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9 th session of the Committee of Experts on Public
Administration (CEPA)
"Challenges to and Opportunities
for Public Administration
in the Context of Financial and Economic Crisis"

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

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Social Impacts of the Crisis

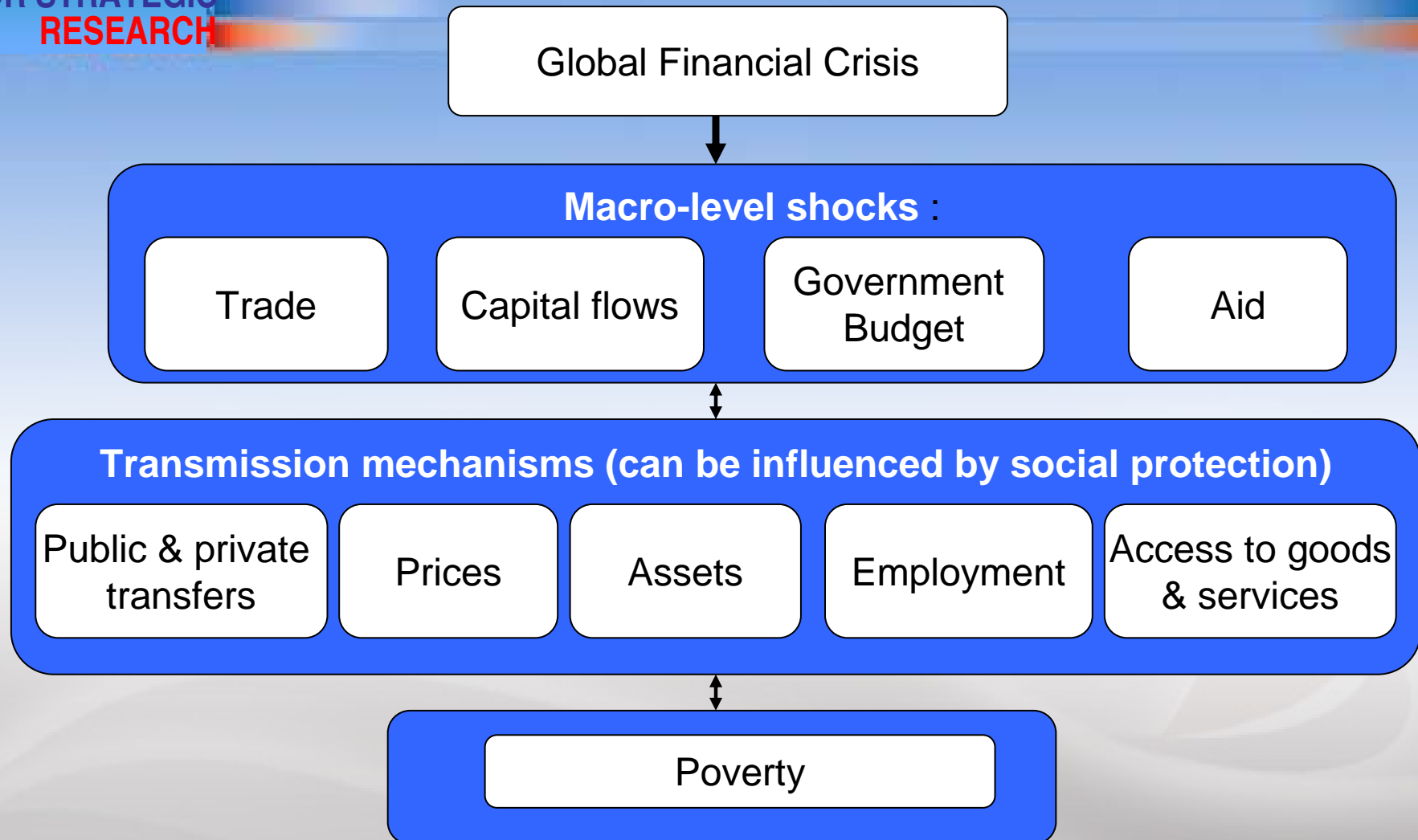
The crisis has produced or exacerbated serious, wide-ranging and differentiated impacts:

- 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



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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.

Source: UN (2009) World Economic Situation and Prospects 2009. Update as of mid-2009*

Impact on Employment



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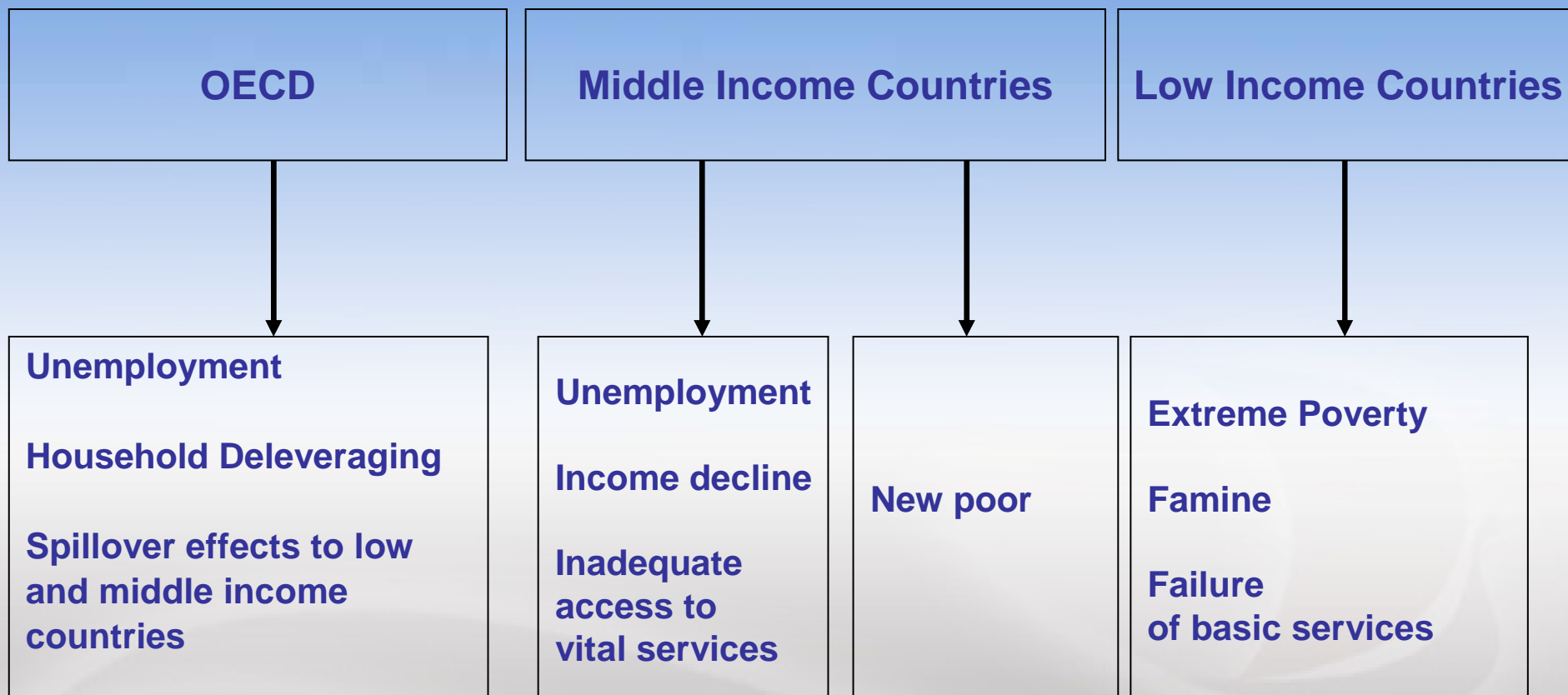
- ✓ It will take 5-7 years to get back to where we were before the crisis
- ✓ The number of jobless worldwide reached nearly 212 million in 2009, following an unprecedented increase of 34 million compared to 2007
- ✓ The number of unemployed youth worldwide increased by 10.2 million in 2009 compared to 2007, the largest hike since 1991

Source: ILO (2009)



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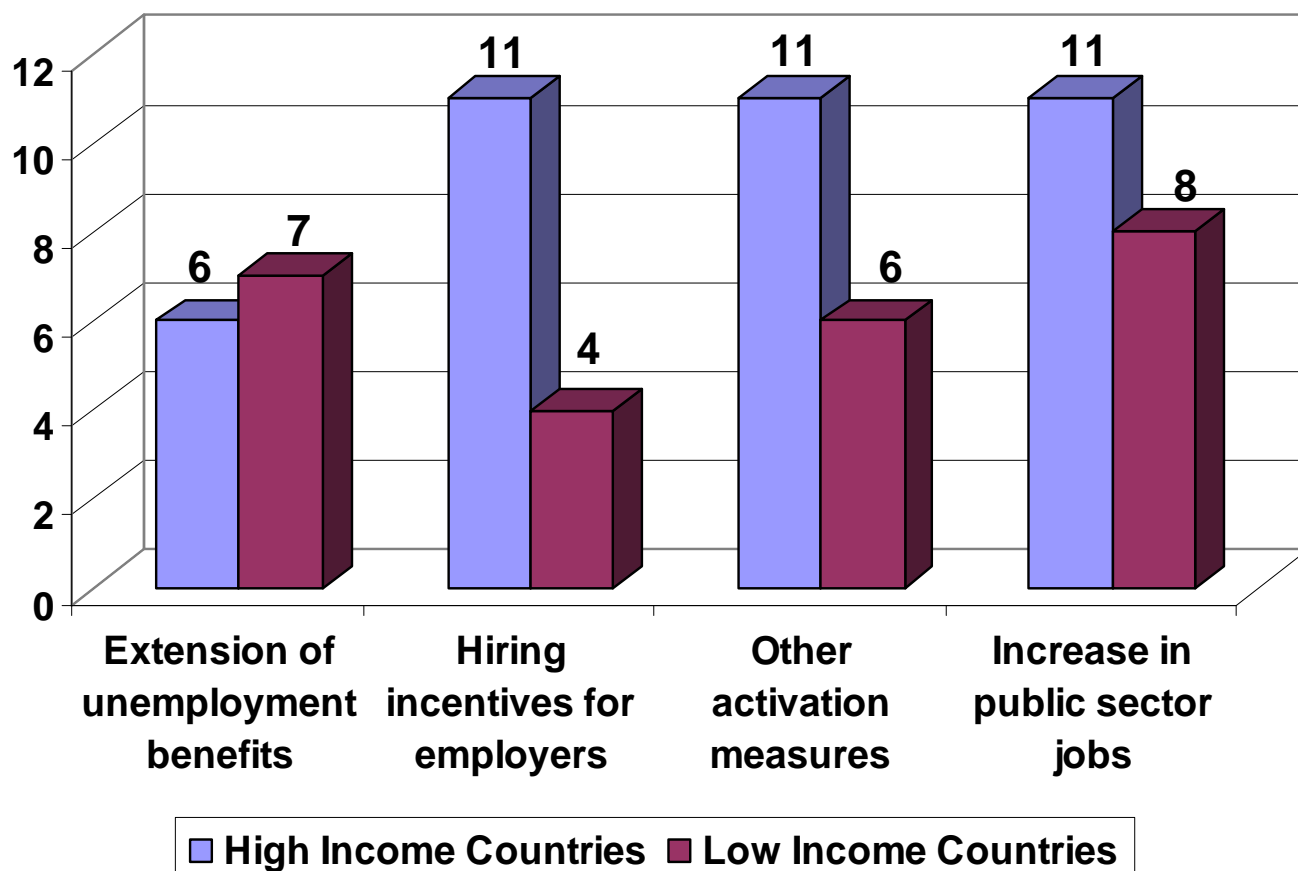
Vulnerability Profile





Labour Market Policy Responses Preval in the OECD

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Capacity Profile of Social Protection for Country Groups

GROUP 1	Developing countries with very little formal or institutionalised social protection
GROUP 2	Poor countries with a range of social protection mechanisms in place – largely in South Asia (the need to grow and universalise these schemes)
GROUP 3	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
GROUP 4	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
GROUP 5	High-income countries with mature systems of social protection



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FISCAL SPACE

is one of the key determinants of policy choice

Fiscal Space in Some Countries of Groups 3 and 4

Azerbaijan	Adequate
Belarus	Low
Bulgaria	No space
China	Adequate
Kazakhstan	Adequate
FYR Macedonia	Low
Montenegro	Low
Poland	Low
Romania	No space
Russia	Adequate
Serbia	No space
Ukraine	No space

Key Policy Challenges



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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)



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- ✓ 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



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Risk and Vulnerability Assessment

- ✓ 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?



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Formal and Informal Social Protection Mechanisms:

Role of Governments, NGOs and Private Sector

Informal Mechanisms for Managing Risks

Objective	Individual and household	Group-based
Reducing risk	<ul style="list-style-type: none"> • Preventive health practices • Migration • More secure income sources 	<ul style="list-style-type: none"> • Collective action for infrastructure, dikes, terraces • Common property resource management
Mitigating risk: Diversification	<ul style="list-style-type: none"> • Crop and plot diversification • Income source diversification • Investment in physical & human capital 	<ul style="list-style-type: none"> • Occupational associations • Rotating saving and credit associations
Mitigating risk: insurance	<ul style="list-style-type: none"> • Marriage and extended family • Sharecropper tenancy • Buffer crops 	<ul style="list-style-type: none"> • Investment in social capital (ritual, reciprocal gift giving)
Coping with shocks	<ul style="list-style-type: none"> • Sale of assets • Loans from money-lenders • Child labour • Reduced food consumption • Seasonal or temporary migration 	<ul style="list-style-type: none"> • Transfer from networks of mutual support
Recovering from shocks/ reducing the risk of non-recovery	<ul style="list-style-type: none"> • Saving assets (at the expense of consumption) • Increasing recourse to limited known strategies, which become overcrowded 	<ul style="list-style-type: none"> • Insurance payments for lost assets • Inclusion of losers in collective arrangements (e.g. savings groups) • Creation of losers' groups



NGOs

- ✓ 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.



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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



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- 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

Objective	Market-based	Publicly provided
Reducing risk		<ul style="list-style-type: none"> • Sound macroeconomic policy • Environmental policy • Educational and training policy • Public health policy • Infrastructure (dams, roads) • Active labour market policy
Mitigating risk: Diversification	<ul style="list-style-type: none"> • Saving accounts in financial institutions • Microfinance 	<ul style="list-style-type: none"> • Agricultural extension • Liberalised trade • Protection of property rights
Mitigating risk: insurance	<ul style="list-style-type: none"> • Old age annuities • Accident, disability and other insurance 	<ul style="list-style-type: none"> • Pension system • Mandate • Insurance for unemployment • Illness, disability and other risks
Coping with shocks	<ul style="list-style-type: none"> • Sales of financial assets • Loan from financial institutions 	<ul style="list-style-type: none"> • Social assistance • Workfare • Subsidies; • Social funds; • Cash transfer
Recovering from shocks / reducing the risk of non-recovery	<ul style="list-style-type: none"> • Asset replacement loan schemes • Labour market and other 'opportunity' information • Financial support to market intermediaries 	<ul style="list-style-type: none"> • Incentive support to group or market-based recovery • Additional support to schools to keep children to a minimum useful threshold • Focus infrastructure improvements on affected regions and local areas • Increase coverage of social security schemes to include non-recoverers • Support for labor migration

General Criteria for Social Protection Instruments



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- 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).



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Comparative Matrix for Targeting

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



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Dealing with Information Asymmetry

- ✓ 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



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- ✓ 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)



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“Ten commandments” for anti-crisis response and how they work on practice



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Specific Challenges of Countries in Groups 1 and 2:

Concerns with Formal Anti-Crisis Programs

- ✓ 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



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Specific Challenges in Countries of Group 3 and Group 4

Social protection systems can not 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



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“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



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Some lessons from countries of Groups 3 and 4

Fiscal space

Azerbaijan	Adequate
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Quick Start, Scaling up, Slow Exit: Lessons from China

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



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Too Little Too Late: Lessons from Russia

Russia: difficult start and slow scaling up in support for restructuring in single industry towns

- ✓ by Q 1 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



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Crowding Out: Lessons from Ukraine

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:

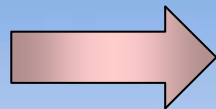
- keep priorities in check;
- do not discriminate important vulnerable groups when capacity to administer is adequate



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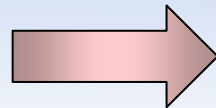
Cases of successful response

Relying on existing capacity



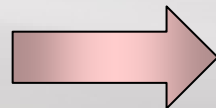
Some of the Latin American countries: scaled up targeted cash transfer programs for the poor and vulnerable

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



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The Need for International Governance



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Immediate Needs for Collective Action in Crisis

- ✓ **Global contraction of fiscal space**
- ✓ **Spillover effects:**
 - ✓ **Financial contagion**
 - ✓ **Trade decline**
 - ✓ **Capital flight**
 - ✓ **Migration**
- ✓ **Global vulnerability monitoring**



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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)**



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IMF: Addressing Contraction of Fiscal Space

Overall IMF-Supported Program	Pensions	Targeting Social Safety Nets	Housing Assistance	Unemployment Assistance	Other Programs
Higher social spending	+	++++	+	++	+++ +++
Protecting social spending	+	+			+
Better targeting		++	+	++	+++++
Strengthening the social safety net		+	++	++	++



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Post-crisis Multilateral Agenda

- ✓ **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**



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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



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Thank You for Attention