



Weathering the Crisis: Social Benefits Programs in Europe and Central Asia

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Key Messages

- **Social benefits can reduce the effects of a crisis and protect the poor by assisting existing beneficiaries and expanding to cover newly vulnerable populations.**
- **In Europe and Central Asia (ECA), social benefits systems responded more decisively in countries hit most severely by the global financial crisis. Unemployment claims typically increased as a “first-line” response, with social assistance expanding as unemployment benefits expired.**
- **Pre-crisis preparedness matters. In some countries, benefits expanded quickly; in others, significant reforms or investment in basic safety net operating systems were required—resulting in delayed or negligible response by social benefits.**
- **Design and implementation features affected response (or lack thereof). In many countries, minimum-income eligibility thresholds had eroded to such low levels that the programs had become too small and narrowly targeted to protect the poor and newly vulnerable. Programs with decentralized financing and administration also faced constraints that hampered their ability to respond to the crisis.**
- **To further strengthen social safety nets in ECA, governments should consolidate benefits, harmonize program rules and governance, and invest in efficiency improvements in benefit administration systems.**

The Role of Social Benefits in a Crisis

Social benefits can potentially play an important role in protecting the poor and minimizing the impacts of an economic crisis. Conceptually, some social transfers, such as unemployment benefits and targeted social assistance

programs, are expected to expand in times of crisis and contract as the economy recovers. These programs can be cost effective in channeling assistance to the poor and vulnerable. In contrast, expanding universal entitlement programs, such as social pensions, disability benefits, and child allowances, during crises can be costly due to their broad coverage.

While many studies estimate the impacts of a crisis, there is little evidence of the actual response of social safety nets to systematic shocks. This brief outlines the main findings from a study that traced the response of social benefits during the 2008–10 global crisis for 14 countries in ECA.¹ Specifically, monthly administrative data collected in the “ECA Social Benefits Observatory” were analyzed to compare observed patterns within social benefits programs to the expected response, taking into account the two key factors that influence the degree to which social benefits can be expected to respond to a crisis: the severity of the crisis and pre-crisis preparedness of the social benefits systems.

Where Would We Expect to See Social Benefits Respond?

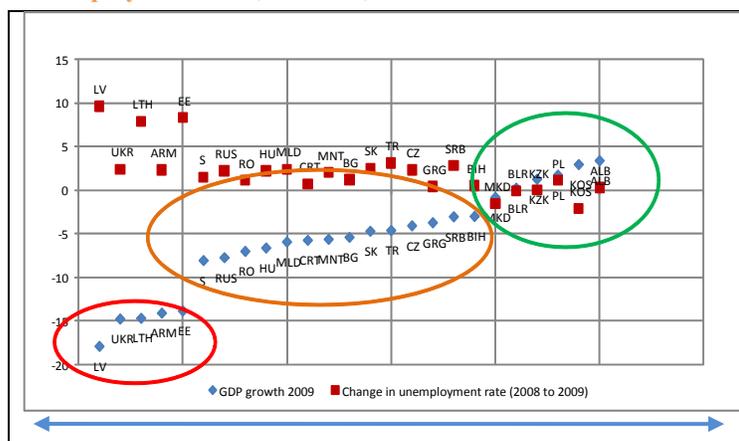
The ECA region was hard hit during the 2008–10 global recession in terms of reductions in GDP and the rise in unemployment. However, the severity of the crisis varied significantly across the region. Some countries, such as Latvia, Ukraine, Lithuania, and Armenia, faced sharp declines in GDP and employment (figure 1), as well as the largest change in fiscal balances during the crisis period. Others, such as Romania, Hungary, Croatia, Montenegro, Bulgaria, Georgia, and Serbia, encountered significant but more moderate reductions in GDP (and less severe unemployment), but also worsening fiscal balances. A third set of countries, including Macedonia, Albania, and Kyrgyz

¹ This Knowledge Brief is based on a study by Aylin Isik-Dikmelik, “Do Social Benefits Respond to Crises? Evidence from Europe & Central Asia During the Global Crisis” (Washington, DC: World Bank, forthcoming).

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Republic, experienced insignificant changes in GDP and unemployment as a result of the economic crisis.²

Figure 1. Severity of the Crisis: Change in GDP and Unemployment Rate, 2008–09, ECA Countries



Hardest Hit (Most Severe) Limited Crisis Impacts on GDP and Unemployment

Source: IMF, *World Economic Outlook*, April 2011; ILO, *Short Term Indicators of the Labour Market*

Evaluating Preparedness

Pre-crisis preparedness can influence how social benefits programs reduce the effects of a crisis. To determine how well prepared their social benefits programs were in advance of the crisis, ECA countries were classified by examining the pre-crisis existence, performance, and coverage of (1) last-resort social assistance programs, (2) unemployment benefits, and (3) child allowance programs, as well as the readily available administrative data from management information systems. The first three indicators included the existence and performance of programs that could be expanded to respond to a crisis. The latter category - readily available administrative information on social benefits - was a proxy for administrative capacity and the ability to monitor and manage such programs.

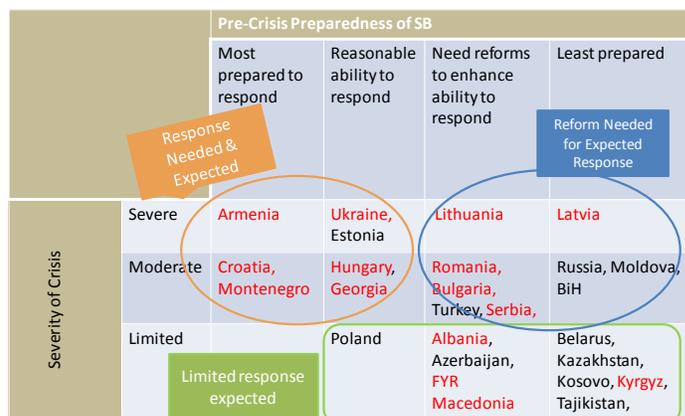
These preparedness factors were then combined with the severity of the crisis to determine “expected crisis responses” (figure 2).³ Three main groups of countries were

² These countries make up the 14 countries included in the Social Benefits Observatory (“SBO Plus”) sample for monitoring the response of social benefits to the crisis. The countries monitored (i.e., “SBO Plus” sample) includes Hungary and Lithuania, with the corresponding data from the study “2010 Update of the Joint Assessment by the Social Protection Committee (SPC) and European Commission of the Social Impact of the Economic Crisis and Policy Responses” (Brussels: Council of European Union 2010).

³ The pre-crisis preparedness indicator is specific to the ECA region and utilizes detailed data from the “ECA Social Protection Database.” It documents the relative preparedness of social benefits across ECA, which reflects a finer categorization of these countries. In comparison to other regions, most ECA countries are relatively well prepared, as many have at least one well-targeted social assistance program that can be scaled up during a crisis.

identified: (1) countries where a strong response was needed and expected, given the severity of the crisis and the pre-crisis readiness of their social benefits systems; (2) countries where a strong response was needed, but where limited pre-crisis preparedness could constrain the response of their social benefits systems; and (3) countries where the impact of the crisis was limited, so little (or no) response was expected.

Figure 2. Expected Crisis Response: Typology According to Severity of Crisis and Pre-crisis Preparedness



Red: SBO PLUS Sample

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Source: Author’s calculations using a combination of the typology for classifying countries according to their pre-crisis preparedness.

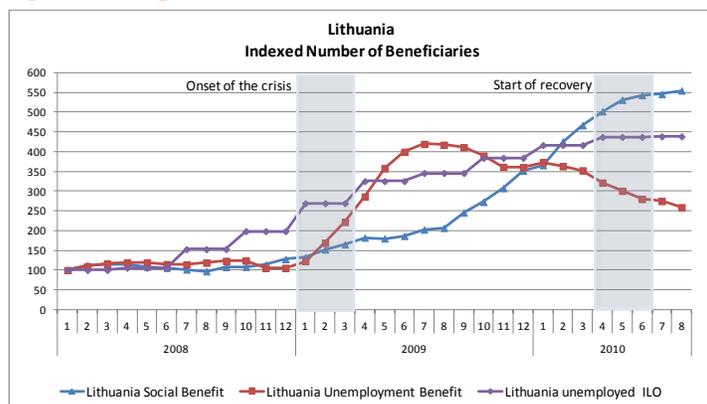
How did Social Benefits Respond?

Actual responses were largely in line with expectations. Social benefits expanded more decisively in countries hit severely by the global recession, compared to countries less affected. Ukraine was an exception, however; although severely hit by the crisis, it significantly limited social benefits by tightening eligibility criteria in the face of fiscal pressures.

Pre-Crisis Preparedness Matters

Pre-crisis preparedness also clearly influenced the ability of social benefits to respond to the crisis. In some countries, benefits expanded quickly, typically with unemployment claims increasing as a “first-line” response, and then with social assistance expanding as unemployment benefits expired (e.g., Lithuania, figure 3). Other countries were less prepared, for example, in Latvia, the system underwent structural reforms when the crisis hit, causing nearly a year lag in response. However, once the reforms were implemented, social benefits expanded significantly. Other countries such as Moldova and Tajikistan, lacked the basic systems (e.g., registries and targeting mechanisms) needed to operate social safety nets and were unable to respond even to food price increases at the start of the economic downturn.

Figure 3. Response Pattern of Social Benefits: Lithuania



Source: Council of Europe (2010)

Unemployment Benefits Were the First to Respond

Unemployment benefits were generally the first line of response in countries that have them, and they expanded rapidly with the spread of the crisis. Their coverage, however, is generally limited to formal sector workers, and as the informal sector is sizable in many ECA countries, unemployment benefits constitute only a partial crisis-response tool. In addition, unemployment benefits generally have a limited time duration, and indeed, ran out in several countries before the onset of recovery. In some cases, social assistance benefits expanded as a last resort measure to compensate for the expiration of unemployment benefits.

Figure 4. Observed and Expected Responses of Social Benefits to the Global Crisis, ECA

		Observed Response			
		UI	LRSA	Other MT	
Expected Response	Response Needed & Expected	Armenia (severe crisis)	Strong ↑	Modest ↑ (+ reforms)	n.a.
		Ukraine (severe crisis)	Modest ↑ but Unsustained	Falling Coverage (!)	Modest ↑
		Croatia	Moderate ↑	Modest ↑	
		Montenegro	Moderate ↑	Modest ↑	Modest ↑
		Hungary	Strong ↑	Strong ↑	+ Public Works
		Georgia	n.a.	Moderate ↑	
	Response Needed, but Reforms Needed to Ensure response	Lithuania (severe crisis)	Strong ↑	Strong ↑	
		Latvia (severe crisis)	Strong ↑	Strong ↑	
		Romania	Strong ↑	Modest ↑	Modest ↑
		Bulgaria	Strong ↑	Modest ↑	
Serbia	Moderate ↑	Moderate ↑			
Limited Response Expected	Albania FYR Macedonia Kyrgyz Republic	Observed response was limited, as expected (negligible increase in benefits)			

Source: Author. Data for Observed Responses from World Bank Social Benefits Observatory, SBO Plus Sample (including Hungary and Lithuania from EC/SPC report 2010).

Social Assistance Benefits Expanded

In addition to protecting existing beneficiaries, social assistance programs expanded coverage during the crisis. However, in many instances, the increase was more moderate than that in unemployment benefits, possibly due to the low eligibility thresholds common for Guaranteed

Minimum Income programs (GMI), which had eroded over time with inflation. Along with expanding coverage, some countries also extended the size of child allowances or introduced public works schemes as part of their crisis mitigation policies.

Disability Assistance Benefits also Expanded

Surprisingly, disability benefits also expanded during this period. For crisis-affected countries within the sample that operate disability benefit programs (e.g. Armenia, Serbia, and Montenegro), on average, the number of monthly beneficiaries increased by 5 percent from 2008 to 2009.⁴ This is puzzling, as there is no discernible reason why an economic crisis - as opposed to wars, earthquakes, or other natural disasters - would increase disability rates. This phenomenon was also observed in the United States, where people sought disability status in order to receive benefits as their unemployment benefits lapsed, and where lax disability certification criteria and generous benefits were blamed for the crisis-driven expansion. Similarly, coverage of disability benefits expanded significantly in FYR Macedonia and Albania over the crisis period, even though these two countries were not strongly affected by the global recession.

The Importance of Action: Reforms, Design, and Implementation

Structural reform, design, and implementation affect the success of social benefits programs. Comparing how countries use these tools is valuable in ensuring that the effects of a crisis are minimized. Structural reforms can aid in protecting the poor during a crisis by securing social benefits, which can be illustrated by a comparison of Latvia and Ukraine. Both countries faced extreme fiscal pressures and severe crisis impacts. However, Latvia's response to the global recession, even with the delay, outperformed expectations due to the implementation of serious structural reforms. Yet despite apparent fiscal space for a better allocation of spending across targeted benefits, Ukraine underperformed, partly due to drastic cuts in benefits coverage.

Design elements, such as eligibility criteria and indexing of eligibility thresholds, are also important in ensuring that the vulnerable are covered during a crisis, as shown by a comparison of the GMI programs in Bulgaria and Serbia. A tight eligibility threshold in Bulgaria resulted in declining coverage and the marginalization of the program over time. While the threshold of the GMI program expanded to help cushion the impacts of the crisis, the increase was relatively modest and the program remained a marginal element of the

⁴ Coverage of disability benefits did not decline in any of the countries in our sample over that same period (despite fiscal pressures).

social assistance system in Bulgaria. Meanwhile, the eligibility threshold for the Material Support program (MOP) in Serbia was indexed to inflation and appears to have responded more flexibly.

Institutional and financing arrangements are a third factor that can affect the ability of social benefits programs to cover the vulnerable during a crisis. Experiences in Latvia and the United States suggest that central financing and administration respond more aptly to recessions than decentralized schemes. In Latvia, local governments financed 100 percent of the GMI program benefits prior to the crisis; local governments, however, are required to carry a balanced budget, which can lead them to ration benefits. Recognizing this constraint, the central government revised the financing arrangements to ease the pressure on local government and ensure that the GMI program responded successfully to the crisis. In the United States, the federally funded and administered Supplemental Nutrition Assistance program responded well to the crisis, dramatically expanding coverage. In contrast, the cofinanced and state-administered Temporary Assistance to Needy Families program was not as responsive. In both cases, flexibility in central financing played a vital role in crisis response.

Challenges Remain

While many in ECA had social benefits programs ready to address the crisis, challenges remain to ensure that all ECA countries are prepared in the future. In terms of outcomes, poverty impacts of public spending on social assistance are limited in many ECA countries due to low coverage of the poor⁵ and inadequate benefits levels. This low coverage is more prominent among lower-income countries, but coverage gaps also persist in several higher-income countries. Eligibility thresholds for poverty-targeted programs are commonly very rigid and too narrow, which limit crisis responses and result in large errors of exclusion. Benefits are also fragmented, as most countries operate numerous programs with diverse application procedures and eligibility rules. Navigating multiple schemes is costly for the beneficiaries and parallel administration is costly for governments; gaps and duplications abound. Benefits administration in many instances is also weak, with paper-based records and inadequate management information systems or oversight and controls.

⁵ Penny Williams, et al., “Social Safety Nets in Europe and Central Asia: Preparing for Crisis, Adapting to Demographic Change, and Promoting Employability,” ECA Knowledge Brief Vol.48 (Washington, DC: World Bank).

Invest Now: Strengthen Safety Nets Before the Next Crisis

With a renewed economic downturn, social safety nets and unemployment insurance will once again be called upon to alleviate crisis impacts, which will likely be transmitted through labor markets that have not fully recovered from the 2008-10 crisis (persistent unemployment). Fiscal constraints mean that many ECA governments will be under increasing pressure to cut back on spending, indicating the need to improve effectiveness and consolidate and target social (including universal) benefits, which could create tensions with the middle classes. Sustained structural investments in strengthening social safety nets are thus warranted, even for higher-capacity countries.

To assist in crisis-preparedness, governments can consolidate benefits, harmonize program rules and governance, and invest in efficiency improvements in benefit administration systems. First, consolidating benefits into fewer programs should be focused on clear objectives, social policy goals, and priorities, and design features should be simplified and harmonized across programs. Assistance, including many universal benefits, should be focused on those in need, while last-resort programs should be expanded to cover a larger share of the poor and vulnerable. Second, governments can continue investing in systems and tools to improve implementation efficiency, such as unified applications and intake processes, automated integrated management information systems, unified payments systems, strengthened oversight and controls, monitoring and evaluation, and clarified institutional rules, roles, and financing with investments in capacity.

Finally, governments can strengthen the links between benefits, employment, and social services to reduce dependency and promote employability. Diagnostic tools and case management can help identify and tailor activation approaches to target groups. Governments should also seek to promote these linkages by investing in capacity, integrating service delivery, and optimizing institutional incentives for effective employment support. Consolidation of benefits and investment in efficiency will continue to strengthen social safety net systems across ECA and prepare countries to respond to future crises.

About the Author

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