Social and Financial Protection for Priority Vulnerable Groups:
Challenges and Opportunities for Public Administration

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Social Impacts of the Crisis

The crisis has produced or exacerbated serious, wide-ranging and differentiated impacts:

- Rapid increases in unemployment, poverty and hunger
- Declining remittances
- Reduced ability to maintain social safety nets and provide other social services, such as health and education
- Increased infant and maternal mortality
- Collapse of housing markets and household deleveraging
- Losses in retirement savings and benefits
Impact of the Global Financial Crisis on Poverty

Global Financial Crisis

Macro-level shocks:

- Trade
- Capital flows
- Government Budget
- Aid

Transmission mechanisms (can be influenced by social protection):

- Public & private transfers
- Prices
- Assets
- Employment
- Access to goods & services

Poverty

Impact on Poverty

Between 73 and 103 million more people would remain poor or fall into poverty in comparison with pre-crisis scenarios, of which:

✓ East and South Asia - between 56 and 80 million more people in poverty

✓ India – between 28 and 40 million

✓ Africa 12 to 16 million more people in poverty

✓ Latin America and the Caribbean - 4 million more people in poverty

A substantial slowdown in progress towards the other MDGs should be expected as well.

It will take 5-7 years to get back to where we were before the crisis.

The number of jobless worldwide reached nearly 212 million in 2009, following an unprecedented increase of 34 million compared to 2007.

The number of unemployed youth worldwide increased by 10.2 million in 2009 compared to 2007, the largest hike since 1991.

Source: ILO (2009)
Vulnerability Profile

OECD
- Unemployment
- Household Deleveraging
- Spillover effects to low and middle income countries

Middle Income Countries
- Unemployment
- Income decline
- Inadequate access to vital services

Low Income Countries
- New poor
- Extreme Poverty
- Famine
- Failure of basic services
Labour Market Policy Responses Prevail in the OECD

ILO (2009) The global economic crisis and developing countries: transmission channels, fiscal and policy space and the design of national responses
<table>
<thead>
<tr>
<th>GROUP 1</th>
<th>Developing countries with very little formal or institutionalised social protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROUP 2</td>
<td>Poor countries with a range of social protection mechanisms in place – largely in South Asia (the need to grow and universalise these schemes)</td>
</tr>
<tr>
<td>GROUP 3</td>
<td>Middle-Income countries, which have started down the welfare state road either through social insurance (common in Latin America) or social assistance (common in Southern Africa and East Asia). These countries have normally achieved a limited extension of formal social security mechanisms to the poor</td>
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<tr>
<td>GROUP 4</td>
<td>Transitional and post-transitional countries with a good institutional infrastructure, a strong constituency for social protection, but tremendous difficulties in maintaining previous standards of provision</td>
</tr>
<tr>
<td>GROUP 5</td>
<td>High-income countries with mature systems of social protection</td>
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FISCAL SPACE is one of the key determinants of policy choice

<table>
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During crises of 1990s protection for vulnerable groups was missing in many anti-crisis packages

Public outcry in shock is so loud that voices of the most vulnerable are not well heard

Public administration capacity is a key determinant of policy mix to protect the vulnerable

Capacity building is not an option for immediate response
Key Policy Challenges (continued)

- Problems of fast start up, scaling up and timely exit
- Some of the temporary tools relevant in crisis tend to become permanent and irrelevant to post-crisis environment
- Crisis is an opportunity for social reforms
- Immediate response to crisis should not be confused with post-crisis reform strategy
- New demand for multilateral governance framework – both immediate and post-crisis
✓ What are the main hazards to which people are most vulnerable?

✓ Which people are vulnerable to which hazards?

✓ What combination of instruments will best protect them against the major hazards?
Formal and Informal Social Protection Mechanisms:
Role of Governments, NGOs and Private Sector
<table>
<thead>
<tr>
<th>Objective</th>
<th>Individual and household</th>
<th>Group-based</th>
</tr>
</thead>
</table>
| Reducing risk | • Preventive health practices  
• Migration  
• More secure income sources | • Collective action for infrastructure, dikes, terraces  
• Common property resource management |
| Mitigating risk: Diversification | • Crop and plot diversification  
• Income source diversification  
• Investment in physical & human capital | • Occupational associations  
• Rotating saving and credit associations |
| Mitigating risk: insurance | • Marriage and extended family  
• Sharecropper tenancy  
• Buffer crops | • Investment in social capital (ritual, reciprocal gift giving) |
| Coping with shocks | • Sale of assets  
• Loans from money-lenders  
• Child labour  
• Reduced food consumption  
• Seasonal or temporary migration | • Transfer from networks of mutual support |
| Recovering from shocks/ reducing the risk of non-recovery | • Saving assets (at the expense of consumption)  
• Increasing recourse to limited known strategies, which become overcrowded | • Insurance payments for lost assets  
• Inclusion of losers in collective arrangements (e.g. savings groups)  
• Creation of losers’ groups |
NGOs and faith groups provide safety nets, dealing with all kinds of crises in the communities where they are located, often doing it in innovative ways.

There is so little formal social protection available in low-income countries that it is unlikely that equitable informal protection mechanisms would be crowded out by greater formal provision.

NGOs or government can also link groups of poor people to insurance providers for accident/life, health and other forms of insurance.

NGO providers of microfinance that become private banks may still retain socially responsible objectives.
Private Sector

✓ The private sector can play a positive role as contractor as well as provider.

✓ The private sector can implement social protection schemes (e.g. the South African pension, which is distributed and protected by private firms).

✓ Provision by the private sector tends not to have been progressive (e.g. the poor are usually excluded from insurance).
Institutionalising Social Protection

- Are social protection policies narrow and implemented by one department, or broad and necessarily implemented by many?

- How can strong political leadership be achieved?

- Which agency should lead and coordinate social protection policies?

- How can informal provision be taken into account?

- How can donors address the ownership question when government is reluctant to take a wider social protection agenda on board?
## Formal Mechanisms for Managing Risks

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<th>Market-based</th>
<th>Publicly provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing risk</td>
<td>• Saving accounts in financial institutions&lt;br&gt;• Microfinance</td>
<td>• Sound macroeconomic policy&lt;br&gt;• Environmental policy&lt;br&gt;• Educational and training policy&lt;br&gt;• Public health policy&lt;br&gt;• Infrastructure (dams, roads)&lt;br&gt;• Active labour market policy</td>
</tr>
<tr>
<td>Mitigating risk: Diversification</td>
<td>• Old age annuities&lt;br&gt;• Accident, disability and other insurance</td>
<td>• Agricultural extension&lt;br&gt;• Liberalised trade&lt;br&gt;• Protection of property rights</td>
</tr>
<tr>
<td>Mitigating risk: insurance</td>
<td>• Sales of financial assets&lt;br&gt;• Loan from financial institutions</td>
<td>• Pension system&lt;br&gt;• Mandate&lt;br&gt;• Insurance for unemployment&lt;br&gt;• Illness, disability and other risks</td>
</tr>
<tr>
<td>Coping with shocks</td>
<td>• Asset replacement loan schemes&lt;br&gt;• Labour market and other ‘opportunity’ information&lt;br&gt;• Financial support to market intermediaries</td>
<td>• Social assistance&lt;br&gt;• Workfare&lt;br&gt;• Subsidies; • Social funds; • Cash transfer</td>
</tr>
<tr>
<td>Recovering from shocks / reducing the risk of non-recovery</td>
<td>• Incentive support to group or market-based recovery&lt;br&gt;• Additional support to schools to keep children to a minimum useful threshold&lt;br&gt;• Focus infrastructure improvements on affected regions and local areas&lt;br&gt;• Increase coverage of social security schemes to include non-recoverers&lt;br&gt;• Support for labor migration</td>
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General Criteria for Social Protection Instruments

- contribution to reduced risk and vulnerability, resulting in income-smoothing and reduced dependence on adverse socio-economic relationships for the poor and vulnerable;

- potential for asset development across the range of livelihood assets including human capital, especially for the chronically poor, enabling them to participate in and contribute to economic growth and assert their rights, and to recover after shocks;

- potential for contributing to economic growth through reducing (credit/insurance) market failure;

- contribution to socio-political stability through cost-effective broad national coverage and policy dialogue about criteria for inclusion;

- costs compared with benefits;

- complementarity with existing instruments and programmes;

- implementability, including political sustainability, financing, targeting, ability to be scaled up and down, and administrative capacity required; these are particularly important in poor countries with low governance capacity;

- possible crowding out/in effects (there may be a net benefit to the poor of what is to be crowded out/in).
### Comparative Matrix for Targeting

<table>
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<th>Targeting mechanisms</th>
<th>Administrative costs</th>
<th>Susceptibility to inclusion and exclusion errors</th>
<th>Political aspects</th>
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<td>Means-testing</td>
<td>High – incomes are very difficult to assess</td>
<td>Low, providing accurate information can be obtained, depending on honesty of administrators</td>
<td>Degree of intelligence required to verify claims may be unpalatable; politically may be only way to make acceptable to elite.</td>
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<td>Proxy indicators</td>
<td>Medium</td>
<td>Medium</td>
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<td>Community-based</td>
<td>Low for government; but high for local community which has to take invidious decisions. May perceive targeting as irrational or impossible: ‘we are all poor’.</td>
<td>Variable – necessary transparency and flexibility hard to achieve in practice.</td>
<td>Liable to local elite capture and to replicate existing forms of discrimination. May exacerbate divisions in a community.</td>
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<td>Self-targeting</td>
<td>Low</td>
<td>Low if well designed. However, targeting is usually not the driving feature of design.</td>
<td>Can create stigma for poorest and socially excluded households if achieved through low wages, or inferior food payments.</td>
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**Administrative costs**
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- Low

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**Political aspects**
- Degree of intelligence required to verify claims may be unpalatable; politically may be only way to make acceptable to elite.
- Can create stigma for poorest and socially excluded households if achieved through low wages, or inferior food payments.
Poor and vulnerable people often lack voice

If vulnerability is dramatically exposed by events, this may help to prioritize on relevant policies

Where there is no drama – information asymmetry needs combating through active journalism and research

Relevant research and good journalism needs to be disseminated to the public and decision-makers

Social movements need freedom to operate with available information

Statistical services need resources and capacity to provide the data
Coordination within government is costly and difficult to achieve.

Much better to achieve coordination between government departments concerned through shared policy analysis and concepts:

- with each ministry or department working out how these could usefully inform its own actions, and

- if additional resources are available, bidding for resources against a set of criteria.

This procedure would give teeth to the process of coordination, and suggests that the role could be played by a central ministry (finance or planning).
“Ten commandments” for anti-crisis response and how they work on practice
Underdeveloped public administration is among key constraints in establishing effective social protection instruments. (This is particularly the case for women, older people and young people or children)

Employment programs may compound nutritional problems

The administrative costs of public works programs may be high in relation to the benefits (in addition to program administration, there are the costs of building materials and equipment, and targeting)

The start-up costs of a formal social protection system are high, but not insurmountable

A system intended to provide universal (targeted) coverage can be implemented in certain geographical areas and then extended
Social protection systems cannot cope with vulnerability (e.g., high levels of poverty and growing exclusion). They are:

- crowded out by pensions
- too low in value
- over targeted
- not targeted enough (in some sense)
- overwhelmed by categorical benefits
- assuming “deserving” and “undeserving” poor
- lacking tools to support vulnerable middle class:
  - housing market collapse
  - access to quality social services
  - access to top-range professional training
  - support for territorial labor mobility
“Ten Commandments” for the Emergency Package

1. Adjust tools to administrative capacity, not vice versa
2. Do not rely on capacity building
3. Act within fiscal means
4. Select programs: quick and easy to start …
5. … and easy to scale up
6. Allow timely exit
7. Beware crowding out
8. Avoid post-crisis traps
9. Encourage local initiative …
10. Act local … but think global
## Some lessons from countries of Groups 3 and 4

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China: large scale investments in public infrastructure to sustain urban employment:

- fast but poor selection of projects
- prevalence of long-term projects, impossible to stop
- high risk of bad loans and economic overheating

Lesson:

- avoid confusion between emergency response and long-term development strategies
Russia: difficult start and slow scaling up in support for restructuring in single industry towns

- by Q1 2010 only 3 government sponsored programs in single industry towns have been initiated out of total 400 single industry towns
- however, new programs for unemployed were started and scaled up quickly and effectively by Employment Agency network

Lessons:
- avoid programs, which take time to design and require new capacity to administer;
- rely on existing capacity and infrastructure
Ukraine: in spite of severe fiscal constraints pension spending was boosted before and during the crisis

- Ukraine now runs the world’s most expensive public pension program (17 percent of GDP)
- targeted support for unemployed and families with children was underfinanced in spite of adequate capacity to administer

Lessons:

- keep priorities in check;
- do not discriminate important vulnerable groups when capacity to administer is adequate
Cases of successful response

Relying on existing capacity
Some of the Latin American countries: scaled up targeted cash transfer programs for the poor and vulnerable

Preventing crowding out of priority programs
• **Bosnia:** some of the inefficient categorical benefits were successfully downsized
• **Poland:** some of the early retirement schemes were phased off

Fast deployment of simple but targeted designs
• **Turkey:** employment programs, subsidies for small businesses and in kind support was scaled up and focused on vulnerable groups
• **Germany:** on-the-job subsidies were effective in export industries
The Need for International Governance
Immediate Needs for Collective Action in Crisis

- Global contraction of fiscal space
- Spillover effects:
  - Financial contagion
  - Trade decline
  - Capital flight
  - Migration
- Global vulnerability monitoring
New Role for UN and IFIs

- UN: Global Impact Vulnerability Alert System
- The World Bank Vulnerability Framework:
  - Infrastructure Facility Fund
  - Rapid Social Response
- CGAP (Consultative Group to Assist the Poor)
## IMF: Addressing Contraction of Fiscal Space

<table>
<thead>
<tr>
<th>Overall IMF-Supported Program</th>
<th>Pensions</th>
<th>Targeting Social Safety Nets</th>
<th>Housing Assistance</th>
<th>Unemployment Assistance</th>
<th>Other Programs</th>
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<tr>
<td>Higher social spending</td>
<td>+</td>
<td>+++++</td>
<td>+</td>
<td>++</td>
<td>+++</td>
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<tr>
<td>Protecting social spending</td>
<td>+</td>
<td>+</td>
<td></td>
<td></td>
<td>+</td>
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<tr>
<td>Better targeting</td>
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<td>++</td>
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<tr>
<td>Strengthening the social safety net</td>
<td>+</td>
<td>+</td>
<td>++</td>
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Globalization of labor markets

Cross-border social services:
- capacity swaps
- services to migrants
- cross-border services to the elderly
- professional training

Green solutions

Scaling up experimentation and innovation
From Emergency Response to “Future Oriented Social Policy”

Time for emergency anti-crisis policies is almost over:

- Review the system and consider comprehensive reform, if needed
- Costing of reform is an essential part of the response
- Find and act on those changes that can be introduced without much additional cost
- Address how to finance and sustain innovation – related to new role of the state as regulatory and system creative function
- Shift the location of expenditure to channels of innovation (towards NGOs; role of state as regulatory, not provider)
- Address decentralization – too often the central budget does not create an incentive for reform and innovation at the local level
- Address scaling up problem for innovations
- Think of timely exit strategies to avoid post-crisis policy traps
Thank You for Attention