

Research Brief

Background Research Papers for Preparing the National Social Security Strategy of Bangladesh

Social Protection Strategies to Address Idiosyncratic and Covariate Risks and Shocks, including Seasonal Poverty, Economic Recession and Natural Disasters

Introduction

Bangladesh has been ranked as the 5th most risk prone country within the natural disaster category by World Economic Forum. Shocks can be divided into two broad categories based on the rapidity of the shocks. Idiosyncratic shocks (illness, unemployment, etc) are household specific, while covariate shocks(such as natural disasters) may affect a group of households or the entire community. They contribute to increasing poverty by bringing destitution to previous non-poor and increasing depth of poverty by pushing the poor further below the poverty line.

Objective: The study will accumulate evidence-based analysis on the impacts of various risks and shocks on the livelihood and economic well-being of the poor in Bangladesh and also the coping strategies. It will also evaluate the adequacy of social safety net programmes in meeting the immediate and medium-term needs of the affected community.

Methodology:

A comprehensive literature reviews and consultations with the experts, NGOs and related government officials were conducted ,also evidence based study from South East Asian countries was done . It also incorporates evidence from the evaluation reports of various programmes funded donor.

Research Findings

- A longitudinal study, in rural Bangladesh by Quisumbing (2007) finds more than half of all households to be affected by shocks in the 10-year period (1997-2006/07) preceding the survey.
- The frequency and intensity of shocks are important in determining the consequences of shocks. Some shocks hit household once in a lifetime such as death of the main income earner, but its consequences may be more adverse than shocks that recur frequently such as transient illness.

Idiosyncratic & Covariate shocks: Illness is a shock. Natural disaster is a regular phenomenon in Bangladesh because of its unique geographical location. Severe covariate shocks, especially recurrent shocks increase the likelihood of poverty traps in affected areas for several reasons (World Bank, 2008).

Risk Coping Strategies

Coping strategies depend on characteristics of the affected households.

Informal mechanisms		Formal mechanisms	
Individual and household	Group based	Market based	Publicly provided
<ul style="list-style-type: none"> • Sale of assets • Loans from money lenders • Child labour • Reduce food consumption • Seasonal or temporary migration 	<ul style="list-style-type: none"> • Transfers from networks of mutual support 	<ul style="list-style-type: none"> • Sale of financial assets • Loans from financial institutions 	<ul style="list-style-type: none"> • Social insurance • Workfare • Subsidies • Social funds • Cash transfers

Households are more likely to fail to cope with climate shock (59.1 %), asset shock (44.8%) and economic shock (41.4 %) About 34% households' reports use of savings as the most important mechanism to cope with shock; It is used relatively more to deal with health, climate and asset shocks compared with economic shock.

Government programmes to mitigate the impact and their effectiveness

The most noteworthy change of SP has been transformation of the programmes from relief orientation to development orientation.

The Main Types of Social Protection Programmes in Bangladesh

- Public works programmes, such as Food for Work, Employment Generation Schemes;
- Food transfer programmes, such as Vulnerable Group Feeding, Vulnerable Group Development;
- Lifecycle social transfer schemes, such as stipends for school children, allowances for vulnerable categories of the population; and
- Donor supported programmes outside government that provide social services including social transfers for income generating activities

Social protection helps create assets at the individual, household and community level with profound implications for poverty reduction and shocks. School stipend programmes help create human capital of children. Food for Work and Cash for Work programmes help build rural infrastructure which have multiple effects on poverty reduction including access to markets for goods as well as inputs, enhanced production, etc.

Issues when selecting programmes to deal with idiosyncratic and covariate Shocks

- First, whether to adopt a few general programmes to deal with the risks or to adopt different programmes for different target groups which face similar risks. One view can be to adopt a general programme to cover risks and shocks.
- Secondly, whether to adopt programmes to deal with all the different types of risks and shocks faced by individuals or to focus on some major risks. One approach can be, in view of limitation of resources, to focus on major risks faced by larger proportion of households.
- Thirdly, the time path of evolution of social protection will depend on level of development of the economy and evolving nature of risks .

Social protection for environment displaced: The urban poor, a large proportion of whom are environment displaced, are by design neglected by government social safety net programmes. There exist a Housing Fund for Homeless People that covers both rural and urban poor. However, loans made available under this fund make specific reference to rural poor but they do not make such reference to the urban poor.

International Experience: Since 2000, China has been encouraging migration with social protection. The policy reforms include free employment services with training, workplace safety, and free health services including maternal care, a labour contract law, free compulsory education and social housing with free or low cost housing provided by both employers and the government. The future agenda includes full coverage of portable social security programmes.

Food price shocks: Annual fluctuations in food prices especially rice price is generated by harvest failure and has been a regular phenomenon in the country. Bangladesh is a net importer of food; it absorbs a large proportion of household expenditure. For example, rice accounts for 40 percent (23 percent) of total consumption of households at the bottom quintile. The food price shock in 2008 made about 12.3 million people food insecure and about 34.7 million people under-nourished in Bangladesh.

Future social protection measures

OMS for urban areas helped cushion against the impact of food price shocks. The vast public food distribution system can be used not only to face food crisis but also to distribute food to achieve other objectives such as under-nutrition.

Economic recession: experience of developing countries

The financial and economic crisis of 1997-98 brought in its train a series of events which adversely affected livelihood and welfare of many South east Asian Countries.

Country	Before crisis	During crisis	Change (percentage points)
Argentina	25.5 (1987)	34.6 (1989)	9.1
	16.8 (1993)	24.8 (1995)	8.0
Brazil	27.9 (1989)	28.9 (1990)	1.0
Costa Rica	29.6 (1981)	32.3 (1982)	2.7
Indonesia	11.3 (1996)	18.9 (1998)	7.6
Republic of Korea	2.6 (1997)	7.3 (1998)	4.7
Malaysia	8.2 (1997)	10.4 (1998)	2.2
Mexico	36.0 (1994)	43.0 (1996)	7.0
Thailand	9.8 (1997)	12.9 (1998)	3.1
Venezuela	25.7 (1982)	32.7 (1993)	7.0
	40 (1988)	44.4 (1989)	4.4
	41.4 (1993)	53.6 (1994)	12.2

There was sharp reduction in rate of growth; per capita GDP growth declined by 13.6 percent in Indonesia, 7.4 percent in Thailand and 5 percent Korea.

Declines in economic growth and real wage led to changes in income inequality and poverty.

The coping strategies were as follows: Rural people migrated to cities where they doubled up with their relatives. The migrants reduced remittances to their families in rural areas. Workers formerly employed in agriculture and manufacturing moved to informal trading.

Social protection measures: experience of developing countries

In the crisis affected countries, social safety net programmes were relatively less developed compared to those in developed countries. Yet the government undertook a wide variety of measures to provide social protection to the disadvantaged groups in the society. These included (i) employment regulation; (ii) unemployment insurance and other forms of assistance to the unemployed; (iii) job retraining and job creation; (iv) pensions and provident funds; (v) public works and other forms of income maintenance; (vi) price controls and subsidies; and (vii) maintaining access to social services." (Knowles, et al. 1999). These policies helped mitigate the shocks but could not fully protect the disadvantaged.

Conclusions

Bangladeshi households confront multiple idiosyncratic and covariate shocks. The vulnerable households adopt different measures to mitigate the adverse impact of shocks. But they are less capable of meeting with shock. Further, some of the coping measures such as high interest loan and sale of assets appear to be costly for the vulnerable households. The measures can make poor households poorer in the future. Government's social protection measures protect the households from return to poverty and the poor from sliding into deeper poverty. Poverty reduction being the over-riding strategy of the government it has an obligation to protect the poor. An examination of the existing social protection measures indicate that these measures can be used in the medium to short term to protect the vulnerable provided their current deficiencies are gradually corrected. These measures will need to be supplemented by new social protection measures as well as other policies which are consistent with the social protection policy framework and other strategies of the government
