including emerging vulnerable groups, such as internal migrants, refugees, ethnic minorities, urban working poor, etc. and possible changes in that support system;
- (vi) Project future government liabilities of existing or proposed program benefits, and for income guarantees or other contingent liabilities associated with mandates that work through the private sector, and analyzing those projections from the perspective of long term policy and fiscal sustainability;

- (vii) Discuss options for reform with all stakeholders, and make sure that ADB proposed reforms do not precipitate policies requiring a consensus that has not yet been formed in society and will cause later political conflict; and
- (viii) Develop social protection policies that complement each other and help countries to accomplish their international commitments for poverty reduction and social development (e.g. International Development Targets, Basic Social Services 20:20, UN Conventions on rights of the child, international conventions and laws).

2. Lending and Technical Assistance Activities

If any, the specific social protection portfolio in a DMC country should be selected to ensure the provision of adequate social protection, according to the following criteria:

- (i) *Coverage*: Social protection systems should be built to ensure effective protection for the majority the population; this is a top priority in Asia and the Pacific as most citizens are excluded from any formal social protection system;
- (ii) *Sustainability, financing and good governance*: Sound financial and governance are essential to secure protecting populations over the long term; inadequate budgets and inefficient/unresponsive administrations damage particularly the poor and informal sector, who suffer due to limited access, bargaining power and influence on local officialdom and service providers;
- (iii) *Integrated approach*: Projects/programs should work with, or establish, a national commission for social protection to ensure consistency of all programs and correct prioritization of in-country social protection needs;
- (iv) *Institutional issues - Assuring efficient operations*: The design of any social protection scheme is directly linked to an analysis of how can it be financed and how can it best be delivered from an institutional perspective, securing effective administration, minimizing charges and impacts on the public budget;
- (v) *Special populations*: When evaluating social protection systems, special consideration should be given to gender aspects, indigenous and other vulnerable populations to secure inclusive, non-discriminatory social protection systems;

Investments in program and project lending should not be considered where coverage is likely to be limited, sustainability is open to question, benefits are likely either to be too low or to be unreliable and policies maybe conflictive with other development initiatives.

In terms of technical assistance and project/program lending, the complexity of social protection programs will imply:

- (i) Assist governments to improving labor market operations to reduce poverty, facilitate human development, address gender inequalities and help allocate a country's human capital resources to their most productive uses, enhancing general economic welfare and encouraging growth;
- (ii) Rethink pension reform, and insurance/non-banking financial services, to ensure that, additional to market-based mechanisms and sustainability aspects, they are designed to balance equity considerations, attending to issues such as expansion of coverage and provision of adequate benefits to the population;
- (iii) Expand the role of microfinance to include new issues such as microinsurance and re-insurance;
- (iv) Consider the development of social funds projects in Asia and the Pacific;
- (v) Design projects that empower communities and develop disaster preparedness programs among them to secure less vulnerable and self-reliant communities;
- (vi) Consider an increase of child protection programs, to ensure the adequate development of the Asian labor force; and
- (vii) Collaborate closely with other relevant development institutions such as the ILO, the WB, and UNICEF, among others.

Lending activities should not be exclusively based on policy-based budgetary support (program lending) but pay particular attention to (i) the development of intellectual capacity (ii) the acquisition of necessary technology and (iii) monitoring systems. The former include the strengthening of the analytical skills and knowledge base within the government and the careful design of the processes and systems that will be employed to execute the function. Additionally, it is important to assist DMC governments with actual facilities, computer hardware and software, and other tangible items that will be needed to operate these processes, and not purely with policy reform. The latter includes monitoring and evaluation mechanisms to assess performance of the

policies and programs in meeting objectives and cost-effectiveness. Care must be taken to assure a balance between the three areas. Experience around the world teaches that one of the most common causes of failure in social protection lending is a result of the lack of attention to these aspects.

3. Mainstreaming Social Protection: Collateral Issues and Safeguards

Social protection issues also emerge as important collateral issues in other lending where social protection policy or capacity building is not the direct object of the loan. Typical examples are loans dealing with shifts toward market determined pricing of energy, water, telecommunications, and housing. Ideally these measures 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). Two key oversight and coordination activities need to be considered:

- (i) Integration of social protection within the ADB's other lending activities for ensuring vulnerable groups are able to directly benefit from other lending projects and are not negatively affected as a result of an ADB intervention, creating further poverty (e.g. upland communities losing access to agricultural land due to mining and unable to benefit from participation in the mining rights, user charges that discriminate against vulnerable groups from having access to quality services, in particular health, education, water - including for irrigation, electricity and other power sources);
- (ii) Review ADB's standard contracts and subcontracting arrangements, including those of ADB Headquarters and Resident Missions, to ensure contractors complying with the country's prevalent labor legislation (i.e. minimum wages, safe working conditions, social security contributions, etc); and
- (iii) Assuring that a country's existing social protection policies and interventions are considered in the dialogue with country counterparts.

D. Staffing and organizational implications

If social protection is to become fully embedded in ADB operations, some key decisions have to be made recognizing its standing as an analytic concept and sphere of lending, allocating duties

among units, and assuring that it is integrated with other social development activities and into ongoing country dialogues. This will require analytic attention to distributional effects, labor and financial market incentives, and public finance implications of explicit and contingent liabilities. It will also require enhanced design work in the administration and financing of public programs, regulation of labor and financial markets, and delivery of local services. In allocating responsibilities for social protection across the ADB, attention will need to be paid to capacity limits of current units, the comparative advantage of the disciplinary skills in certain units, and that more than one social protection intervention will cover particular groups in the society.

Social protection cuts across traditional lending categories in the ADB and can involve different disciplines. Accordingly, social protection issues probably cannot be assigned to one particular existing unit. Social protection demands a broad range of skills that are found, in the ADB, in several organizational units. In the majority of multilateral agencies (except the World Bank), social protection has not yet emerged as a distinct set of functions and experience suggests that there is no optimal or standard way to organize social protection activities within an international lending institution. This issue surfaced in the World Bank's most recent reorganization. Social protection units had been created in most of the World Bank's Human Development regional divisions, but significant overlaps existed between those units' responsibilities and the duties assigned to units focused on poverty measurement and reduction located in other regional divisions. In pension related issues, overlaps existed between those two units but also among other units interested in all types of contractual savings

Consideration of social protection in (i) country strategies, (ii) lending and technical assistance, and (iii) collateral issues and safeguards, can raise larger issues of organization, including how to allocate cross-cutting activities within the existing structure. In considering those questions, the following considerations will have to be weighed.

- (i) Capacity limits in different units given their current responsibilities and staffing size. The ADB's so far limited experience in social protection has developed in an ad hoc manner involving inputs from several departments and offices. The Office of Environment and Social Development (OESD) works on safeguard issues, ensuring that ADB loans do not have any adverse impacts on risk groups and that ADB loans maximize their benefits to vulnerable populations. Programs Divisions discuss

lending pipelines with Governments, including future lending on social protection The Agriculture and Social Sectors Departments (AED/AWD) have implemented loans and TAs on social insurance, social assistance, integrated social sector programs and skills development/labor retraining. The Infrastructure, Energy and Financial Sector Departments (IED/IWD) have developed loan and TA activities on private pension systems and capital market development. It may be difficult to assign responsibility for social protection to one particular unit but ad hoc allocation of responsibilities has resulted in overlaps and uncertainty which potentially undermine the ADB's effective support for the sector; and

- (ii) Country-based approach: Social protection demands skills in social development, poverty reduction, public administration, law, program coverage, cash transfers, and public finance. Some approaches to social protection, particularly those involving use of private sector agents or financial market intermediaries, will require a combination of social development and administration skills on the one hand, and an understanding of public finance, financial markets and their regulation on the other hand. This probably requires sharing responsibilities across units according to the comparative advantages of their staff's disciplinary training, rather than the assignment of exclusive responsibility for social protection, or a subset, to one or another unit. Social Protection issues, as any new field that does not exactly fit under any current ADB division, would be best addressed if the ADB was to restructure adopting an effective country-focussed team work.

Greater involvement by the ADB in social protection will require an expansion in the skills within the ADB, particularly in the involved Program and Project Departments. Relying in short-term consulting services may result in inadequate outcomes.¹² Training programs should be developed by the Training Department (BPTD), and funds devoted to external training when necessary. The ADB Institute should also become an active player in providing training to DMC officials.

12. When consultants are used for modeling in these areas, care should be taken to have staff who understands such modeling enough to intelligently choose consultants and to review their work products, so as to obtain a considered integration of both the social and fiscal aspects of social protection systems.

E. Coordination Among Funding Agencies and Strategic Partnerships

The ADB should consider the strategic alliances that it can develop in order to reduce its own resource costs and secure coordination of interventions in DMCs. An ideal relationship with a client country for social protection reform is one in which policy and project lending takes place in a country strategy that advances reforms (e.g., liberalizing labor markets or expanding coverage) that the government has taken on in partnership with the ADB and other donors, such as the IMF, WB, DFID, ILO. Coordination of development efforts is essential for long term success. 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 both social and economic development. 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.

F. Monitoring progress

To monitor the developmental impacts of its interventions in social protection, the ADB will pay increased attention to measure 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 SP investments. In as much as possible, ADB loans should contribute to build the capacity of DMC governments to collect, collate and analyze social protection data to assist with future national planning and policy formulation.