Preventing and reducing poverty in times of crisis – the role of non-contributory cash transfers

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Executive Summary

The sharpest period of the global economic and financial crisis may well be over but many countries in Eastern Europe and Central Asia are still dealing with the immediate consequences of the severe downturn. The social impacts of the crisis are only slowly beginning to be felt. While data on most recent poverty trends is not yet available, it is likely that rising unemployment, underemployment and loss in wages are leading to rising poverty levels. And that this impact will continue well into 2010 and 2011.

Evidence suggests that families have already made switches to lower quality food and are cutting non-essential expenditure. Borrowing from relatives and social networks has been a coping strategy which may now be reaching a limit. With high levels of poverty and vulnerability, even small losses in income are difficult to cope with unless they are mitigated with effective social protection measures.

Many countries in the region have tried to protect social spending during the crisis. Some countries have adjusted social assistance, unemployment benefits and pensions, or expanded coverage and duration of social benefits. Few countries however have made concerted use of employment and social protection policies to mitigate any social impact.

In responding to the crisis, countries have had to rely on the social protection systems that were already in place. It is also clear that reforms undertaken over the last ten to fifteen years have been either incomplete or too narrow, leaving large groups of vulnerable populations unprotected, and certain groups, including children, out of focus. Many adjustments to social benefits undertaken in response to the crisis may therefore remain ineffective when measured against high levels of poverty and vulnerability.

This paper assesses the effectiveness of social protection systems, focusing on non-contributory cash transfers as arguably one of the most important vehicles of social protection in a crisis, especially in economies with large informal sectors.

Much of the debate in the region has focused on increasing the efficiency of targeting – which has strong political appeal particularly in times of crisis when resources are tight. Targeted Social Assistance has been adopted in many countries but analysis of LSMS and HBS data show that these have been targeted to the extreme poverty line primarily as 'safety net' measures. As such, these schemes have very limited impact on poverty reduction. Child benefits have been discontinued or narrowly means-tested in most countries, abandoning one of key measures in the prevention of poverty of families with children. Cash transfer schemes are generally not accompanied by activating labour market policies or services to support families with children.

The assessment of existing legal provisions and entitlements for their potential to prevent poverty in families with children shows that in many countries family benefit packages have a negative net balance on families with children compared with childless couples. Often any government effort is

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cancelled out by taxes, social security contributions or charges for services. The basic costs for health, education and child care often eat up large shares of total household income. On top of which come rising informal payments for key social services. These findings help to explain the persistence of higher poverty risk of families with children across the region.

The prospect of economic recovery offers an opportunity to reconsider the direction of social protection in the region. There is a call for a new 'social consensus' centred on a more coordinated approach between social insurance, categorical benefits and social assistance. This could include

- strengthened social protection systems able to respond quickly and effectively to both existing and new patterns of vulnerability;
- categorical benefits at an adequate level as part of a 'social protection floor' including pensions and disability benefits;
- child benefits, initially for family types with above average poverty risk but with the possibility for progressive expansion of coverage as more resources become available;
- simpler, more streamlined cash transfer systems, with innovations in geographical targeting;
- systems in place to monitor the impact of such initiatives and to identify best practices in order to shape future social protection measures.

Such a social protection system needs to be positioned closely with employment and supporting economic growth strategies. And each specific package needs to be carefully adapted to conditions in each country.

Effective social protection systems are fundamental for achieving inclusive economic growth, a long-term commitment to investing in human capital and the future of society. The economic crisis could be the opportunity that creates space for the move towards modern and future-oriented social protection systems.