Strengthening social protection responses to the global economic downturn

A policy toolkit for developing countries

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Economic Policy Research Institute

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Table of contents

Introduction

In October 2010 the Paris-based Organization for Economic Cooperation and Development (OECD) warned of continued economic downturn, citing a compilation of data from its 33 member nations as well as indicators from several of the world's largest developing countries, including Brazil, India and China.[1] The preceding triple-F crisis (food, fuel, financial) and the persistence of the economic downturn have intensified interest in appropriate social protection responses to address current and future vulnerability. Social transfers in particular have attracted attention in a number of countries as a cost-effective alternative to generalised subsidies that are often expensive, poorly targeted and prone to creating economic distortions.

This toolkit aims to support policy decision-making that aims to strengthen appropriate social protection responses to the current economic downturn and ensure continued progress against a range of Millennium Development Goals (MDGs). It provides an analytical framework and decision-making tool based on analysis of historical lessons of international experience, and informed by current thinking in terms of the existing crisis. The toolkit links social transfer choices to wider social protection strategy, as one of potentially many responses to the global economic downturn, and within a broader context of overall social policy.

The toolkit complements existing guidance and other toolkits supported by the U.K. government's Department for International Development (DFID) by drawing more general lessons not only for the recent economic downturn but also for other types of future crises.

This toolkit focuses in particular on options in low-income country contexts, and draws on social analysis for responding to impacts on different groups. The issues addressed in the toolkit receive more detailed treatment in the recently published second edition of the DFID-funded guide Designing and Implementing Social Transfer Programmes.[2]

The global economic downturn is more than a perfect storm—the various components are intricately interwoven, from their origins to the appropriate responses. The current global situation reflects the impact of recent multiple basic commodity price shocks (food and fuel) with a threat to global pro-poor growth (financial crisis and global recession). -

The global economic downturn has inflicted a cycle of shocks affecting poor and vulnerable people in low- and middle-income countries. Preceding shocks have contributed to surging food and fuel prices that eroded the purchasing power of the limited incomes of poor people. The economic downturn

1 OECD (2010), Composite Leading Indicators (CLIs), Paris: Organization for Economic Cooperation and Development, October. http://www.oecd.org/document/40/0,3343,en_2649_34349_46166824_1_1_1_1,00.html

2 The second edition of the policy guide Designing and Implementing Social Transfer Programmes, funded by DFID, provides more detailed lessons from global experience regarding country responses to the global economic downturn, particularly through the use of social cash transfers.

threatens slowing or negative economic growth, falling remittances, eroding public capacity and potentially falling international aid. The global economic downturn affects the fiscal space not only of affected developing countries but also industrialised countries that provide development partner support (as well as global demand driving economic growth). The downturn thus increases the demand for social protection (and a range of other responses) while simultaneously limiting fiscal capacity to respond—and triggering global economic changes that create additional negative pressures on pro-poor growth.

Estimates suggest the economic shocks may adversely affect approximately 1.4 billion people who are living in or on the verge of extreme poverty in developing countries.[3] Initial estimates warned that the downturn might be expected to substantially slow global efforts to reduce poverty and achieve progress on the Millennium Development Goals, with a predicted additional 100 million more people trapped in poverty in 2009. The economic downturn falling on the heels of a global food price crisis has driven the number of the world's hungry above a billion for the first time. The situation is increasing the number of children suffering malnutrition-related permanent cognitive and physical injury and infant mortality, particularly for girls. The downturn has most greatly affected the near-poor and the working poor—substantially increasing the group of the new poor. Multiple dimensions of crisis have adversely affected informal sector workers who depend on the downturn-affected formal sectors—with incomes falling, business costs rising and conditions worsening. At a macro level, reduced fiscal space for developing country governments hampers appropriate responses, particularly for social programmes including HIV/AIDS budgets. The cumulative pressure of global crises has exacerbated political unrest and undermined social cohesion.

Appropriate social protection and human development responses can ensure that this temporary economic shock does not create severe permanent reversals and declines in poor households' well- being.

Appropriate policy responses

The global economic downturn poses renewed challenges to leaders in low- and middle-income countries trying to tackle the imperatives of economic development and pro-poor and inclusive economic growth. This crisis is raising the costs of reforms in countries reliant on exports and international capital for growth. Successful strategies must combine policies more efficiently than ever—to balance the necessary reforms with initiatives that offset the costs for the most vulnerable.

Social protection provides one set of interventions that optimal policy-

3 Lin, Justin Yifu. Straight Talk: Shifting Perceptions of Poverty. Finance and Development, IMF, Volume 45, Number 4, December 2008.

Box 1: Social protection and the choice of policy instruments

Social protection encompasses a sub-set of public actions, carried out by the state or privately, that address risk, vulnerability and chronic poverty (DFID, 2005). Social protection instruments enhance the capacity of poor people to participate in, contribute to and benefit from the economic, social and political life of their communities and societies. (OECD, 2009). The current economic downturn in the face of on-going global challenges (including food insecurity, price shocks, climate change and others) underscore the need for more effective social protection responses.

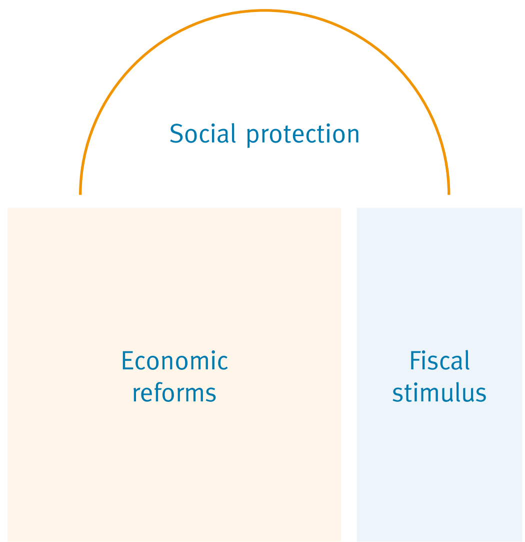
"Social protection directly reduces poverty and helps make growth more pro-poor. It stimulates the involvement of poor women and men in economic growth, protects the poorest and most vulnerable in a downturn and contributes to social cohesion and stability. It helps build human capital, manage risks, promote investment and entrepreneurship and improve participation in labour markets. Social protection programmes can be affordable, including for the poorest countries, and represent good value for money." (DAC 2009)

The table below illustrates the public and private instruments that constitute the building blocks of social protection systems. Social assistance, social insurance and minimum labour standards are some of the most commonly included categories of instruments. Social cash transfers are increasingly popular public initiatives that tackle extreme poverty while strengthening private responses. Social insurance mechanisms can help correct market failures and more effectively broaden access to include the poor. Governments also legislate minimum labour standards in the workplace (and more broadly) to reduce imbalances in economic power. Private sector employers sometimes adopt voluntary standards that offer even greater social protection. Broader definitions of social protection may include social and private services, primarily those that build human capital, such as education, health, sanitation, and community development. In addition, some frameworks consider an even wider range of public policies - including macroeconomic policies - as components of social protection.

Public actions	Private actions
Social transfers	Remittances
Social insurance	Private insurance
Minimum standards	Voluntary standards
Social services	Private services
	...

Table 1 Components of social protection

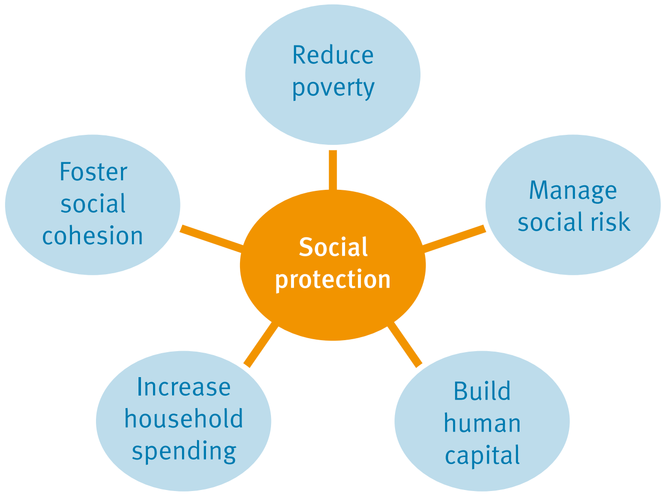
making would co-ordinate with other types of responses, particularly economic reforms and fiscal stimulus. The three types of responses have overlapping impacts—many social protection interventions produce pro-poor economic outcomes. Likewise, social protection interventions often provide effective fiscal stimulus, by increasing purchasing power for groups within society most likely to spend. Similarly, economic reforms and fiscal stimulus support their own as well as social protection objectives. Harmonised fiscal and economic policies better support pro-poor and inclusive economic growth, strengthening the potential of social protection to tackle poverty, risk and vulnerability while promoting developmental outcomes.



Social protection interventions are particularly effective in promoting the necessary social and economic outcomes that constitute an effective response to the economic downturn for several reasons[4]. Social protection:

- reduces poverty and vulnerability effectively and efficiently,
- enables households to manage social risk and thereby promotes engagement in labour markets and livelihoods activity,
- builds human capital to break the inter-generational transmission of poverty,
- supports the consumption of the poor, reinforcing policies aimed at increasing demand to stimulate economic activity.
- provides poor people with a stake in the economy, promoting social cohesion and facilitating pro-poor economic reforms.

4 OECD. Promoting Pro-Poor Growth: Social Protection. OECD Publishing, 2009



The immediate social protection priority in the face of the economic downturn requires a focus on the rapid rollout of interventions, with the aim of protecting consumption and preventing further decline into poverty. This toolkit illustrates four steps to building an appropriate response:

1. Vulnerability Context: Assess how the global economic downturn is affecting the nation's vulnerability, informing a process of selecting an appropriate set of social protection instruments.
2. Build the pre-conditions for implementation—particularly in terms of mobilising capacity, resources and political will.
3. Actual design and implementation, which may involve a scaling up process that depends on the resources and capacity available.
4. Develop the necessary complementary interventions that co-ordinate the social protection interventions with broader responses, increasing the likelihood of success and promoting developmental impacts.

These four steps (illustrated in figure __ below) are not necessarily sequential and may be iterative. For example, pilots can be implemented during the initial stage to build capacity and address design questions, even before policy-makers establish a national strategy.

The following sections develop each of these steps in further detail.

The final section concludes with a summary of key action steps.

Assess context

- Assess the impact of the global economic downturn
- Analyse vulnerability in a forward-looking manner
- Assess social protection options in light of country context

Address preconditions

- Build the necessary capacity
- Mobilise the required finance for scale-up
- Consolidate political will

Identify, design and implement

- Pilot when necessary, but prepare for rapid scale-up
- Select design features appropriate for the social and policy context
- Manage fiduciary risk during implementation

Complement interventions

- Build human capital and livelihoods linkages
- Maximise developmental impact
- Harmonise with broader responses to the global economic downturn

Figure Four steps to building an appropriate social protection response to the downturn

STEP 1: Vulnerability Context Analysis and identifying appropriate instruments

The first step requires employing forward-looking risk and vulnerability analysis and other tools to build an evidence base for selecting the appropriate intervention and target groups, including ex-ante Poverty and Social Impact Analysis (PSIA) of expected impacts of a proposed intervention.[5] This requires a three-part process:

(i) assessing the current and likely future impact of a crisis,
(i) applying it to a analysis of vulnerability (disaggregated by gender, age, disability, ethnicity, location, and other variables) and then
(i) selecting appropriate social protection responses.

5 For a World Bank toolkit on poverty and social impact analysis, click on the following link: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPSIA/0,,menuPK:490139~pagePK:149018~piPK:149093~theSitePK:490130,00.html

Understand the impact of the economic downturn	Forward-looking vulnerability analysis	Options assessment and identification of instruments
• Remittances and private safety nets • Livelihoods and employment • Government Capacity	• Evidence-based approach challenged by data availability • Analysis of data to predict likely impacts	• Focus on country-specific context • Identify most appropriate instruments

Understanding The Transmission Mechanisms of The Economic Downturn

Assessing the transmission channels through which the global economic downturn and other crises affect the poor provides some insight into the extent to which already vulnerable groups will face greater risks of poverty shocks or where the near poor become the new poor.

Vulnerability to the downturn varies, although usually the indirect impacts of the crisis pose greater threats than the direct impact of the deteriorating financial sectors in industrialised countries. Imminent and severe indirect impacts include reduced migration and remittances. Medium term risks stem from falling global consumption and the resulting consequences for low- and middle-income country exports—a planned driver of pro-poor economic growth in many countries. Vulnerability depends on the country's exposure to the crisis (reliance on trade, aid and remittances) as well as the ability of the population to cope with the impact.

Job losses, declining wages, and falling remittances represent some of the most immediate direct and indirect effects of the global economic downturn on developing countries. The Inter-American Development Bank (IDB), for example, projected an 11% decline in remittances to Latin American countries in 2009, the first projected decline since the IDB began tracking these flows a decade ago.[6] Comparable impacts are expected in many other developing countries. With global economic output declining for the first time since World War II and global trade registering its most severe drop in 80 years,[7] export-oriented developing countries are likely to bear the more immediate and severe brunt of the downturn. While international financial institutions and bi-lateral donors partners have re-committed and even extended long-standing obligations to development assistance, fiscal pressures in industrialised

6 IDB, 'Remittances to Latin America and the Caribbean to drop 11% in 2009, according to IDB'. Press Release, August 12, 2009.

7 World Bank (2009). "Swimming Against the Tide: How Developing Countries are Coping with the Global Crisis". Background paper for the G20 Finance Ministers and Central Bank Governors Meeting, UK, March 2009.

countries may leave aid-dependent developing countries increasingly vulnerable—and threaten their capacity to deliver public responses to the increasingly severe poverty shocks afflicting their people.[8]

The direct effects of an economic downturn, while perhaps not as severe as those in developed countries, are nevertheless significant. For example, developing countries experience vulnerability to the economic downturn and multi-dimensional crises through declines in foreign direct investment. As an economic downturn forces corporations to tighten their spending priorities, they may be more reluctant to invest abroad. This reluctance, combined with greater risk as a consequence of volatile exchange rates and fiscal uncertainty, can substantially sap the amount of money that is invested within developing countries. For example, South Africa experienced a decline in inward foreign direct investment from nearly 9 billion USD in 2008 to 5.7 billion USD in 2009 – a decline of nearly 37%[9]. Angola experienced declines in foreign direct investment as well, moving from 16.6 billion USD in 2008 to 13.1 billion USD in 2009[10]. These trends are replicated by many other developing countries and suggest that foreign direct investment can be significantly reduced in developing countries during an economic downturn.

Reliance on remittances	• Highly reliant on remittances: for example, Bangladesh, Lesotho, Nepal, Nicaragua, Tajikistan • Low reliance on remittances: for example, Burkina-Faso, Ghana, Zambia
Export-oriented economy	• Export-oriented economies: for example, Cambodia, Ghana, Lesotho, Mongolia • Low export economies: for example, Afghanistan, Burundi, Nepal, Pakistan, Rwanda
Aid-dependent	• High-aid economies: for example, Burundi, Rwanda, Sierra-Leone • Less dependent economies: for example, Kenya, Lesotho, Vietnam, Yemen

Figure: Selected drivers of economic vulnerability to the downturn

8 World Bank report: "PROTECTING PROGRESS: The Challenge Facing Low-Income Countries in the Global Recession" - Background paper prepared by World Bank Group staff for the G-20 Leaders' Meeting, Pittsburgh, USA, September 24-25, 2009

9 UNCTAD (2010), "World Investment Report 2010: Country Fact Sheet – South Africa". World Investment Report 2010 – prepared by UNCTAD, 2010.

10 UNCTAD (2010), "World Investment Report 2010: Country Fact Sheet – Angola". World Investment Report 2010 – prepared by UNCTAD, 2010.

High rankings on these economic exposure indicators, however, do not necessarily imply vulnerability to the economic impact of the downturn. The indirect effects will be weaker if a country depends on remittances from or exports to countries less affected by the downturn. Likewise, development partner support may be more resilient for some countries.

Forward-Looking Vulnerability Analysis

The second part of this step involves assessing those most vulnerable to different types of crisis impacts. The poorest are usually the most vulnerable not only because they face greater risks but also because they have fewer means for dealing with adverse shocks, hazards and stresses. The recent multiple compound crises both increase their risks and will likely reduce the effectiveness of their coping mechanisms. Conventional vulnerability assessments usually take one of two approaches—identifying vulnerable groups and then assessing the various risks each of them face, or analysing major risks and identifying who is the most vulnerable.[11] Either approach depends on disaggregated historical data—either indicators or information on the prevalence of past risks for different social groups. Forward-looking vulnerability analysis requires further investigation in order to predict likely outcomes of shocks that might materialise or intensify over a multi-year horizon. (Vulnerability analysis is discussed further in the appendix.) Vulnerability analysis can also be combined with an assessment of household resilience, using tools like the FAO's analysis model that measures how resilient a household is under severe stress.[12]

It is then necessary to compare this predicted profile of vulnerability against existing (or future) social protection interventions in order to identify the gaps in addressing future vulnerability. An evidence-based approach roots the selection of social protection instruments in the social and policy context of the country, particularly in terms of the identified gaps between existing or prospective vulnerability and the public initiatives aiming to address it.

Options assessment and identification of instrument(s)

The identification of appropriate instruments builds on the forward looking vulnerability analysis and an assessment of options, weighing key contextual factors, and any pre-existing social protection programmes, in order to select the most appropriate instrument(s). Table #??? illustrates several of the key factors that affect the choice of instrument. A wide range of social protection instruments are available for building a social protection system—only a subset

11 Coudouel et al. Poverty Measurement and Analysis. PRSP Sourcebook, World Bank, Washington, DC. pages 166-167. 2002.
12 Luca Alinovi, Guenter Hemrich and Luca Russo (forthcoming). "Addressing Food Security in Fragile States: Case Studies from Democratic Republic of Congo, Somalia, Sudan; UNU-Wider conference on Fragile States/Fragile Groups; Helsinki June 2007. Working Paper.

can be implemented rapidly enough to serve as effective responses to crises such as the economic downturn.

The choice of appropriate instruments depends on each specific country's social, economic, governance, cultural and institutional context. Countries with largely formal labour markets or mostly urban populations will likely select different instruments than those with informal labour markets or primarily rural populations. The country's fiscal space and administrative capacity also affects the feasibility and effectiveness of different interventions. The poverty profile—and particularly poverty dynamics—will also play a role in identifying the most appropriate instruments. The country's governance context influences the available options. For example, fragile states will face substantial challenges in implementing national scale programmes. Countries with greater capacity may find opportunities in crisis to improve and refine any existing social protection programmes and systems. Options include tackling fiducuary risk, rationalising programmes and social expenditure, and strengthening registration, payments and monitoring systems.

In many cases, unconditional cash transfers provide the most appropriate short- to medium-term response. The World Bank describes this choice as the "mainstay of safety net programmes and the standard against which other programmes are judged... cash transfers of adequate coverage, generosity and quality are the best option."[13] If a country possesses limited fiscal space and aims to deliver as much benefit as possible to the poor per unit expenditure, an unconditional cash transfer is one of the most efficient instruments available.[14] It is important to note that though these programmes may be the most appropriate short- to medium-term responses to crisis, they must still be implemented appropriately within the local context. Countries with greater fiscal resources and substantial administrative capacity have more choices, such as employment guarantee schemes, linkages to job training and unemployment insurance, as the following diagrams illustrate.

Diagram X depicts how country characteristics affect the relative appropriateness of alternative instrument choices Diagram X organises these principles into a decision tree—providing an illustration of a thought process countries might consider in choosing appropriate social protection interventions.

13 World Bank (2008). "Guidance for Responses from the Human Development Sector to Rising Food and Fuel Prices." Pages 12 and 30.
14 Grosh, Margaret (2009). *Designing and Implementing Safety Net and Labor Program Responses to Crisis*. World Bank: South-South Learning Forum 2009. Presentation slide 17.

Determinants	Indicator value	Appropriate instruments
Fiscal Space	Low	Unconditional cash transfers
	High	Employment guarantee programmes, cash transfers, unemployment insurance, training programmes
Administrative Capacity	Low	Cash transfers
	High	Employment guarantee programmes, cash transfers, unemployment insurance, training programmes
Geographic Regions	Rural	Employment guarantee programmes, cash transfers
	Urban	Cash transfers
Labour Markets	Formal	Unemployment insurance, training programmes
	Informal	Unconditional cash transfers
Dynamic of Poverty	Chronic	Unconditional and conditional cash transfers
	Transitory	Employment guarantee programmes, cash transfers, unemployment insurance, training programmes

Figure How the social, policy and institutional context affects choice of instrument

Labour Markets	Formal				Informal			
Administrative Capacity	Low		High		Low		High	
Poverty Dynamics	Chronic	Transitory	Chronic	Transitory	Chronic	Transitory	Chronic	Transitory
Appropriate Instrument	Unconditional Cash Transfer	Cash Transfer	Conditional and Unconditional Cash Transfers	Guaranteed Work Scheme, Unemployment Insurance, Training Programmes	Unconditional Cash Transfer	Unconditional Cash Transfer	Conditional and Unconditional Cash Transfers	Guaranteed Work Scheme
Justification	Relatively easy to implement Spurs domestic consumption Helps households meet critical needs	Relatively easy to implement Benefits those who move rapidly in and out of poverty Helps households meet critical needs	Builds human capital Helps households meet critical needs	Creates infrastructure Income support to vulnerable Allows for high-risk, high-reward job searches Builds marketable skills	Relatively easy to implement Spurs domestic consumption Helps households meet critical needs	Relatively easy to implement Benefits those who move rapidly in and out of poverty Helps households meet critical needs	Builds human capital Helps households meet critical needs	Creates infrastructure that yields long-term benefits Income support to those temporarily affected

Figure Decision Tree: Social Protection Determinants and Appropriate Policy Interventions

STEP 2: Address the necessary pre-conditions

The second step requires identifying and addressing the necessary pre-conditions for the design and implementation of the appropriate intervention. Three common pre-conditions that require attention in many countries include capacity-building, financing and political will. The first two are typically linked—the capital requirements, including delivery systems and other initial costs, often require an expensive exercise in building capacity, both at national and local levels. Low-income countries in particular find it a challenge position to afford the necessary capital outlays, particularly for start up costs. This predicament can undermine political will for action. Development partner support during the crisis eases the costs of investing in up-front costs of design.

Capacity-Building For Social Protection

Capacity-building requirements in many low- and middle-income countries involve several elements:

- Increased capacity for data gathering and analysis for making evidence-based policy decisions
- Design and implementation capacity at national level
- Delivery capacity at local level

In many countries social protection initiatives fail to make it though the policy-making process, in large part because many policy-makers do not appreciate the broadly developmental impact of these types of programmes. Initiatives to build capacity at a policy level—particularly through sharing lessons of global experience—can build political will and enable support for social protection. The more policy-makers understand social protection, the more likely they are to champion important interventions. Policy-makers also require technical support in making decisions at a policy level. Understanding the advantages and disadvantages of cash transfers, public works, school feeding, contributory programmes and other types of social protection interventions informs better policy decisions—a prudence required particularly when fiscal resources are stretched by the impact of the global downturn. In addition, governments may require support for the inter-ministerial co-operation often required to build appropriate social protection systems.

Governments also require capacity-building support to strengthen national systems for targeting, delivery, fiduciary risk management and monitoring and evaluation. Targeting represents one of the most challenging activities associated with social protection. Sharing global lessons and building an evidence base of what works under different circumstances increases the likelihood of programme success. Efficient delivery systems also may require once-off capital investments to achieve cost-effective levels of performance, and internationally available technologies are rapidly lowering costs while interlinking more developmental services, including financial and communications services. Development partners also often support systems for managing fiduciary risk and effective monitoring and evaluation (M&E). Increasingly, rigorous evaluations constitute a global public good, contributing to an international evidence base supporting good practices.

Local governments also require capacity building, since the main implementation activities for social protection usually take place at local level. Particularly in low income countries, infrastructure for social service delivery requires significant capital investment. Frequently, local social protection-related government offices lack adequate staff, office equipment, information and communications technology and vehicles. Building capacity involves not only increasing the number of staff members at local level but also training them in the key elements of social protection—a subject that is still new in many developing countries.

Building capacity for evidence-based policy-making

- Inter-regional evidence and lesson sharing
- Technical expertise in policy modelling/analysis
- Within-country cross-ministerial linkages

National level design and implementation capacity

- Targeting mechanisms
- Delivery systems
- Fiduciary risk management
- Monitoring and evaluation systems (M&E)

Local level delivery capacity

- Delivery infrastructure
- Human resources
- Training
- Communications

Figure: Building capacity for social protection

Financing Social Protection

Social protection spending (including both social assistance and social insurance[15]) ranges between zero and twenty percent of national income in most low- and middle-income countries, but spending in half the countries (for which data is available) ranges between three and nine percent (an inter-quartile range of six percentage points). Social insurance spending (which often does not reach the poor) constitutes most of the social protection spending in many countries—average (mean) spending on social insurance

15 Social assistance includes non-contributory transfers to those deemed eligible by society on the basis of their vulnerability or poverty, while social insurance includes instruments that enable individuals to pool resources to provide support in the case of a shock to their livelihoods. For further discussion on these instruments and their role within social protection frameworks, see Samson et al. (2006).

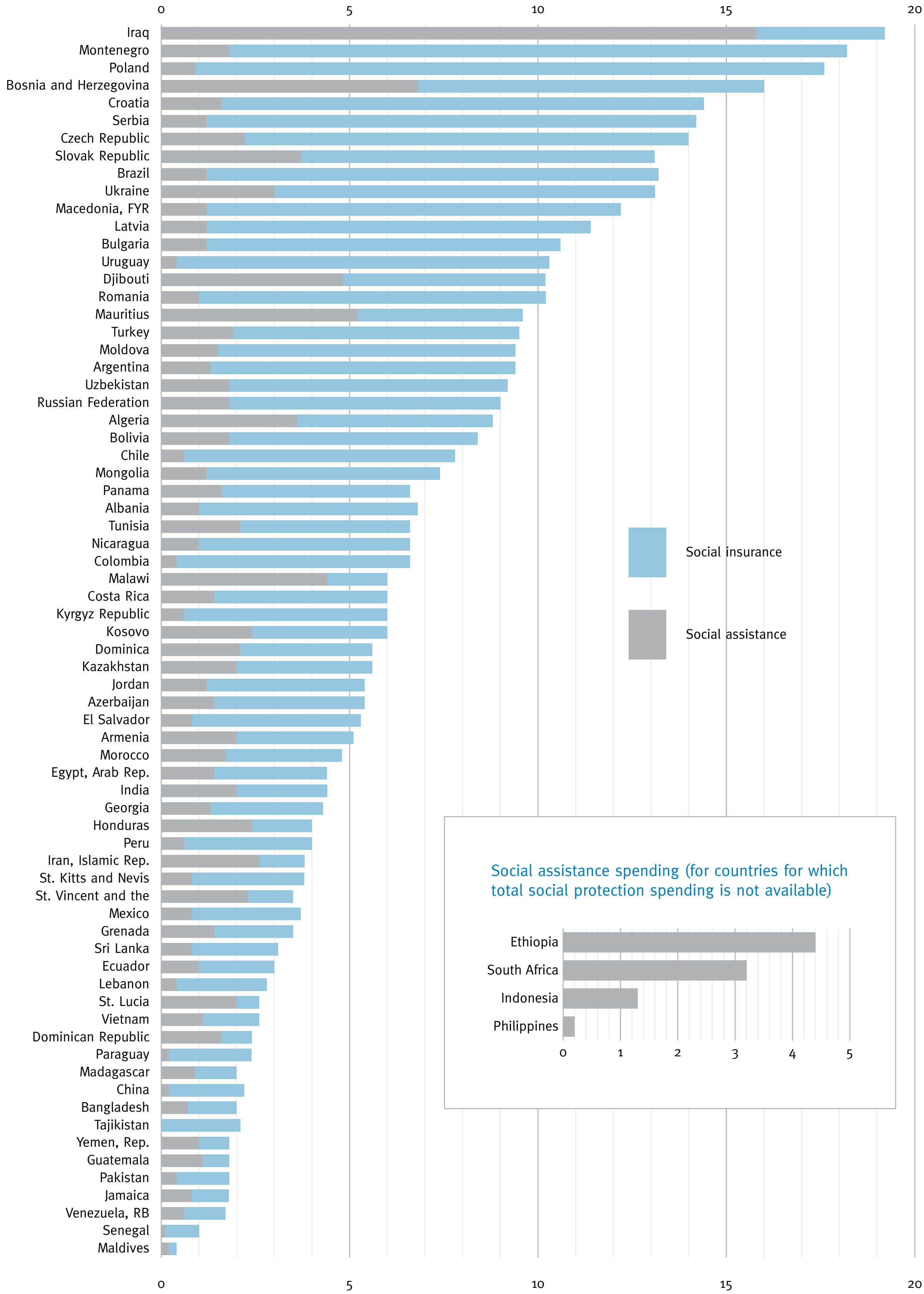


Figure 11.2 Social assistance and social insurance spending for low- and middle-income countries, as % of GDP.

SOURCE: World Bank (2008b). Data from different regions are drawn from various years between 1998 and 2006.

is 5% of national income (median is 3.5%) compared to an average (mean) spending for social assistance of 1.9% (median is 1.5%). The figure on the previous page illustrates the wide range of expenditure choices across countries for both social assistance and social insurance. (The insert graph includes countries for which only social assistance spending is available.) Effective social assistance programmes in Latin America (*Oportunidades* in Mexico and *Bolsa Familia* in Brazil) cost a fraction of one percent of national income, while programmes in Africa often cost several times that amount (South Africa spends more than three percent of national income on its social transfer programmes).

The variability of social protection spending decisions by low- and middle-income countries reflects differences in both perceptions of affordability and political will. Effective interventions require a sizable commitment of financial resources—social assistance programmes in developing countries usually require 1-2% of national income. Government's generally finance this significant commitment over the longer term from tax revenue, although development partner support can play an important interim role or cover up-front development costs. Increasingly, development partners are developing longer term instruments—up to ten years in some cases—to support the permanent commitments governments must make to their people in building social protection systems.

Depending on the social protection context within the country, some

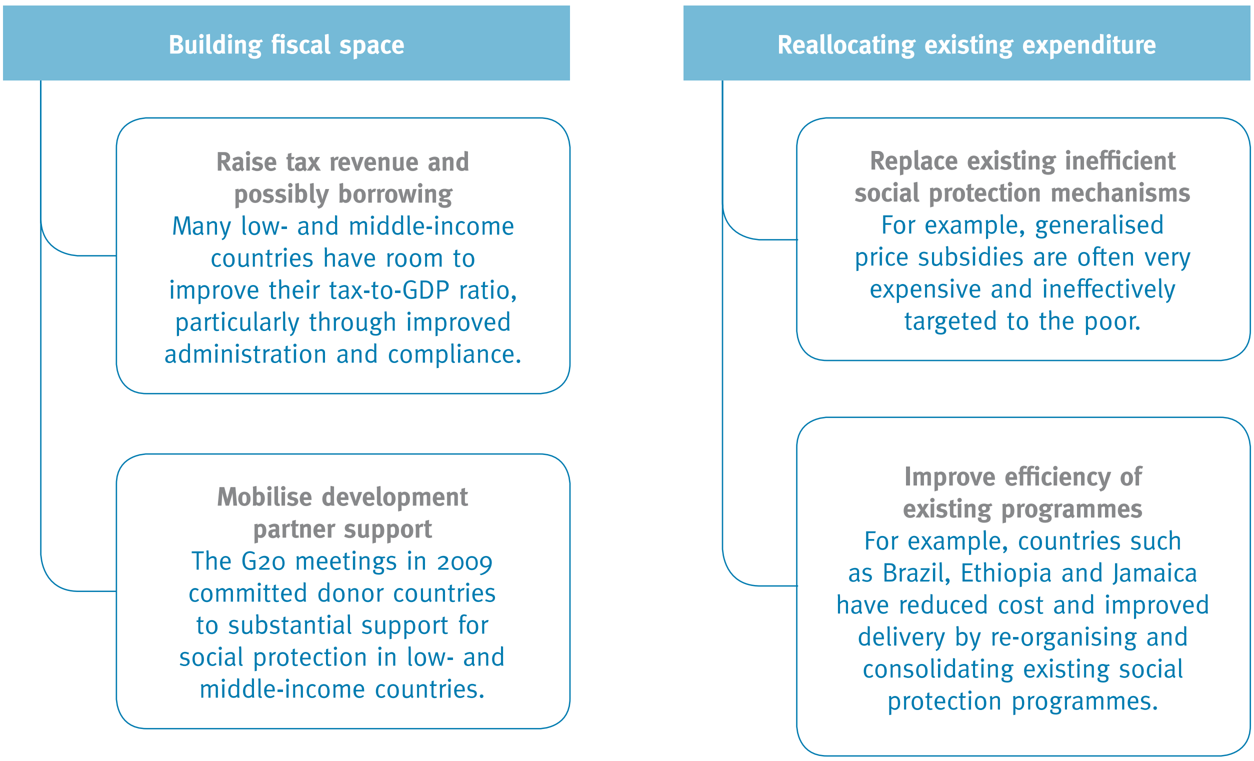


Figure: Options for financing social protection interventions resources may be mobilised by reallocating existing government expenditure. For example, Indonesia has substantially reduced spending on generalised fuel subsides with few social protection benefits by implementing more efficient unconditional cash transfer programmes. Senegal is currently considering cash transfer initiatives as a substitute for similarly expensive general price subsidy programmes for food.

It may also be possible to increase efficiency of existing interventions through appropriate reorganisations and programme consolidations. Brazil has realised substantial cost savings and implementation efficiencies by consolidating four cash transfer programmes under the umbrella of *Bolsa Familia*. Jamaica likewise consolidated multiple programmes into the more comprehensive PATH initiative. South Africa reorganised provincial delivery mechanisms into a more comprehensive national system operated by the South Africa Social Security Agency, streamlining operations and realising substantial economies of scale, while increasing bargaining power vis-à-vis private sector service providers. Figure X below illustrates these financing choices.

Building Political Will

The third common pre-condition that requires attention in most low- and middle-income countries is political will. Governments balance economic and social spending priorities, often perceiving an intensifying trade-off in times of economic downturn. The more policy-makers understand the linkages between crisis impacts on the poor, and social protection and broader development priorities, the greater is their political will to implement effective interventions. The nature of the political settlement and the power of different groups may influence choices, often providing the political incentive to make the choice of instrument conditional on beneficiary actions to meet elite prejudice.

Mobilising political will nevertheless remains one of the long-standing challenges in building national social protection systems. The global downturn provides an impetus for this political resource—because the political costs of inaction are high, and the global policy climate favours social protection responses to the crisis. Ensuring that social protection interventions reflect the national social, institutional and policy context not only increases the likelihood of programme success but also reinforces political will. Credible monitoring and evaluation is also important for sustaining this political support.

The Role Of Development Partners

Development partners can often play an important role in addressing these pre-conditions. In response to G20 negotiations the World Bank has committed $12 billion over the next two years to social protection interventions, working through a Rapid Social Response Programme (RSRP) to expedite delivery. The UK government's Department for International Development has committed

£200 million and technical assistance to support this initiative.[16] Regional institutions also provide capacity-building and financial support, promoting inter-regional lesson sharing. The African Union ministerial meeting in Namibia in October 2008 included Brazilian participation, and continued the process of building African policy consensus on social protection initiated in Livingstone in March 2006. In Feb 2009 African Union Heads of State approved the Social Policy Framework for Africa with its recommendations on developing social protection policies and systems.[17] During 2009 ADB and ASEAN have hosted consultations on crisis response for South East Asia including experts from other regions.

STEP 3: Design and implement the intervention(s)

The third step moves to concretely design and implement the intervention(s). This requires an approach—to adapt or reform an existing intervention, to build a new initiative from scratch or to delay implementation. The table on the next page outlines some of the key considerations involved in moving forward.

The potentially severe social and economic consequences of the global economic downturn require expediency in both design and implementation. The targeting mechanism—representing one of the most challenging design questions—may take advantage of existing processes, or else be simplified in order to roll out more rapidly. The question of conditionality also highlights an important design question. The delays—both practical and political—associated with designing conditional programmes, with their more intensive monitoring requirements and more complex linkages to other government ministries, suggest that unconditional designs are more appropriate for immediate responses. If the resulting human capital development outcomes are disappointing, conditionalities can be considered as a programme revision, or incentives introduced for service provider improvements of service quality.

Building appropriate monitoring and evaluation (M&E) systems provides an essential element for ensuring programme success—and generating evidence for improving the intervention and mobilising political will for expansion and sustainability. Normally, M&E systems should be designed hand-in-hand with the programme, although this may extend the time required for implementation. Many countries (such as Kenya and Ghana) have adopted a phased scale-up, which may enable the programme to be implemented prior to the completion of the M&E system, which can be deployed in a later phase.

16 UK White Paper 2009. Eliminating World Poverty: Building our Common Future, page 25.
17 For a copy of the draft framework, see:
http://www.africa-union.org/root/AU/Conferences/2008/october/sa/sd/Concept_Note_en.pdf

Adapt an existing appropriate intervention to more effectively address the impact of economic downturn.

then scaling it up enables a rapid response that is critical to forestalling the human losses that can create poverty traps.

- An imperfect existing intervention may be better than the optimal instrument given the time required to build an alternative from scratch.
- Ghana, Kenya and Nepal are adapting existing cash transfer programmes to better respond to the global economic downturn.

Reform an existing ineffective instrument in order to support a more socially protective intervention.

- A badly targeted programme may benefit from a restructuring of the institutional mechanisms, perhaps through simplification of the targeting process.
- Reforming an ongoing intervention can leverage the existing human and institutional resources as well as the political will associated with the programme's objectives.
- Senegal is examing replacing a system of food subsidies with more efficient cash transfers.

Build a new intervention from scratch.

- In some countries no viable precedent exists for the required social protection interventions.
- Building a new programme quickly may require a streamlined design, or adoption of key features from the evidence base offered by the lessons of global experience.
- Uganda is moving to rapidly implement a new cash transfers programme.

Establishing a contingency framework for future interventions.

ambivalent about social protection responses.

- A second-best strategy is to forge a compromise based on a clear contingency plan, backed by an evidence- and capacity-building pilot.
- Albania has established a contingency fund for crisis response.

Figure Options for implementing an effective response to the economic downturn

M&E should be designed to assess overall costs, affordability and impacts, with strong economic analysis.

Developing efficient management information systems (MIS) and payments mechanisms can likewise prove a costly and time-consuming proposition. Kenya's development of its Hunger Safety Net Programme (HSNP) has yielded an open-source MIS system freely available to any country for adoption and adaptation. This provides a "single registry" administrative system that supports programme registration, enrolment, case management and payments record-keeping—including biometric verification. Payments mechanisms have also benefitted from rapid technological development, particularly using cell phone technology. Tapping the global lessons of experience on payments systems can significantly lower delivery costs and increase potential access to basic financial services as an additional benefit.

Sometimes political deadlock delays effective action. Contingency planning may provide opportunities for compromise. For example, the country could begin piloting a cash transfer programme that will be immediately scaled up if the unemployment rate rises above a specified threshold. Those sceptical of the impending impact of the economic downturn will be more inclined to agree to the compromise—believing that the situation will not deteriorate to the point that the necessary funding is required. If the adverse impacts materialise, the country will have a head start on building political momentum for action and the pilot will provide a blueprint and evidence base.

STEP 4: Implement complementary interventions

Social protection interventions are ideally implemented as part of a broader strategy for addressing the global shock, which may include fiscal stimulus and other economic reforms. In addition, it is useful to co-ordinate the broader response package in order to increase the developmental impact of social protection initiatives. Social protection interventions on their own rarely achieve optimal impacts. Cross-sectoral linkages and complementary interventions—including vocational skills training, agricultural development, livelihoods promotion strategies or land registration systems —can maximise the success of the programme.

Increasingly, governments are recognising social protection interventions as the first steps in economic crises, but require more developmental complementary programmes to maximise their effectiveness. For example, the Government of Pakistan identifies the Benazir Income Support Programme (BISP) as an immediate social protection response to global food and fuel price shocks, but also as a platform for more developmental but longer-term

Box 2: Ethiopia's Productive Safety Nets Programme and complementary schemes

Ethiopia's Productive Safety Nets Programme (PSNP) provides recipients of social transfers with access to various development interventions, including support from agricultural extension and other development workers as well as the necessary micro-credit. Impact assessments document that the combination of social protection interventions and complementary productive support generate better outcomes in terms of food security, employment of productive inputs (such as seeds and fertilisers) and other activities that enable households to break free from poverty.

SOURCE: Hoddinott et al. The Impact of Ethiopia's Productive Safety Net Programme and its Linkages. The Journal of Development Studies, Volume 45, Issue 10, pages 1684-1706, 2009.

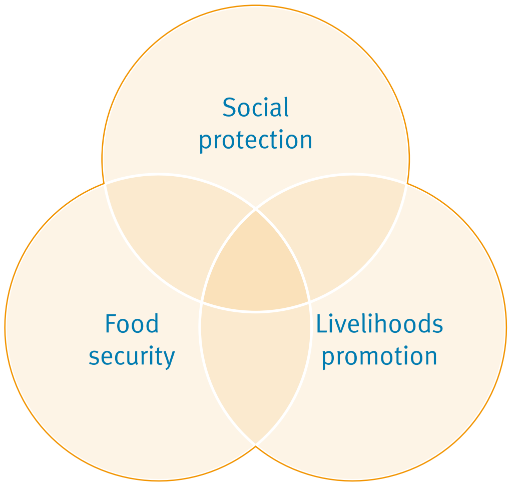
complementary interventions, aimed at livelihoods promotion and access to education and health services.[18]

The OECD's 2009 policy guidance note recognises that social protection instruments are not standalone interventions but rely heavily on complementary programmes for their long-term poverty-reducing and developmental impacts. For example, cash transfer programmes improve education and health outcomes only if government is able to supply the necessary schools, clinics and quality human capital services. Honduras' conditional cash transfer programme failed to produce expected education and health impacts largely because the government neglected to invest in schools, clinics and other institutions.[19]

An optimal strategy for tackling the global economic downturn will balance a range of possible interventions, some of them explicitly strengthening social protection while others aim to improve food security, promote more sustaining livelihoods or achieve other objectives often with important indirect social protection impacts. While livelihoods instruments frequently reinforce food security and social protection aims, some destitute households may lack the complementary assets (land and labour) required to utilise the inputs. Similarly, food security interventions can promote livelihoods and social protection. Improved nutrition increases labour productivity, underpinning improved livelihoods. Food transfers satisfy one element of social protection. However, food relief cannot stimulate a dynamic revitalisation of livelihoods in the same

18 Government of Pakistan (2009). ***Pakistan Economic Survey 2008-09***, chapter 13: "Poverty". Government of Pakistan, Finance Division, Economic Adviser's Wing, Islamabad. Pages 201-2002.

19 OECD (2009). "Social Protection, Poverty Reduction and Pro-Poor Growth" DCD/DAC/Povnet(2009)3. Povnet Task Team on Social Protection and Empowerment. Page 14. http://www.olis.oecd.org/olis/2009doc.nsf/FREDATCORPLOOK/NT00000E12/$FILE/JT03260944.PDF



way that an integrated strategy can. The social protection impact erodes when households must sell food rations in order to meet more critical needs.

Likewise, social protection interventions generate livelihoods and food security impacts. A number of households in Brazil, Kenya, Lesotho, Mexico, Namibia, South Africa and Zambia report utilising social transfers for micro-investments in agriculture and small scale manufacturing (soap, crafts) that multiply the value of the benefit. However, while regular periodic transfers maximise the social protection impact, they are not the ideal vehicle for funding productive activity—particularly when agricultural production requires lumpier seasonal investments. Social transfers usually promote food security—but they may fall short if the other needs of households take priority (such as when acute medical care is required) or if conditions severely disrupt food markets.

The crisis is providing opportunity for the Government of Brazil to further integrate its Bolsa Familia cash transfer programme with additional complementary developmental programmes.[20] The implementing ministry works closely with other government agencies providing social protection, food security and livelihoods interventions. It is increasingly focusing on linkages to skills training, micro-credit and employment referrals. Bolsa Familia employs both its management information system (the "single registry") and inter-agency agreements to link beneficiaries to appropriate complementary programmes. The figure on the following page—based on Brazil's and other countries' experiences—maps appropriate interventions linked to both micro and macro barriers that impede the poor's ability to break free from poverty.

20 OECD. Promoting Pro-Poor Growth: Social Protection. OECD Publishing, 2009, page 14. The discussion below and the figure on the following page draw from a report by Lindert et al. (2007) and presentations by Government of Brazil officials, as well as experiences of other developing countries.

Integrating these complementary programmes together with appropriate social protection interventions provides a longer-term strategy for tackling the global economic downturn and promoting developmental and pro-poor growth outcomes.

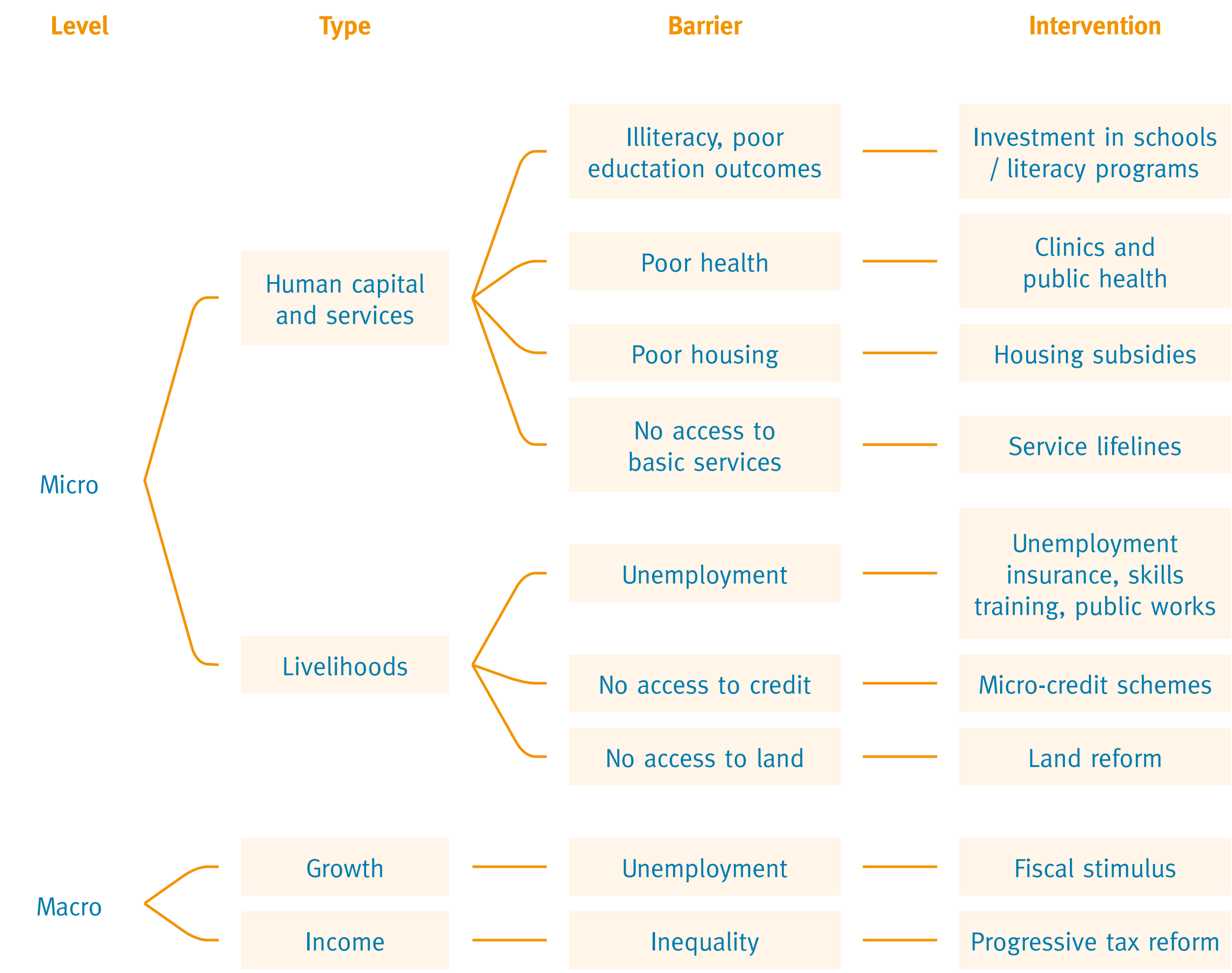


Figure Complementary interventions: overcoming the barriers to breaking free from poverty

Conclusions

The responses to the global downturn require a comprehensive response in order to protect the poor and re-invigorate inclusive growth. A range of social protection interventions can address the main direct and indirect impacts of global recession on vulnerable groups while serving broader developmental objectives. Cash transfers provide a close substitute for falling remittances, and they offset the dampening demand effect of declining exports. The table below outlines potential short, medium and long-term responses.

Short term

- Low-income countries with limited fiscal space and administrative capacity may find cash transfers the simplest and most cost-effective instrument for social protection. Countries in other circumstances may have additional options, including employment guarantee schemes, unemployment insurance programmes and job training initiatives.
- Low- and middle-income countries without social protection programmes may benefit from an immediate implementation of initial scale interventions. While these will not provide an adequate response to the crisis, they will provide evidence of what works and build national capacity to scale up. Beginning now with an initial scale intervention is a low-risk step that will expedite a more deliberately selected strategy for scaling up.
- Low- and middle-income countries with existing programmes, even pilots, may benefit by building on these to expand the scale and scope of coverage and increase benefits. Given the time required to build new interventions from scratch and the imminent threat of the economic downturn, existing programmes are likely to provide the most effective immediate response in most countries.
- Development partners and regional and international financial institutions may provide vital resources—both financial and technical, particularly for those countries with no existing interventions.

Medium term

- Immediate interventions—such as cash transfers and other easily implementable social protection interventions—provides a rapid and effective initial response. Over time, these interventions can develop into more socially protective instruments reaching those most affected by the crisis. Initial pilots can be scaled up to protect the most vulnerable. Existing interventions can evolve into more effective and developmental programmes. In particular, by incorporating complementary social and economic interventions, the longer term developmental impact can be maximised.

Long term

- Appropriate social protection interventions for addressing the economic downturn may also help inoculate against future economic shocks. Many industrialised countries developed social security systems as a coping response to the Great Depression in the 1930s, and then retained them as they recognised their substantial social value. Later, economists realised they served as effective automatic stabilisers countering some of the negative impact of future economic downturns. Over the longer horizon, governments in low- and middle-income countries can benefit by institutionalising effective social protection interventions rather than scaling them down after the global economy recovers.

Figure Complementary interventions: overcoming the barriers to breaking free from poverty

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