

## Poverty and Social Protection: The DFID Approach

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The International Development Targets reflect the international development community's commitment to poverty alleviation. The targets indicate the consensus that poverty needs to be central to all our work, that poverty is multidimensional, and that we need to focus on outcomes, in terms of improvements of the welfare of poor people. To achieve the target of halving poverty by 2015, the United Kingdom's Department for International Development (DFID) emphasizes requirements of economic growth, equity, and security, and the interdependence and complementarity of different kinds of public policies, as well as the interdependent roles of the market and the State, and of justice and economic growth.<sup>1</sup>

There is increasing recognition that economic growth, on the one hand, and social justice and poverty reduction, on the other, are not alternatives. Of course, there is much evidence for the importance of economic growth for poverty reduction. To achieve the development targets, particularly for the poorest countries, there is no alternative but to increase rates of economic growth substantially. To achieve higher rates of growth, better governance, economic stability, and an enabling environment for the private sector are required.

At the same time, there is much evidence, for example from the "East Asian miracle" countries, that sustainable economic growth requires the provision of education and health services to the entire population, and in some cases, land reform as well. Finally, research has shown how important improving income distribution is for achieving the target of halving income poverty by 2015.

DFID supports a rights-based approach to poverty reduction. That is, poverty elimination is not a matter of charity. Decent living standards, access to services, and security are part of the fabric of rights of poor people. These rights are enshrined in national laws and international agreements, covenants, etc., and form the basis on which development organizations formulate their policies. Participation in the formulation of such policies by poor people is an equally important part of a rights-based approach. And the issue of security, in a broad sense, is central among poor people's priorities.

DFID's recent White Paper (DFID, 2000a) emphasizes that globalization—which implies increased transnational economic transactions as well as movements of people and ideas—carries enormous potential as well as risk. Managed well, globalization has great

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<sup>1</sup> This is similar to the recent *World Development Report 2000/2001* (World Bank, 2000), with its interdependent strategy to enhance opportunity, security, and empowerment.

prospects for poverty reduction. If globalization is not well managed, there are also risks that it might exacerbate global inequality, political tensions, violence and conflict, etc. The financial crisis in Asia indicated the risks associated with a global financial market, and, as the Asian Development Bank (ADB) and others have stressed, the need to protect populations against such risks, in a global environment, means that the right economic, political, and social frameworks are crucial.

This paper focuses on social protection. For purposes of discussion, it is important to emphasize that this is a subset of a wider framework of social policies. Other kinds of social policy that are equally important for poverty reduction include those relating to the provision of universal access to basic social services, the attainment of sustainable livelihoods, the promotion of gender equality, and the fostering of social integration, among others.

## 2. What is Social Protection?

Social protection conventionally consists of policies that assist people, households and communities to protect themselves against shocks and risks.<sup>2</sup> According to Norton and Conlin (2000), social protection “refers to the public actions taken in response to levels of vulnerability, risk and deprivation which are deemed socially unacceptable within a given polity or society”<sup>3</sup>. Within this framework, two partly overlapping issues are central. First, the emphasis on risk and vulnerability: this recognizes the dynamic nature of poverty, and—not least as a result of the recent crises in East Asia—focuses our attention on the need to be prepared for crises. This should help us toward a proactive social policy agenda, one which emphasizes the need to assist individuals, households, and communities to manage risk and increase security.

Second, social protection emphasizes the need to provide support to the poorest. The needs, vulnerabilities, and capabilities of the poor and the poorest remain central in our approaches, although social protection also helps us to incorporate an understanding of the risks of falling into poverty. For example, there is a need to extend social protection to the majority of the world’s population that is currently excluded from statutory social security.

Poor people are excessively exposed to risk and have little ability to manage it. The mechanisms of protection available to them are often expensive and may reduce their human capital: child labor as a reaction to a household’s poverty is an obvious example. At present, DFID’s Bangladesh program is considering supporting social protection policies for the poorest 20 per cent of the population, those who may have profited little from the country’s recent economic growth.

## 3. From Residualism Toward a Mainstreamed Approach

For social policies to be effective, and to have a beneficial impact on broader processes of economic development, they need to be mainstreamed throughout the processes of policy

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<sup>2</sup> DFID explored the similarities and differences in different agencies’ approaches to social protection in an interagency workshop in March 2000. The approaches by ADB, the International Labour Organisation, and the World Bank are summarized in Conway, De Haan, and Norton (2000).

<sup>3</sup> This is a key issue in the context of social funds, which often operate outside such planning processes (see the discussion in Fumo et al. [2000]).

formulation and implementation. Social protection has often been seen as a residual or “safety net” issue, dealing only with the negative and unintended outcomes of market operations. Instead, social protection needs to be considered in a proactive way, considering the wider beneficial effects of reducing the vulnerability of the poor and the potential benefits for companies of reducing risks to which their workers are exposed. Recent evidence on globalization seems to indicate that governments need to become more proactive in the field of social policy, for political as well as economic reasons. Such policies need to be formulated before crises occur and mitigation is implemented: preparedness for shocks is crucial for the financial sustainability of social protection, as well as to avoid and limit the damage of crises.

An element of such a mainstreaming approach is the integration of social protection policy formulation into government budget processes and associated political processes. In particular, donors need to make sure that they do not fund projects that are not part of governments’ overall planning and budgeting. Support needs to be sustainable in the context of medium-term fiscal frameworks.<sup>4</sup>

Social protection policies should help people build up assets that enhance their resilience against future shocks. For this to be effective, policy formulation should start from an understanding of poor people’s capabilities and assets and of the risks to which particular groups are exposed, as well as their productive contributions. For example, an aging population may demand increased funding for old-age provisions, but older persons also provide essential contributions, for example, in child care. Transfers between households that run out of food, communal labor for households with sick members, management of common property resources for the dry season, and sharing of knowledge between farmers about how to protect against bad harvests are all common strategies in semiarid rural environments. Community organizations exist all around the world that help people cover risks through savings groups, burial societies, cereal and rice banks, and the like. These mechanisms of support are crucial for poor people, and social protection policies should build on them as much as possible.

Specific sets of safety net measures have to play an important role in reducing the vulnerability of the poor, particularly during short-term crises. But it is equally important to use a social policy lens in discussions about a wide range of policies. For example, planning the school year may help poor households to match seasonal demand for labor with education of children, and the timing of payment of school fees can help reduce the risk of indebtedness. Labor market policies can help reduce the effect of unemployment on poor workers, and enable them to build up assets that help them create alternative livelihoods. Finally, as shocks may lead to the marginalization of individuals or groups, and to spirals of deprivation, protecting against such shocks also contributes to social integration.

#### **4. Targeting or Universalism?**

For publicly funded policies to be affordable and sustainable, it is often important that provisions be targeted to specific groups. Reforms of existing policies may be required to increase the benefits to poor people of various schemes. But choices between targeted or

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<sup>4</sup> A detailed discussion of lessons regarding social protection schemes for the poor can be found in Devereux (2002).

universal provisions depend on a whole range of issues, and are context dependent. The same applies to choices between social insurance and social assistance, which crosscut the targeting-universalist dimension.

There are good examples of specific schemes that provide solutions for particular forms of crises. Employment guarantee schemes, like the well-known example in India's Maharashtra state, do not directly create assets for poor people, but they can provide an essential contribution to reduce vulnerability during the seasons when agriculture provides insufficient employment. Within such schemes, specific measures may help to facilitate the participation of particular groups: child care facilities, for example, are essential in order for many women to participate. Microfinance can help people who have the opportunity to save and to protect themselves against future shocks, as well as to improve their current situation. Similarly, crop insurance may help people with some assets protect themselves against future risks. The poorest may not be the main beneficiaries of microfinance or insurance schemes, but these may have a crucial role in supporting others in building up their assets, which in future may stop them from falling into poverty.

But targeting to poor people is not always desirable, or possible. The administrative costs may be too high, and the required information may not be available. Public opposition may make efforts to target food subsidies, for example, difficult to achieve. Policy choices should be based on an understanding of the importance of public policy for communities, and avoid creating social divisions.

It is clear that certain social policies, like basic education and health care, need to be based on universalist principles. A rights-based approach pushes us towards supporting universalism as much as possible. As emphasized by the International Labour Organisation (ILO), statutory social security is limited to a very small—and perhaps declining—proportion of the working population in the South, mostly male. Extension of this limit should be a priority where possible. And even in poor countries, some universal schemes may be feasible, as the pension schemes in the Indian states of Kerala and Tamil Nadu seem to suggest.

It is important that we learn the lesson from existing successful schemes. For social protection policies, choices between universal and targeted schemes need to be context-specific, and depend on a range of political, fiscal, and administrative considerations. But the final aim should be access to provisions and security for the entire population, as a matter of right.

## 5. Actors in Social Protection

Many different kinds of actors operate in the field of social protection. In most countries around the world, social security provisions form only a very small part of government budgets. Informal forms of social protection, personal networks, religious organizations and so on, are often much more important, particularly for poor people.

While public financing constraints are crucial, it is also important to be realistic about what can be achieved through the market. Governments have a central role, particularly in creating the enabling environment for inclusive policies that promote equitable economic growth. Provision of basic health care and education also is likely to be best provided by governments. But communities and civil society also play crucial roles in social protection.

Microfinance is a clear example of the role nongovernment organizations can play, and rotating credit funds show the potential of community-based actions. The Self-Employed Women's Association in India shows the role trade unions can play, in the informal sector, in providing social insurance. Company-based health protection schemes are another example of how various agents can play a part in social protection.

A challenge for aid providers is to support the variety of such support networks, and to help build effective partnerships. Development agencies such as DFID work with governments in implementing regulatory frameworks including core labor standards, as well as carrying out particular policies that directly help reduce poverty and vulnerability. At the same time, DFID can support civil society, which greatly contributes to social protection, as well as the private sector, in promoting voluntary schemes.

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