



Responding to a crisis

The design and delivery of social protection

Francesca Bastagli



Policy recommendations

- Countries with formal social protection schemes are better equipped to respond to shocks than countries without them.
- The three main challenges to shock-responsive social protection are: lack of policy flexibility and adaptive capacity, inadequate financing for rapid scale-up and weak preparedness.
- Having a system in place that can be expanded and adapted to accommodate increased need is critical to effective social protection provision in the event of a shock.
- Looking ahead, shock preparedness has much to gain from strengthened integration of social protection, humanitarian response and disaster risk reduction interventions.

Written by Francesca Bastagli (f.bastagli@odi.org.uk), Research Fellow with the Social Protection programme at ODI. This briefing draws upon ODI Working Paper 394: 'Responding to a crisis: The design and delivery of social protection' by Francesca Bastagli, an output of the DFID-funded Shockwatch initiative.

One of the main objectives of social protection is to help households cope with adverse events, including shocks that affect entire communities or large parts of a country's population at the same time, known as covariate shocks. Its effectiveness in such contexts hinges on its timeliness, adaptability and adequacy in terms of financial resources. A recent ODI study examines the policy

design and implementation details that facilitate the scale-up of social protection in the event of a covariate shock as well as the financing mechanisms and planning initiatives to promote shock-responsive social protection (Bastagli, 2014). This Briefing presents the main policy implications emerging from the study.

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Background

Covariate shocks include economic crises, disasters brought on by extreme weather and climate events, and conflict-related crises. They can have catastrophic economic and social impacts on large parts of a country's population and can be an important cause of impoverishment (Shepherd et al., 2013). One of social protection's main objectives is to help households cope with such shocks. The recent ODI study identifies three sets of issues around social protection provision in a crisis.

- *Design and delivery*: the structure and regulation of existing social protection policies to address vulnerability and risk during non-crisis times may contrast with the need for timely and adequate response in the context of a shock. Furthermore, the complexities of social protection delivery in non-crisis times may be aggravated by the disruption caused by a shock. Which policy design and implementation features permit timely and adequate social protection provision in a crisis?
- *Financing*: social protection programmes come under pressure to expand in the event of a shock as the demand for assistance increases. At the same time, crises are characterised by falling government revenue and tightening budgetary constraints. Governments may opt to cut social spending at the moment when the need for support is on the rise. In addition, disbursements need to be rapid in the event of a covariate shock. Which financing arrangements and mechanisms help to ensure adequate financial resources and timely responses?
- *Planning and crisis preparedness*: the main lesson learned from previous crises is that having a system in place that can be expanded and adapted to accommodate increased needs is critical to effective social protection provision in the event of a shock. Responses to shocks are most effective and easiest to scale-up if they build on existing programmes and institutional capacity. However, social protection and social protection shock response planning remain weak in many countries. How are countries addressing social protection shock preparedness and how can it be strengthened?

Social protection crisis response: policy design options

Social protection policy reforms as part of efforts to scale-up provision or to protect the poorest in the context of spending cuts include:

- the introduction of new programmes
 - the extension of coverage and duration of existing programmes
 - the adjustment of transfer amounts or values
 - the introduction of extraordinary payments or transfers
 - the modification of programme rules and relaxation of requirements to facilitate programme participation.
- Social protection shock responses vary depending on

whether they provide additional support to existing social protection beneficiaries or aim to reach new beneficiaries, people who were not recipients when the crisis began, but who now need support.

The provision of social assistance in the form of cash or in-kind transfers to existing beneficiaries can be stepped up by extending the duration of programmes that have maximum time limits and by providing extraordinary transfers as top-ups to existing benefits or in-kind transfers.

Increasing the value or amount of transfers is another common adjustment in the scale-up of support. In the case of cash transfers, failure to adjust benefit values leads to the erosion of their real value over time. This is especially of concern in the context of price hikes such as those arising in a crisis. In Kenya, for example, the Hunger Safety Net Programme (HSNP) cash transfer could buy only one-third of the food basket against which it was calibrated within just 18 months of the programme's inception in 2007 (Devereux, 2012). Value adjustments can be index-linked or made on an ad hoc basis. In Malawi, transfers via the Food and Cash Transfers (FACT) project in 2005/06 and Dowa Emergency Cash Transfers (DECT) project in 2006/07 were index-linked to a basket of basic food and non-food items and were adjusted before each monthly disbursement (Sabates-Wheeler and Devereux, 2010). In contrast, in Brazil, *Bolsa Familia* cash transfer adjustments are made in an ad hoc fashion and were raised by 10% in the aftermath of the 2008 food, fuel and financial crises (Grosh et al., 2013). This type of adjustment can be a quick policy response but it requires budget flexibility and, in the case of food transfers, adequate stocks. Its restriction to existing beneficiaries is a concern where policy coverage rates are low.

The introduction of in-kind transfers alongside cash transfers to address cash-transfer vulnerability to inflation is another common response to crises. Ethiopia's Productive Safety Net Programme (PSNP) implemented the 'cash first principle' to reduce reliance on food aid, but food-price inflation in 2007/08 led to the use of food transfers, particularly in the areas most affected by price hikes (Devereux, 2012).

One mode of food transfer, school feeding programmes, has emerged as a preferred option in the event of a shock. By relying on existing infrastructure in communities where social protection instruments may be absent, these programmes have provided food directly to school children in times of crisis and have encouraged parents to keep children in school. At the same time, such programmes are restricted to households with school-aged children and may overlook the poorest, who may not be covered by school services.

Subsidies are used widely during crises, commonly to lower the prices of basic consumption or productive goods such as food grains, fuel and fertilisers. They display advantages of relative administrative simplicity and broad coverage and have been effective in alleviating poverty arising from shocks. In Egypt, for example, the expansion of the food subsidy during the 2008 food and fuel crisis had a significant impact on poverty (World Bank, 2011). The

reliance on subsidies in some cases results from the absence of other programmes and the speed with which they can be implemented. This was the case in Indonesia, where generalised subsidies were used as a safety net after the 1997 financial crisis and again in 2008 partly because of the absence of policy alternatives (Bender and Rompel, 2010). However, universal subsidies can be regressive, favouring high-income groups in practice. They can also be costly, both financially and in other dimensions, for example, by promoting the overconsumption of fossil fuels in the case of energy subsidies. Subsidy design requires careful consideration of ways to minimise such costs, for instance by introducing elements of targeting in food subsidies.

Social insurance transfers can be a powerful shock-response tool and can be designed as automatic stabilisers, expanding as the number of recipients increases as a result of higher demand for support. In practice, social insurance coverage and benefit levels remain low in many countries and are generally restricted to regulated jobs in the formal sector. However, efforts to expand social insurance coverage, including to workers in the informal sector, could improve countries' shock preparedness.

Measures to scale-up social insurance provision in response to a shock include extending the coverage and duration of benefits, including unemployment benefits. In Uruguay, a 2008 reform to its unemployment insurance system extended benefit payments from six to eight months. In Brazil, the duration of benefits was extended temporarily in 2008/09 by two months for workers laid off from jobs that appeared on a list of 'most affected sectors' (Grosh et al., 2013). Another common response is to promote participation by expanding eligibility and relaxing requirements through reductions or exemptions in employer and employee contributions. In the aftermath of the 2008 economic crisis, Thailand's Social Security Fund reduced contribution rates for employers and employees from 5% to 3.5% and plans included a reduction of the state's contributions from 2.8% to 2.3% (Asher, 2010).

Work-related initiatives in the context of a shock aim to keep people in jobs, create work opportunities to support incomes, improve employability and match changing demands to supply. Policies implemented and expanded after a shock include public works programmes (PWPs), wage subsidies, work-sharing practices and training. PWPs can support households with working members and their advantages include the potential for self-targeting and comparatively low administrative requirements. However, like other social protection programmes, their effectiveness during a crisis depends on whether they were established before the shock. They may be especially suitable in contexts with high informality and weak alternative policies. However, wage-setting rules present a challenge when wages are too low to provide adequate support or to prevent negative coping strategies.

Work-sharing and partial unemployment schemes can play an important role in preventing individuals from moving into full unemployment and in helping workers maintain a link to labour markets during a crisis. In Turkey, partial unemployment benefits were extended from

three to six months and payments were increased by 50% in 2009 for workers in firms that reduced working hours and that met the conditions for unemployment insurance. The extension of access to full or partial unemployment benefits in some countries has been accompanied by the introduction of new training facilities for the unemployed. In Bulgaria, the unemployed who take up vocational training opportunities voluntarily have their benefits extended for three months (Bonnet et al., 2012).

Social protection targeting and delivery in a crisis

In the context of a shock, the timely scale-up of social protection to the large number of people typically affected is critical. Identifying and reaching those affected, including those who are not current social protection beneficiaries, can be difficult in the aftermath of a shock and the associated disruption. The challenges arise from static targeting mechanisms and weak existing infrastructure, including the absence of unique ID systems.

Shock-responsive targeting requires information that reflects changes in people's circumstances in a timely fashion or captures vulnerability to shocks before a crisis occurs. However, social protection targeting mechanisms may not take such information into account when policy is designed to reach the chronic poor in non-crisis times. An added challenge to shock-response targeting is the reliance on data sources that are implemented over long time intervals and that do not capture rapid changes in household circumstances.

Administrative records, rapid-response household surveys, early warning monitoring systems and a host of tools that rely on new technologies, such as crowd sourcing, can provide timely information. Administrative registries of targeted social assistance programmes regularly collect information on claimants and beneficiaries to verify eligibility. Registries that cover the population beyond existing beneficiaries, to include other vulnerable groups, and that collect information frequently, for instance via ongoing programme registration processes, can be powerful shock monitoring and response tools. In Brazil, the Single Registry, which collects and updates information on low-income households – not just social protection beneficiaries – on a rolling basis, has been a powerful tool in the scaling up of social assistance programmes. Both administrative records and surveys require strong administrative capacity and functioning infrastructure. These are often lacking in low-income countries and may suffer additional setbacks in a crisis.

The development and expansion of early warning systems to support geographic targeting have successfully provided advance warning of food crises. Developments in new technology have also been used to detect shocks and their effects. In Haiti, following the 2010 earthquake, data from the country's mobile phone network were used to map population movements based on location data from two million handsets. This information was used to

coordinate and target relief initiatives (Smith et al., 2012). While crowd-sourced early-warning data may be available faster than other data, it can also be harder to validate. In addition, reliable crowd sourcing of early-warning data relies on the sufficiently high penetration of technology such as mobile phones among vulnerable populations. Information validity, consistency and representativeness need careful consideration when using such instruments.

New delivery modalities that rely on technologies hold the potential to circumvent some of the implementation and infrastructure shortcomings associated with traditional and manual forms of social protection delivery, many of them emerging from emergency and humanitarian response programmes. They include the use of electronic payment systems, magnetic stripe cards and mobile phones to deliver cash and in-kind transfers. In Pakistan, pre-paid debit cards for the delivery of cash transfers in the aftermath of the 2010 floods helped to ensure that payments were delivered securely and in a timely fashion. In Kenya, the use of smart cards and an e-payment system in the delivery of the Hunger Safety Net Programme cash transfer facilitated the response to the 2011 drought crisis (Smith et al., 2012).

While the expansion of mobile phone coverage and the development of smart cards and ID systems that rely on new technologies have potential to address administrative bottlenecks where capacity is weak or faces disruption in the context of a crisis, they must be in place before a shock hits to enable an effective response. They should also be accompanied by information campaigns and support for potential beneficiaries and the public more broadly to promote people's understanding of such instruments and to minimise risks of low take-up and exclusion.

Social protection financing in a crisis

Two requirements for effective social protection shock response are the availability of adequate financial resources for policy scale-up and their timely disbursement. Both conflict with the trends that characterise times of crisis, in particular falling government revenues and increasing demands for assistance.

Improved macroeconomic stability in non-crisis times favours the availability of adequate resources to respond to shocks when they occur. Countries with stronger macroeconomic foundations at the onset of a crisis are better equipped to provide resources for shock response, as seen in the initial response to the 2008 food, fuel and financial crises. In contrast to the 1997/98 Asian financial crisis and other past shocks, which were met with immediate fiscal consolidation, a high number of countries responded, in the first instance, to the 2008 financial crisis with fiscal stimulus packages (Ortiz and Cummins, 2013). One reason for this shift was the improved macroeconomic foundations of countries at the onset of the crisis, which allowed governments to respond, at least initially, with increased spending.

Building fiscal space for social protection financing through additional domestic resource mobilisation and

saving, spending reallocation and external borrowing, is critical to facilitating the maintenance and expansion of social protection expenditure. A range of financing instruments facilitates the mobilisation and timely disbursement of resources, including government saving through contingency reserves and borrowing through contingent credit facilities. Insurance mechanisms include instruments to pool risks across countries, such as the Africa Risk Capacity (ARC) initiative, a pan-African insurance pool that diversifies drought risk across the continent (Bailey, 2013).

At the programme level, index-based insurance and assistance can be built into programme financing. Ethiopia's PSNP, for example, includes a risk financing mechanism (RFM), managed at the federal level, to facilitate the rapid mobilisation of additional resources in an emergency and depends on an established early-warning system that triggers the RFM when needed (Slater and Bhuvanendra, 2013). The reliance on an independent trigger of spending increases that cannot be influenced by the action of potential beneficiaries reduces moral hazard and adverse selection. However, it also involves the risk of weak correlation of social protection payments with actual losses.

Social protection shock preparedness

Having social protection systems in place that can be adapted and expanded to accommodate increasing needs and numbers of people in need is critical to effective shock response. Setting up new programmes and adopting new technologies for implementation after the onset of a shock can be difficult and limit a policy's effectiveness.

Efforts to introduce and expand social protection where it has been absent or limited are critical for adequate shock responses. The extension of social assistance and social insurance provision to population groups that were previously excluded from formal social protection participation is a promising step forward. As well as guiding the expansion of social protection, the adoption of national social protection plans can help to address policy fragmentation and promote the coordination of initiatives, another key element of effective shock response. Such national-level efforts are being backed by initiatives at the regional and international level, including the African Union's 2008 Social Policy Framework for Africa and the International Labour Organization's Social Protection Floors initiative.

Another promising development is the growing commitment to the integration of social protection, disaster preparedness and humanitarian responses. Although these sectors continue to operate separately in most countries, and indeed pursue different objectives, there is scope for enhanced coordination where these sectors meet and use common tools.

The United Nations World Food Programme, Food and Agriculture Organization, the UK Department for International Development and the World Bank have all released policies, strategies or position papers encouraging the integration of these areas (Arnall et al., 2010). At the

national level, countries are increasingly developing plans that include a combination of social protection, disasters and humanitarian-response measures. Within individual sectors too, shifts in emphasis point to improved opportunity for inter-sectoral coordination for shock preparedness. In the areas of disasters and humanitarian response, the growing recognition of the need for adequate preparedness and longer-term development planning beyond the provision of relief is a case in point. In social

protection, recent developments in programme delivery and financing indicate that there is much to be gained from the lessons emerging from disaster risk management and humanitarian interventions.

Looking ahead, as the frequency and intensity of a range of covariate shocks look set to increase (IPCC, 2012), stronger collaboration and integration across these sectors is an additional vital element to effective shock response.

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Overseas Development Institute

203 Blackfriars Road

London SE1 8NJ

Tel +44 (0)20 7922 0300

Fax +44 (0)20 7922 0399

www.odi.org

info@odi.org

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Front page image: © Kate Holt, Africa Practice. Violet Gavin prepares maize she has grown in Chimteka, Malawi. Violet receives financial assistance through the Social Cash Transfer Scheme run by UNICEF.