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While experience seems to suggest that governments and the World Bank are increasingly committed to the mainstreaming of social protection in crises prevention and management, important challenges and questions to be answered still remain to effectively protect populations, especially in the case of low-income countries and fragile states. Among the main messages emerging from the paper are, first, that crises are very diverse in origins, channels of transmission and impacts; second, preparing for crises by fiscal prudence and by setting programs in place is crucial to dispose of the necessary financial resources and to increase the speed and reach of the response; third, the design of permanent programs can be different from what is required for crisis management measures, especially in the aftermath of natural disasters. A solution could be to equip programs with ready-to-implement, standardized emergency toolkits.

Crisis Response in Social Protection
Federica Marzo and Hideki Mori


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Federica Marzo and Hideki Mori

March 2012

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Key Words: crisis management, crisis response
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I. INTRODUCTION

1.1 Background and Motivation

The purpose of the paper is to inform the new Social Protection and Labor Strategy 2012–2022 on how to make Social Protection (SP) and its practice in the World Bank a more efficient crisis response tool in client countries. This study aims to provide an analytical and operational framework for the Bank’s crisis response strategy to assist countries to both manage crises and be more resilient against them. For this purpose, we will address three main questions: (i) what is the role of Social Protection in the design and implementation of crisis response measures? (ii) what can we learn from past crises? and (iii) what are the challenges and key questions for the future and what can be done to effectively prepare for them?

Evidence shows that the number of crises affecting households’ livelihoods is increasing. Globalization has increased interdependence among countries, and as a result, made households more vulnerable to external shocks by transmitting economic crises and volatility. Furthermore, demographic dynamics, such as urbanization and migration, are intensifying the risk and impact of natural disasters and climate change. 2008 and 2009 marked one of the most serious economic downturns in recent times, originating in the developed economies and hitting emerging and developing countries at a time when a sequence of previous global shocks (Food and Fuel) had already rendered them vulnerable. This resulted in substantial social impacts.

The poor as well as the middle class are extremely vulnerable to these shocks, not only in low income countries (LICs) but also in middle income countries (MICs). The poor have very limited access to effective risk management instruments and coping strategies, which results in negative long term effects on human capital and perpetuates the intergenerational cycle of poverty. Crises also affect the middle class, putting them at risk of losing their livelihood and falling into temporary poverty. Social Protection (SP) policies
therefore have an increasingly important role in mitigating the negative impacts of crises for both the poor and the middle class.

**Crises present significant challenges to social protection practices.** Crises are covariate shocks that can lead to catastrophic economic and social impacts on large parts of a country’s population, and can be generated by economic shocks (including prices shocks),¹ natural disasters,² pandemics, or conflicts. Due to the magnitude of impacts, effective crisis response measures must be different from normal SP&L policies. More specifically, crisis response requires the mobilization of significant financial and administrative resources within a short period of time, as it needs to be implemented quickly and at a great enough scale to protect a large number of people, ensuring their survival in the short term and preventing longer term negative consequences. Because private markets and informal risk sharing mechanisms often fail to respond adequately, it falls upon the public sector to be the primary driver of crisis response. Furthermore, in periods of crisis, governments must also manage significant political pressures and expectations. Consequently, SP&L instruments that are effective in normal times may or may not be effective in crisis. The development of the new SP&L Strategy offers a unique opportunity to learn from past experiences to further strengthen the role of SP&L in crisis responses measures, either building upon existing tools that address chronic poverty or building new ones.

1.2. Methodology

In order to answer the questions listed in Section I, this paper reviews a selected set of literature to analyses past crises and derive lessons and questions for further analysis. Based on the definition of crisis given earlier, we select significant examples of economic

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¹ An Economic Crisis is an abrupt and disruptive event involving problems in exchange rates, the banking systems, or external debt, and carrying considerable costs in terms of economic recession and worsening of the poverty situation. Definition used by IEG (2007).
² United Nations International Strategy for Disaster Reduction (UNISDR) defines disaster as a serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources.
and financial crisis (e.g., East Asia in 1997; Argentina and Colombia in 1999-2002; the recent global financial crisis and the food and fuel crisis of 2008); natural disasters (Hurricane Mitch in Central America in 1998, several floods in Bangladesh, and the earthquakes in Turkey in 1998 and Haiti in 2010), pandemics (HIV/AIDS in Africa); and conflicts (several examples from Africa) to assess which interventions were effective against what type of crisis and in what context. The latest Food, Fuel, and Financial (FFF) crisis will be given special attention since it was different from past crises in its causes, reach, and the policy responses it brought about.

Assuming that effective crisis response must be timely, targeted, and temporary\(^3\) in providing consumption smoothing as well as other protective tools to all who need them, the paper will assess instruments performance based on four criteria:

(i) **Adequacy**, in terms of potential to fulfill its goal, which is to provide (temporary) consumption smoothing and preserve access to basic services.

(ii) **Operational feasibility** (design characteristics for fast disbursement and moderate administrative burden, including for targeting and monitoring) in order to realize its potential, maximizing coverage and speed of implementation.

(iii) **Political acceptability**, in terms of potential to prevent social and political instability.

(iv) **Automation**, which refers to the triggers and sunset close.\(^4\) The establishment of triggers enhances the response time, while once a crisis ends, countries need to progressively move away from mitigation towards promotion (activation policies) to facilitate recovery and replace temporary measures with more permanent SP&L programs to address chronic poverty.

For all these criteria, the distinction between LICs and MICs may be crucial.

\(^3\) As illustrated in World Bank (2010).

\(^4\) The origin of *sunset clause* is legal, and dates back to the Roman Republic which used it to pass temporary laws when specific things like tax increases or extra military spending were needed for a short period of time.
The paper will rely on World Bank analytical studies and project documents from all regions, as well as reference literature in the domain of social protection and crisis response produced by academia, bilateral development agencies, and international organizations. Furthermore, interviews with task team leaders (TTL) and SP&L sector managers have been critical in selecting relevant crises episodes and informative documents. IEG evaluations have been largely utilized as well, in particular to evaluate Bank response to past crisis, including the latest FFF (see for example IEG 2010 and 2011).

Section II defines a typology of crisis and describes various crises, their impacts on households, and the subsequent policy responses. It also defines the role of SP&L as a crisis response tool. Section III will review the performance of SP&L instruments to identify what made them effective or ineffective to this end. Section IV will briefly review Bank responses and effectiveness. Finally, Section V will conclude with a summary of the main messages and a roadmap for the future.

II. CRISES, IMPACTS, AND GOVERNMENT RESPONSES

2.1 Definitions of Crisis Typologies

A crisis is a covariate shock characterized by catastrophic economic and social impacts on large parts of the population of a country. Covariate shocks can be generated by economic turbulence (including prices shocks), natural disasters, pandemics, or conflicts. In the event of a crisis, responses often need to be managed through formal public instruments, because its systemic impact brings about important market failures and the disruption of

---

5 An Economic Crisis is an abrupt and disruptive event involving problems in exchange rates, the banking systems, or external debt, and carrying considerable costs in terms of economic recession and worsening of the poverty situation. Definition used by IEG (2007).

6 United Nations International Strategy for Disaster Reduction (UNISDR) defines disaster as a serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources.
informal mechanisms of risk sharing, resulting in a widespread inability or inadequacy of self-insurance, particularly for the poor and extreme-poor. While non-governmental organizations and partner countries can provide financial and logistical support, the role of national governments in crisis management remains preeminent.

**The number of economic crises has increased in the last decades, due to increasing economic and financial integration.** In the last 20 years regional or sectoral economic crises have hit single countries or entire regions repeatedly and to different extents: between 1993 and 2003, 17 countries experienced economic crises (according to IEG 2006). East Asia suffered from a severe financial crisis in 1997-1998, hitting Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand; the collapse of socialism in Central/East Europe and Central Asia at the beginning of the 1990’s affected growth and brought down real wages and labor productivity; while Latin America experienced more than 40 episodes of growth decline of 4 percentage points or more between 1980 and 1998.7

**While the number of conflicts seems to have subdued recently at the global level (notwithstanding the Arab Spring), the number of natural disasters and the intensity of their impacts have increased dramatically, due to demographic evolution and climate change.** In aggregate, the reported number of natural disasters worldwide has passed from fewer than 100 in 1975 to more than 400 in 2005, as illustrated by Figure 1. Equally, the human cost of such catastrophic events has nearly quadrupled from 1975-84 to 1996-2005.8 The causes of this dramatic increase are the rising population, progressive and unregulated urbanization bringing to environmental deterioration, and climate change. Regional and global migration patterns, economic integration and, to a certain extent, poverty, have also contributed to increase the risk of pandemic. In the last years the world also witnessed

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7 Lustig (2000).
8 International Federation of Red Cross and Red Crescent Societies (2006).
several global health threats, including the recent H1N1 (Swine flu), SARS and, with much longer-term consequences, HIV/AIDS.

Figure 1: Number of Disasters is Increasing, Especially in East Asia and Africa

![Graph showing increasing number of disasters](image)

Source: EM-DAT: The OFDA/CRED International Disaster Database, authors’ calculations.
Note: Disasters include droughts, earthquakes, extreme temperatures, famines, floods, insect infestations, slides, volcanic eruptions, wave and surge, wild fires, wind storms.

2.2 Different Transmission Channels of Crises and Their Impacts on Households

Impacts on households depend on the nature of the crisis and its channels of transmission. Crises have in common a disruptive impact on households’ welfare and social environment, while consequences on institutions and/or infrastructure can vary. Impacts on welfare depend on the nature of the crisis but also on the characteristics of households and communities (e.g., employment structure, skills.). Impacts on welfare can concern income (loss of employment) or assets (assets sale or destruction). Social impacts are also common to all crisis typologies as consequences of the impact on welfare and access to basic services, including health and education. Just as economic impacts, social impact can

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9 More evidence on the increased frequencies of crises can be found in Skoufias (2003) and Von Braun, Vlek, and Wimmer (2002).
10 Infrastructure destruction entails big economic impacts.
be both direct and indirect (generated by harmful copying strategies). Social impacts might generate generalized frustration, weaken social cohesion, and result in political unrest. Natural disasters typically have a significant impact on physical infrastructure, while conflicts can potentially disrupt institutions. Recovery will be different, according to the typology of impact. Generally, recovery is slower when infrastructure and assets are destroyed. When infrastructure, institutions, and social fabric are affected, a government’s capacity is lowered, service delivery can be severely affected, and the number of available instruments to respond to crises is reduced, even in MICs. Pandemics can affect institutions when incidence is particularly high, or concentrated in critical categories of the population, such as nurses, teachers, or civil public servants.11

<table>
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<tr>
<th>Table 1: Crisis and Impacts</th>
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<tbody>
<tr>
<td>Impacts</td>
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<tr>
<td>Institutional impact</td>
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<tr>
<td>Physical impact (infrastructure)</td>
</tr>
<tr>
<td>Physical impact (loss of human lives)</td>
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<tr>
<td>Economic impact</td>
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<tr>
<td>Social impact</td>
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Source: Authors (2012).

In an economic crisis, impacts on households are more likely to pass through the labor market and result in job (and earning) losses, financial and saving losses, or the decrease in purchasing power in the case of an inflation shock or change in relative prices. In the aftermath of the economic crisis of the late 1990s and early 2000s, in Argentina the unemployment rate passed from 13.2 in 1998 to 21.5 in 2002, resulting in a loss of per capita GDP of more than 11 percent,12 while poverty increased from 38 to 53 percent.13 In

11 Evidence exists that this is the case in high prevalence countries, particularly in Africa (e.g., Grassly et al. 2003; Gachuhi 1999; Dambisya 2004).
12 Berra (2010).
Colombia GDP decreased by more than 4% for the first time in 50 years during the recession of 1999, poverty rose from 60 to 67.4% and unemployment to 18 percent. In East Asia, workers experienced huge decreases in hourly wages as a consequence of the financial crisis of 1997.\textsuperscript{14}

The global financial crisis hit the emerging and developing world both through direct and indirect channels, resulting in the deterioration of social indicators worldwide. The credit crunch in the U.S. and West Europe directly caused a sharp rise in investors’ risk aversion and the drying up of international liquidity and credit. The most affected countries were those well integrated into international capital markets, such as emerging economies and other MICs. However, most of the countries (including both MICS and LICS) suffered the consequences of the indirect impacts of the crisis on the real economy, through a fall in production and demand for imports in the developed world. Depending on countries’ economic and trade structure, the social impact of decreasing global demand mainly passed through the labor market channel, with decreasing employment, earnings, and remittances. The Eastern Europe and Central Asia region was particularly hard-hit by the recent global financial crisis (2008-2010), suffering increases in unemployment averaging 30% in 27 countries of the region, passing from 9.4 to 12.2% between December 2008 and 2009.\textsuperscript{15} In several countries, hourly wages decreased while deteriorating foreign labor markets resulted in lower domestic remittances, estimated to have fallen by 2.1% in 2009.\textsuperscript{16} Furthermore, despite global recovery, LICs and fragile states are still struggling with serious cuts in official development assistance (ODA).

\textsuperscript{13} Fiszbien (2003).
\textsuperscript{14} Betcherman and Islam (2001); Fallon and Lucas (2002); Khanna, Newhouse, and Paci (2011).
\textsuperscript{15} World Bank (2010).
\textsuperscript{16} World Bank 2009 estimates.
**Figure 2: Impact of 2008 Global Economic Crisis on Labor Markets**

In some cases, this impact was exacerbated by the consequences of food and fuel inflation on household welfare, accumulated since 2006 and exploding in 2008. Prices of food grains, which account for more than half of total calories in developing countries, increased by 150% between January 2006 and June 2008.\(^{17}\) Prices of food staples (e.g., wheat) doubled, rice almost tripled, and soybeans oil rose by 186%. The impact of the global price rises on local prices, and on poor people, has varied hugely. In several cases, the food and fuel prices shock resulted in important inflationary peaks, hitting the South Asia and Africa regions particularly hard. Yet, they were not the only one. Domestic food prices increased in all regions: in Sri Lanka (34 percent), Vietnam (26 percent), Chile (16 percent), and Egypt (13.5 percent). In Ethiopia, overall inflation passed from 15% on average in 2005-2007 to almost 30% in 2008.\(^{18}\)

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\(^{17}\) World Bank (2008a).

\(^{18}\) Devarajan and Go (2008).
In case of natural disasters and conflicts, physical destruction of both human lives and infrastructure may be widespread and can generate huge social and economic costs, depending on the size of the affected area. Certain regions are more subject to natural disasters than others, like the Caribbean for hurricanes, South and East Asia for floods, and Africa for droughts. Destruction has significant adverse impacts on the economy and on the livelihood of the poor. As for conflicts, the economic costs resulting from natural disasters, including pandemics, can be both direct (direct material losses – infrastructure or lives destruction) and indirect (from secondary economic effects, such as disruption in flows of goods and services, price shocks, which could generate social unrest). Another channel of impact, more difficult to measure, is the disincentive to invest, if investors fear that disasters are likely to happen again in the same areas (fear effect). Evidence shows investors, especially foreign, reducing activities in countries with high HIV prevalence and incidence.

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19 This memo, *Global Food Price Increases and Safety Net Readiness*, was drafted in March 2011 at the request of Tamar Manuelyan Atinc.
20 ECLAC (2004).
21 Asiedu, et. al. (2011).
Hurricane Mitch, which hit Central America in October 1998, provoked the death of thousands of people and caused significant economic losses to a third of the population. In Honduras, one of the most affected countries, over 7,000 people died during the hurricane, 70% of the population lost access to water, and 4.8 million people lost their livelihood.\(^{22}\) In Honduras, direct losses amounted to USD 2 billion, approximately 18% of total capital stock, while indirect damage was estimated at an additional USD 1.8 billion.\(^{23}\) In South Asia, Bangladesh was hit by four major cyclones in the 1990’s and by two serious floods between 1998 and 2004.

**Households adopt diverse ex ante, preventive, strategies when facing the risk of shocks.** Ex ante risk management arrangements can be both formal (market-based or public) and informal (individual or community-based) and aim at preventing/reducing negative welfare shocks when crises hit. Formal instruments include insurances, while informal mechanisms include network-based transfers or savings and remittances. Formal (market-based) and informal (group-based) risk management arrangements may collapse in the case of covariate shocks, the former due to market failures brought about by the crisis and the latter because the social capital on which they rely exists only among households that share similar socioeconomic identities and are equally affected by a covariate shock (Carter and Maluccio 2002). Remittances from migrants, on the contrary, can still provide significant support to affected households’ livelihood because they cut across at least geographic distance, though this may also depend on the geographical reach of the crisis and whether the migrants are affected as well. Investment in human capital and precautionary saving may also be effective individual strategies against covariant shocks.\(^{24}\)

**However, crises may have a negative impact on human development and poverty, partly due to coping strategies.** Ex post, households adopt a variety of coping strategies that can

\(^{22}\) ECLAC (1998).
\(^{23}\) Mechler (2003).
\(^{24}\) See for instance Morduch (1995) for informal – group based mechanisms, Binswanger and Rosenzweig (1986) and Dercon (2005) for formal market-based ones.
include reducing (or reallocating) expenditures, including food. In order to smooth consumption, many households increase working hours or turn to informal social networks. Some increase indebtedness, while in other cases the depth of the crises and the breakdown of financial markets may limit smoothing. Evidence shows, however, that poor households have a more limited ability to save and smooth consumption in the face of a crisis-induced income shock (see for example Datt and Hoogeveen 2003).\(^{25}\) When these mechanisms are unavailable or insufficient, households often adopt coping strategies involving lower investment in their human and physical capital, generating large and lasting effects and feeding the intergenerational transmission of poverty.\(^{26}\) For instance, although evidence on the impact on school enrolment is mixed,\(^{27}\) in many developing countries child health and nutritional status deteriorates during a crisis,\(^{28}\) which hampers future productivity and welfare.\(^{29}\) A recent study on the social impacts of the Great Recession in the ECA region shows that households that were affected by income shocks reduced human capital investments, but the reduction in health-related investments were more frequent than education-related coping strategies. As a result, the social impacts of crises are likely to persist after the crises themselves have subsided. For example, after the peso crisis of 1994-95, it took approximately ten years for Mexico to recover to pre-crisis poverty levels.\(^{30}\) Finally, there is a wide literature showing how women are particularly vulnerable in crises, because they often act as shock absorbers of household food security, as witnessed by their poor nutrition (Dercon and Krishnan 2000).

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\(^{25}\) Also Dercon and Krishnan (2000) and Carter and Maluccio (2002).

\(^{26}\) It is not clear whether economic crisis distributional impacts are bigger than natural disasters ones. Datt and Hoogeveen (2003) worked on the case of Philippines, an interesting example of parallel crisis, and disentangled the impact of both over income. They show that the drought caused by El Nino had more catastrophic impacts on welfare than the economic crises passing through employment.

\(^{27}\) For examples, see Shady (2001); Strauss and Thomas (1995); Dureya (1998).

\(^{28}\) Handa and King (2003) conducted an empirical study on the impact of exchange rate liberalization and the consequent price shock in Jamaica in 1991 and showed a significant deterioration of children nutritional status.

\(^{29}\) A number of studies provide evidence that child malnutrition is correlated with lower school achievement and attainment, lower health, and lower wages and productivity as an adult (see for example, Glewwe, Jacoby, and King 2000). See also Fiszbein, Ringold, and Srinivasan (draft).

\(^{30}\) Fiszbein, Ringold, and Srinivasan (draft).
Table 2: Economic Crises Often Results in Increased Poverty Levels

<table>
<thead>
<tr>
<th>Country</th>
<th>Poverty (%) before Crisis</th>
<th>Year of Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>2.6 (1997)</td>
<td>7.3 (1998)</td>
</tr>
<tr>
<td>Mexico</td>
<td>36.0 (1994)</td>
<td>43.0* (1996)</td>
</tr>
<tr>
<td>Venezuela</td>
<td>41.4 (1993)</td>
<td>53.6 (1994)</td>
</tr>
</tbody>
</table>


The increased frequency of the number of crises and the alarming magnitude of their impacts on households have raised the attention of policymakers, development practitioners, academics, and civil society on crisis response measures, to find ways to improve their efficiency and make them sustainable for all the countries, regardless of their level of development. In the light of the above, there is scope for public intervention to minimize exposure to risks and the impact of crises. Only by understanding which coping strategies households adopt during crises can governments design the correct response. In the light of crises’ long-lasting consequences, public actions that ensure the delivery of basic services and consumption smoothing during crises should be seen not only as emergency measures to protect people in the short term, but also as significant contributions to poverty alleviation and inequality in the long term.

2.3 Government Responses and Social Protection

Simply put, a crisis is composed of three phases – before, during, and after. Just like households, governments can adopt ex ante instruments to prepare for/prevent shocks, undertake special measures during the crisis and implement ex post instruments to help households cope and recover their livelihoods. This has been formalized as the 3Ps
framework.\textsuperscript{31} Prevention of negative impacts by building resilience and preparing responses (before); Protection of affected households, especially the poor, helping them to cope (during); and Promotion of recovery (after). For each of the three functions, governments have a variety of tools belonging to different sectors and including, among others, fiscal and trade policies to build macroeconomic stability and balanced growth, incentives setting, and regulation for the development the private sector and well-functioning of markets; infrastructure building; partnership building with the private sector and civil society for the delivery of basic services; and social policies to promote equity and social cohesion, including social protection.

**Social Protection in Crisis Response**

One of the functions of Social Protection is to respond to shocks, both idiosyncratic and covariate: this study will mainly focus on this aspect. In line with the Social Risk Management and the 3Ps frameworks, SP&L includes public policies aimed at helping individuals, households, and communities to manage risk\textsuperscript{32} in all its dimensions, in normal times as in crises: to contribute to decreasing the incidence and impacts of shocks (prevention-mitigation function), to help households cope with impacts and prevent people from falling into destitution (protection-coping function), and to contribute to building assets to create resilience and opportunity (promotion function).

The 3Ps functions, as applied to SP, are internalized in different ways by societies and individuals facing a crisis, as are risk management strategies. Individuals, communities, and societies all deal with risk management. As illustrated in the previous section, individuals and communities, however, are generally better equipped to deal with idiosyncratic shocks and very limited instruments to manage covariate shocks. The distinction between the two is blurred since the impacts of a crisis are idiosyncratic. On the

\textsuperscript{31} The 3Ps framework can be applied to SP&L more broadly, not only in the context of crises responses, as defined in the other Background papers to the Strategy.

\textsuperscript{32} World Bank (2001).
contrary, as illustrated in Table 3 below, the distinction between idiosyncratic and covariate shocks and impacts is much clearer for societies, which need to consider the differences between the two typologies and tailor adequate instruments to supporting its members. Governments represent societies to the extent allowed by the social contract, and are the only ones who can effectively deal with systemic crises and respond to their impacts, sometimes and preferably in collaboration with civil society, communities, and/or donors. This paper takes the point of view of societies and governments.

Table 3: Society and Individual Perceive SP&L Functions Differently When Facing a Crisis

<table>
<thead>
<tr>
<th>Prevention (before the crisis)</th>
<th>Government Management of Crises through Social Protection</th>
<th>Individuals and Communities Management of Crises</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Mitigation of impacts of both idiosyncratic shocks and systemic crisis.</td>
<td>- Private (formal and informal) mechanisms are effective to prevent only idiosyncratic shocks and reduce idiosyncratic impacts. Migration and precautionary saving can be the only exception.</td>
<td></td>
</tr>
<tr>
<td>- Prevention through increasing preparedness: setting SP&amp;L instruments in place (both SI and SSN used as insurance).</td>
<td>- Prevention is achieved through self-insurance, enrolment in SI programs, participation in informal risk-sharing mechanisms (social capital), investment in health and education, building assets, etc.</td>
<td></td>
</tr>
<tr>
<td>- Prevention though reducing the risk of crises (certain economic crises or conflict).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Prevention through setting financial instruments in place.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Protection (during the crisis)</th>
<th>Government Management of Crises through Social Protection</th>
<th>Individuals and Communities Management of Crises</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Help affected households cope through the triggering of SI transfers (automatic) and scaling up/temporary increase in benefits of SSN measures or pensions, to reach all in need.</td>
<td>- Individual coping strategies, but can be inadequate in case of a crisis.</td>
<td></td>
</tr>
<tr>
<td>- Implementation of short term emergency measures.</td>
<td>- Communities informal risk sharing mechanisms, but effective only in case of idiosyncratic shocks.</td>
<td></td>
</tr>
<tr>
<td>- Ensuring the provision of basic services.</td>
<td>- Increase in remittances from migrants or use savings.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Promotion (after the crisis)</th>
<th>Government Management of Crises through Social Protection</th>
<th>Individuals and Communities Management of Crises</th>
</tr>
</thead>
<tbody>
<tr>
<td>- After the crisis, building resilience and opportunity for all by continuing permanent poverty reduction programs and fostering investment in education and health (e.g., through CCTs).</td>
<td>- Build resilience through investment in education and health.</td>
<td></td>
</tr>
<tr>
<td>- Implementation of promotion programs (active labor market measures, trainings and skills development, etc.).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors (2012).
SP&L can play a critical role ex ante by contributing to reduce the risk of crises and increasing preparedness. SP&L can contribute to avoid internal conflicts and domestically generated economic crises through redistributive policies that manage expectations and promote equity and social cohesion, or through policies that enhance productivity and employability. On the other hand, preparedness can be enhanced through analytical works like Risk and Vulnerability Assessments (RVA) or Crisis Preparedness Analysis (CPA); the setting up SP&L programs and systems ready to be triggered/scaled up when the crisis hits (including emergency financing mechanisms, “nuts and bolts” of targeting and monitoring systems for transfers, or social insurance programs); or implementing public works programs to contribute to providing the country with the adequate infrastructure (especially in disaster-sensitive areas), besides building assets for vulnerable individuals.

Ex post, SP&L mitigates its impacts through the provision of temporary consumption smoothing tools and ensuring access to basic services. Recent studies have demonstrated that social impacts take longer to get reabsorbed than economic impacts, due to coping strategies with long term, negative consequences on human capital accumulation. SP&L Income Support Policies aim at preventing such harmful strategies and operate through Social Safety Nets programs, such as conditional and unconditional transfers, in-kind transfers, subsidies, as well as social insurances, including unemployment benefits and pensions (especially in the most developed context). These transfers also contribute to keep children in school or health services affordable. Public works are another common tool used to ensure temporary consumption smoothing. Active Labor Market Policies (ALMP), including support to stimulate labor demand and support for job

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33 Regarding the role of SP&L and L policies during a downturn there is a consensus over the fact that governments need to set up safety nets to protect workers from job losses or income decline, although different views exist as for the design of programs and the way of financing them (debt vs. savings). See World Bank (2010a).
search and skills preservation, can be critical in cushioning the impact of the crisis on jobs and earnings, although addressed to formal sectors workers only.34

SP&L policies that promote the creation of new jobs during recovery can be as important as those that mitigate the impacts on workers during the downturn. While contributing to protecting jobs, ALMPs are also part of recovery measures since they foster productivity growth (Promotion Phase), by upgrading skills and helping the vulnerable, work-able, to access employment and opportunities, through assets accumulation and trainings. Evidence from past crisis shows that employment recovery generally takes longer than growth recovery, and reaching the pre-crisis level can take up to five years. On top of this, the speed of the recovery is inversely related to the level of development, making developing countries more vulnerable to crises and more in need of promotion policies.

<table>
<thead>
<tr>
<th>Functions / Instruments</th>
<th>Social Insurance</th>
<th>Social Safety Nets</th>
<th>LMPs</th>
<th>AAA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unemployme*nt/ Pensions/ Health Insurance *</td>
<td>In-kind Transfers *</td>
<td>Cash Transfers *</td>
<td>CCT</td>
</tr>
<tr>
<td>Prevention</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Protection</td>
<td>*</td>
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<tr>
<td>Promotion</td>
<td></td>
<td></td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

Source: Authors (2012).
Note: According to our definition, transfers and SI contribute to prevention by the fact of having the “nuts and bolts” in place, while they contribute to protection when transfers are triggered/ temporarily increased by the crisis.

Why are crisis responses different from normal times SP&L measures? To be effective in countering the impact, crisis response measures need to be timely, targeted, and temporary, and cover within a short period of time all those who need protection.35 Among the 3Ps functions (prevention, promotion, and protection), protection is particularly critical

34 See World Bank (2010a) for more details on this policies categorization.
35 Taken from World Bank (2010).
in the context of a crisis, since it involves the preservation of human lives. Crisis responses need to be **timely** in order to ensure survival and provide affected households with a buffer, allowing them to avoid harmful coping strategies. Timeliness is also a key to respond to social and political tensions and preserve government legitimacy. **Targeting** is important when time and resources are both constrained. Finally, responses need to be **temporary** to ensure the long term financial sustainability necessary for recovery and avoid dependency.

**One possible way to fulfill the three above-mentioned criteria would be to establish automatic mechanisms to trigger and stop the benefits with the onset and end of a crisis respectively.** If the program parameters are pre-determined and calibrated to trigger benefits when a certain threshold is reached, the decision to increase the benefits and/or expand the program coverage could be less political. Similarly, the parameters can be set to scale back the programs when the crisis has passed. Such an automatic mechanism would require a high level of capacity and coordination in the public administration. It would also require a sophisticated information management and beneficiary registration system.

**However, crisis response measures and “peace-time” social protection programs for structural poverty are not independent of each other.** In fact, in many MICs, CCT programs such as *Bolsa Família* in Brazil and *Oportunidades* in Mexico, have been functioning as instruments to reduce structural poverty. However, those programs could quickly expand when the countries were hit by the FFF crisis. One such example in a LIC is Ethiopia’s Productive Safety Net Program, which is not a CCT but a public works program.  

**Government Responses Based on Past Crisis**

Government responses to crises depend on the type of crisis and the extent of the impacts, the systems in place, and the available resources. Past crisis management shows that those governments that can afford it (financially and/or politically) tend to scale up interventions in the domain of social protection as part of a multi-sectoral package, as a means of mitigating the social impacts of the crisis and preventing harmful coping strategies. However, a government’s response also depends on the type of crisis and
channels through which it hits the population, as illustrated in the previous sections. Responses will be more focused on income support and labor market policies in case of economic crisis, as compared to in-kind transfers and disability or death pensions in emergency responses to disasters or conflicts.

The existing SP&L systems/programs availability often determines the nature of immediate responses. These range from the ECA region where the majority of countries already possess SP&L instruments that could be utilized as a base for scaling up, to the Africa region where SP&L systems and programs are very underdeveloped. The systems and programs in place are the reflection of the institutional and economic context, which in turn will determine what is feasible and what is not in terms of available resources and administrative capacity, or what the government is ready and willing to implement and support due to the social compact in place and other political economy constraints. In particular, the political economy plays a crucial role in balancing emergency responses and long term development programs.

During crises, governments tend to become progressively constrained. In the time of crisis, one can encounter two scenarios. The first is that public revenues and expenditure behave counter-cyclically as stabilizers, with revenue decreasing with the slowing down of the economic activity and expenditure going up either automatically (e.g., social insurance) or by explicit redistributive policy actions. The expansion of expenditure can be financed by savings from past fiscal prudence, budget reallocation, new debt, or a combination of the three. The second scenario is that the government is already constrained by high levels of indebtedness or/and politically cannot afford the expansion of public spending, which is already under the pro-cyclical pressure to contract. In both cases, crises generally result in the rise of fiscal deficits due to falling revenue or increasing expenditure, if not both. At best, in the mid-term, budget deterioration generally forces governments to turn to fiscal consolidation, which could happen before the economy is solidly on its way to recovery.

Budgetary pressures during a downturn can cause social spending – including health,
education, and safety net programs – to be cut when the population facing constraints (Lustig 2000). Among a group of 13 countries that went through a financial crisis between 1985 and 2002, the fiscal deficit increased by between 2.6 percentage points (ppts) in Mexico (1994) and 15.4 ppts in Sweden (1991). In Latin America, the increase was 9.5 ppts in Argentina (2001), 8 ppts in Chile (1980), and 3.8 ppts in Colombia (1998). The 1997 crisis in Asia led to a 5.8 ppts increase in Indonesia, and a cut of health expenditure by 7 and 12% during the first and second years of crisis, respectively (Stalker 2001). In Thailand, the fiscal deficit increased by 5.8 ppts while health and education budgets were reduced by 9 and 6% respectively (Knowles et al. 1999). During the global financial crisis in the early 2000s, the Eastern European and Central Asian countries also witnessed a significant increase in fiscal deficits and had to implement fiscal consolidation measures; most of the countries managed not to cut health and education expenditures.

In conclusion, governments that have built up more fiscal space and/or established greater access to the capital markets are better equipped to respond to crises. The prudent economic policies implemented in the recent past allowed several Latin American countries to implement supportive policies without burdening future generations, and a few African countries to maintain or even increase social spending. On the other hand, donor assistance can be crucial in filling the gap in resource-constrained countries (i.e., most LICs, fragile states, and highly indebted MICs), and preventing public expenditures from becoming excessively pro-cyclical, resulting in damaging reductions of social spending. How to provide counter-cyclical financing in the face of a systemic crisis is an important question, the answer to which will have significant implications to the role of the World Bank in crisis response.

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37 Reinhart and Rogoff (2009).
38 These numbers are associated with financial crisis, which are unusually long compared to normal recessions (the latter usually last less than a year, unless they occur in countries in need of major structural adjustments).
**Latest Food, Fuel, and Financial Crisis: Why Was It Different?**

The latest Food, Fuel and Financial (FFF) crisis was different from past crises episodes in its causes, reach, and policy responses. **First**, this crisis was originated in OECD countries, and not developing or emerging countries. **Second**, the recent crisis was global in the reach of its impacts, affecting all regions although to different extents. **Third**, government responses have also been unprecedented, both in terms of volume and coordination. The crisis generated significant attention for social safety nets (SSN), and for targeting in particular. **Fourth**, countries could implement appropriate policies, thanks to improved macro-economic frameworks. **Fifth**, the response of the World Bank has also been unprecedented. In 2009-2010, Social Protection and Labor sector’s lending increased by a spectacular 500% (the biggest in the entire World Bank), especially in IBRD countries.

Governments mainstreamed SP&L interventions, as part of multi-sectoral packages implemented to counter the cumulative impact of the FFF crisis, and the appropriateness of their actions seem less controversial than in past. The severe impact on poverty experienced in past crisis episodes and the threat of important cumulative social impacts as a result of the FFF crisis have pushed governments to put a strong emphasis (and resources) on SP&L interventions. Given the sequential nature of the crises, it is not always possible to distinguish policies responses to the financial crisis or carryovers from the fuel and food crises. Generally speaking, interventions were characterized by an increased coordination among different actors within governments (in EAP countries); a unprecedented focus on SSN in order to avoid increases in poverty (in ECA and LAC); the expansion of existing systems allowing the increase in coverage (in LAC); and the starting of a new dialogue for reform to implement new SP&L measures (in Africa and SAR).

**Responses varied across regions.** Broadly speaking, the response was concentrated on labor market measures to protect jobs and stimulate employment in the richest MICs (in ECA, some LAC, and the richest EAP). In LICs and fragile states, the response has been more of a carryover from the food and fuel crisis, with subsidies and tax exemptions,
complemented by public works programs and food transfers (particularly in the form of school feeding). In these countries, the fuel and food price shock had a heavier impact on household livelihood than the financial crisis, due to the relatively smaller integration of these economies in the global markets and the relative importance of food in their consumption basket. Finally, countries in the mid-range have concentrated on community-based measures, generally involving direct cash transfers, subsidies, and public works, like in the East Asian and LAC MICs.

In conclusion, three main factors emerge as determinant for the success of government responses to crisis. These include data availability and monitoring capacity to quickly assess the impacts and identify the population to be targeted; preparedness, in terms of having systems in place to build the crisis response measure on; and healthy macro-economic conditions, which are at the basis of any crisis-response measure even though donors can play a role to support budget-constrained countries. Beneath them, there are the issue of capacity on the one hand, and the political economy on the other. The next section will describe in details the instruments used in social protection in response to crises, in light of this conclusion. The aim of this next section is to identify what worked and what did not, based on past experiences and according to the a series of performance criteria.

III. SP&L Instruments and Their Effectiveness in Responding to Crisis

Based on the previous analysis, this section will review the performance of SP&L instruments used during relevant crises episodes experienced between 1990 and the recent FFF crisis. Instruments are divided between non-contributory Social Safety Nets (SSN) instruments, contributory Social Insurance (SI), and Active Labor Market Policies (ALMP). Some instruments are more often used as permanent poverty alleviation programs (e.g., conditional cash transfers (CCT) or cash transfers (CT)), others as crisis responses (e.g., public works (PW) and food aid). However, all have been used to respond to crises at some point in the past. The review below will allow assessing which ones have been more
effective, taking into account the crisis circumstances, the nature of the programs, and their designs. This information will be useful to improve the design of future activities. Special emphasis will be put on the different institutional and economic contexts, in particular on the distinction between MICs and LICs. A summary table with the main information per instruments is displayed at the end of the section.

**Crises response measures can be classified according to a set of performance criteria.** One way to assess the potential of SP&L instruments as crisis response measures is on the basis of a grid of four criteria, partly inspired by Grosh (1995)³⁹ and partly derived from crises characteristics, as described the previous section. These criteria are:⁴⁰

(i) **Adequacy**, in terms of potential to fulfill its goal, which is to provide (temporary) consumption smoothing and protect access to basic services.

(ii) **Operational feasibility**, which measures to which extent the design of the program allows coverage maximization and the rapidity of the response: the simpler the design, the easier and faster the scaling up/implementation.

(iii) **Political acceptability**, indicates the potential to prevent and manage social and political instability.

(iv) **Automation**, which refers to the parameterization of the onset and exit from the program. The crisis passed and growth resumed; countries need, on the one hand, to progressively move away from mitigation towards promotion (activation policies) to facilitate recovery. Crisis-response measures need to be substituted by or scaled-back to “peace-time” SP&L programs to tackle chronic poverty, on the other. To this respect certain measures can be removed or transformed more easily than others into permanent, fiscally sustainable, programs.

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³⁹ *Five Criteria for Choosing among Poverty Programs.*

⁴⁰ Criteria have been adapted to a crisis situation, in which other dimensions included in Grosh (1995) are less relevant, including collateral effects. *Tailoring solution to problem* is what we call adequacy, while *targeting* is included in the administrative feasibility criterion.
Among these criteria, operational feasibility is critical. Each type of program is generally associated to particular design features. These design features are precisely what determines if an instrument is more or less suitable for crises response because, as mentioned earlier, normal times are different from systemic shocks. The simpler the design the quicker and more effective, especially in case of disasters or in low capacity settings. This generates two important tensions: one between short term, emergency measures and long term, permanent SP&L programs, particularly in resource poor countries; and another one between response rapidity and response quality/transparency. This is particularly true for social safety nets. Social insurance, on the other hand, disposes of automatic triggers and sunset clauses, which somehow make easier their utilization during crisis, although encountering other sort of problems. Design features include targeting, delivery, and monitoring mechanisms.

Targeting is essential for crisis response efficacy, especially in resource poor countries. The most common targeting methods are means testing, proxy means testing, categorical targeting, geographical targeting, community-based targeting, and self-selection. Each method entails different degrees of complexity, strengths, and weaknesses. Self-selection would probably be less administratively demanding but targeting accuracy may not be the highest. Proxy means testing is more complex but also can be more accurate. Its weakness is relative inability to detect transient poor because it is based on the observation of household assets rather than consumption or income. Therefore, in crisis situations, community-based or geographical targeting may be a preferable method to identify the new transient poor. These methods may be relevant particularly in low capacity settings, such as in low income countries or fragile states.

The same applies to delivery design and monitoring systems. In times of crisis, when benefits need to be scaled up significantly, all the logistical system needs to adapt. In the case of natural disasters or conflict, in particular, when infrastructure and normal channels of service delivery are do not function, delivery must be achieved through alternative routes: for instance, cash transfers may need to be delivered to temporary shelters or
refugee camps by hand, instead of delivering through bank accounts or mobile phones. Similarly, in times of crises, monitoring tends to become more difficult because of the urgency of the situation. This can raise ex post concerns over the quality of the response as well as the transparency of its operations.

3.1 Social Safety Nets

One of the objectives of social safety nets is to provide consumption-smoothing tools and access to basic services to the poor and vulnerable, and their importance has increased in recent times. SSNs include non-contributory instruments (e.g., cash and in-kind transfers - conditional and unconditional, subsidies, and public works) and are relevant to build resilience to future shocks (prevention), to protect income and prevent negative coping strategies (protection), and to contribute to building opportunities for the future (promotion). The focus and importance of SSN increased during the 1990s’ when the social impacts of structural adjustment programs and of the repeated economic crises (both in East Asia and Latin America) made it imperative to incorporate poverty prevention and reduction measures in the policy mix adopted by governments. It is in those years that CCTs were created in Brazil and Mexico. Indonesia also introduced its first CCT program after the financial crisis of the late 1990s in East Asia. The last financial crisis has sealed this trend with governments paying unprecedented attention to SSN.

The main challenge for SSN during crises is to quickly expand coverage. Due to the complexity of some of SSNs instruments and the rapidity required in the response, programs should be set in place before the crisis hit and designed in such ways to be easily scaled up (or down). This is so for two reasons. First, crises are not the right moment to implement institutional development initiatives or start new programs. Second, it can take years for a program to reach a mature and sound level of functioning, with the development of a capable administration. Administrative capacity is a key to run a program

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41 Mexico and Brazil started implementing CCT in the mid- to late 1990s and followed by some other 30 countries (Grosh 2010).
reasonably well and it is even more important to scaling it up. Preliminary evidence from the study of the consequences of the recent economic crises in Latin America suggests that the existence of SSN systems prior to the crisis have prevented large negative consequences in terms of poverty increase. Equally, several countries is East Europe and Central Asia could respond in a timely way due to SSN programs established long before, and importantly avoided more expensive measures like generalized price and wage subsidies or prolonged delays from implementing ad hoc emergency measures. Latin America and East Europe, however, have long established and mature systems and high capacity. Having instruments in place certainly helps, but is not a viable solution if the programs are not flexible or are not well-enough developed to be quickly scaled up, as illustrated in the previous paragraphs.

**Box 1: SSN Response to Food and Fuel Crisis in Yemen**

Yemen’s social safety net (SSN) system includes a cash assistance program and programs that aim at increasing the provision of basic social services (Social Fund for Development - SFD). Both these programs provided an important platform to scale up interventions in response to the recent crisis. At the time of the crisis, the Bank was supporting the development of a proxy means testing (PMT) targeting system for the cash transfer program. The PMT facilitated the identification of beneficiaries for targeted scaling up. The increasing absorption capacity of the cash transfer system and the progress in targeting and effectiveness, allowed it to become a platform for donor support. In parallel, a labor-intensive work program was rapidly developed and implemented by the SFD with the support of a GFRP grant. Shortly after, an Emergency Social Safety Nets (ESSN) project with EU funding was launched, supporting the scale up of Yemen’s cash transfer program, providing a temporary cash assistance (USD 15-20 per month for 12 months) to poor households, and scaling up further labor intensive works (workfare program) to provide employment for the poor and build productive assets for communities. The presence of an initial instrument for SSN intervention was a key element for a rapid response to the crisis. At the same time, the crisis resulted in an opportunity to effectively pilot an intervention (workfare) that is now seen as an increasingly central pillar for the SFD’s outreach. Finally, the crisis also underscored the extremely exposure of the GoY to contingent liabilities in view of its large fuel subsidies program. The GoY is now engaged in a dialogue on energy subsidy reform.
Each of the SSN instruments present different characteristics as for the performance criteria outlined earlier, which make them more or less adapted to provide effective crisis responses in MICS and/or in LICs and fragile states. In the case of LICs and fragile states, SSN are implemented in most cases through Social Funds.

Cash transfers (CTs) can potentially be used for both normal time and crisis, but design needs to be modified. CTs aim to provide cash directly to the people who need it. They are often used as a permanent income support measure for the chronic poor or as temporary support for the people affected by an income shock, for example caused by natural disasters. CTs can significantly contribute to both consumption smoothing and to the protection of basic service access in case of crises, and have several advantages. First, when markets for basic goods are still accessible, cash is preferred to in-kind transfer due to its lower operational costs. Cash also injects purchasing power into the local economy and allows a more efficient resources allocation. However, targeting, cash delivery, and monitoring can be administratively intensive; and it takes time to build systems to carry out those functions. Therefore, CTs may not be the most adequate crisis response measure unless the country already has been operating a base CT program to be scale-up. On the other hand, building a CT during the peacetime may be politically challenging, as it can be seen as an instrument to hand out cash and create dependency.

CTs have been successfully used in the aftermath of natural disasters, especially in MICs. In Turkey, the government implemented a massive cash transfer project to provide up-front cash assistance to earthquake victims in the forms of accommodation assistance, repair assistance, death and disability benefits, and death, survivor, and disability pensions. The program proved very effective in supporting the income of the affected population, according to beneficiaries. The CT program was politically and socially accepted because it gave hope and support to the population in a time of desperate need, and provided a tangible signal of the government’s efforts to help the victims on a temporary basis.
LICs and fragile states have also used CTs to protect vulnerable populations. For instance, in post-conflict/fragile countries, cash transfers have been used to help refugees and internally displaced people, to ease the rehabilitation of ex-combatants, and to support peace-building activities (Angola, Democratic Republic of Congo, Liberia, and Nepal).

Lately, the use of cash transfers has significantly increased. For instance, CTs have been largely used to respond to the last FFF crisis by a variety of countries, both MICs (Indonesia) and LICs (Vietnam and Thailand). Evidence confirms once again that countries having programs already in place responded more quickly than the others. Across regions the response has been diverse: some countries expanded coverage, some increased benefits, and others introduced new programs. In the MENA region, several programs have been launched to offer a mean to households to respond to the Food and Fuel Inflation, as in Egypt, Iraq, Jordan, Syria, Tunisia, and Yemen.

Conditional cash transfers, as generally designed, may not be very well suited for crisis response but could be considered as part of a post-crisis assistance package. CCTs are usually designed as instruments to reduce poverty by providing cash directly to the poor based on the fulfillment of behavioral conditions relevant to education and health, and thus protecting human capital from deterioration. Like CTs, CCTs can help smooth the consumption of their beneficiaries. To counter the incremental impact of a crisis, the amount of benefits can be temporarily increased but unless the behavioral conditions and/or the targeting criteria are altered, access to the program is limited to existing beneficiaries, who may not be the most severely impacted by the crisis. And expanding the program coverage or increasing the benefits is not always easy. Although characterized by a generally satisfactory targeting efficiency, the major challenges in using CCT as a crisis response measure lies in its administrative complexity, particularly the verification of the

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42 For a comprehensive review of CCT see Fiszbein and Schady (2009).
43 Although those who are enroled in the programs are not necessarily those who are worst hit by the crisis, as indicated in. Fiszbein, Ringold, and Srinivasan (draft).
44 Targeting efficiency of a program is assessed by evaluating which groups actually receive most of the budget (Grosh 1995).
fulfillment of behavioral conditions, in addition to all the administrative requirements of CTs. Moreover, CCTs do not work where supply-side conditions are not met. Conditioning school attendance or vaccination/health check-ups where schools and health clinics do not exist can exclude the poorest of the poor. Consequently, CCTs may not be the most desirable instrument to protect the transient poor. Conversely, CCTs can be very politically attractive because of their long term, human capital protection properties and promotion of “responsible behavior,” as they drift away from the conception that SP&L just provides handouts and create dependency.

For MICs that have less implementation constraints, CCTs can be a cost-effective crisis response measure if the coverage is already high. With 16% of its population covered, Latin America is the champion of CCT. The region indeed used CCTs to channel temporarily increased support to the poorest households faced with raising food prices in 2008.\textsuperscript{45} Following Brazil and Mexico, the government of Colombia introduced a CCT program (\textit{Familias en Acción}) in 2001 as a cornerstone of its social protection strategy to protect the poor during the worst recession in 70 years\textsuperscript{46}. Its impact evaluation revealed that the consumption smoothing effect was positive, with food consumption being 14-25% higher among the beneficiaries than among non-beneficiaries. Similarly, primary school attendance rate was 4-8% higher among the beneficiaries compared with non-beneficiaries. The difference in secondary school attendance was even more significant - 12-14% higher for the beneficiaries than for the non-beneficiaries\textsuperscript{47}. In Nicaragua, Maluccio (2005) found that during the 2001-2002 coffee crisis, households that benefitted from RPS cash transfer program were protected from nutritional effects of the crisis, while Sadoulet and Janvry (2006) showed that beneficiaries of \textit{Oportunidades} in Mexico were less likely to respond to systematic shocks by withdrawing children from school. The last economic crisis offers rich examples of effective CCT use and programs scale-up, like in the case of Brazil, Mexico that

\textsuperscript{45} Ribe, Robalino and Walker (draft).
\textsuperscript{46} Rawlings and de la Briere 2010).
\textsuperscript{47} Institute for Fiscal Studies (2006).
dispose of mature CCT systems, and the Philippines, that made an extraordinary effort to expand its pilot CCT project passing from 6,000 beneficiary households to 1 million by end 2010.\textsuperscript{48}

Recently, LIC governments have been trying to overcome the operational difficulties of implementing CCT and introducing programs as permanent instruments of income support and poverty reduction. In Kenya and Tanzania, CCTs were implemented to mitigate the negative consequences of HIV/AIDS on childhood. The instrument was adopted in few cases to respond to the Food and Fuel price crisis. Kenya and Malawi expanded the coverage of their CCT program to this aim, while Pakistan, Senegal, and Guatemala introduced brand new programs to respond to future challenges.

Food and other in-kind transfers can be designed as permanent programs (especially in LICs and fragile states), but more often they are used as relief programs during crises. Food and other in-kind transfers can be effective in providing temporary consumption smoothing in case of natural disasters or post-conflict recovery, when access to basic items and services is problematic. These kinds of emergency measures are critical in preserving nutritional status and health conditions, as well as keeping children at school (through school feeding). The administrative complexity involved in the provision of in-kind benefits (among other things, food and medicine are perishable) raises costs and often requires the intervention of specialized agencies such as the International Red Cross or World Food Programme, especially in low capacity settings. Moreover, they can reduce the resulting economic benefits since the beneficiaries may have other preferences had they received an equivalent amount of cash instead of food or other items. Targeting is generally done on a geographical or categorical basis, or through local communities. Outside emergency situations, in-kind transfers can be perceived as paternalistic. Sometimes they are still preferred to CT, reflecting the political aversion to cash handouts. Food aid can be triggered by early warning systems, like in Ethiopia for instance. Exist does not usually become an

\textsuperscript{48} Grosh et al. (2011).
issue because food and other in-kind transfers are generally designed to be temporary measures unless crisis conditions persist.

**Food transfers are widely used to respond to natural disasters, generally with the support of donors and civil society.** In Bangladesh, various rapid response food programs (such as *Test Relief*) are designed to help different groups to cope with the aftermaths of natural disasters. The government’s food transfers to about four million poor households helped limit the impact of 1998 flood, avoiding a food crisis and the related price in terms of human lives, unlike in 1974. In Haiti, essential goods of different nature were transferred to the population in the aftermath of January 2010 earthquake through to the World Food Programme. Food transfers have also been extensively used in several South Asian and South East Asian LICs and in Africa, in order to cushion the impact of the food price spike in 2008. School feeding was widely used in the Middle East and North Africa as well as in Sub Saharan Africa to respond to the recent Food crisis. In Liberia, school feeding was used to help family cope with high inflation, while encouraging kids to attend school. In Cambodia and LAO PDR, food-for-work programs have been implemented in partnership with donors and NGOs.

**Although controversial, subsidies are widely used during crises and maintained thereafter.** Subsidies are provided to lower the prices of basic consumption or productive goods, including food grains, fuel, fertilizers, or medical treatment. Under certain circumstances, subsidies can provide protection by lowering prices for basic items, although not necessarily for the poor. They are characterized by a **relative administrative simplicity** that makes them very popular as crises response measures. Evidence shows, however, that most of the time they are regressive, distortive, and costly. Even when targeted, they are susceptible to significant leakages and governance challenges. The degree of regressivity depends on the commodity subsidized and patterns of consumption. Benefitting largely the

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49 World Bank (2005a).
50 Del Ninno and Dorosh (2003).
middle class, subsidies are **politically very popular**, since the urban middle class is usually politically most vocal. In some cases governments might turn to subsidies because it is realistically the only option they have, often in response to strong political pressures.

**Subsidies had an impact on poverty during the last FFF crisis, but often at very high cost.** Evidence shows that in Egypt the expansion of food subsidies during the food and fuel crisis had an observable impact on poverty and prevented some of the worst effects of the food crisis. However, they achieved this result in a very costly way. The government could have at least doubled the poverty reduction impact of its social protection spending, by channeling resources through a system of well-targeted social transfers instead of expanding the system of food rotation cards.\(^{51}\) On the other hand, in Haiti the rice subsidies implemented in 2008 under strong political pressures proved effective and not particularly costly. The Haitian rice subsidy was close to distributionally neutral,\(^ {52}\) although it was not as well targeted as most other safety nets programs. It was still less regressive than usual for commodity subsidies. Moreover, the scheme had lower errors of exclusion than other programs in Haiti (e.g., employment generation, agricultural inputs, and food assistance programs), which often did not reach the poorest households.

**The transition from a strong reliance on food-based SP&L programs to greater emphasis on cash transfers has been witnessed in much of the developing world as countries transition from lower to middle income status.** Today, however, both MICs and especially LICs still make use of subsidies because of their low administrative requirements and high political attractiveness. It is the case of India or Bangladesh, in South Asia, as well several North African and Middle Eastern countries. During the latest Food and Fuel price crisis, several countries introduced or maintained existing subsidies in order to limit social and political instability (as showed by Figure 4 below), including numerous African countries where other SP&L instruments are missing. In South East Asia, on the contrary, while

\(^{51}\) Poverty assessment of Egypt, WB 2010.

\(^{52}\) Guidance for Responses to Raising Food and Fuel Prices, HDN, WBG 2008.
Subsidies still remain a significant element of SP&L systems, programs such as Indonesia’s CT in response to the 2005 fuel price increase indicate new directions in transfers’ policies.

**Figure 4: Food Price Crisis: Countries Privileged Subsidies**

(% of 118 Surveyed Countries)

Source: Data based on responses from 118 country teams (2011).

Public works programs (PWPs) can be a good crisis response measure, while they are controversial as permanent poverty reduction programs. PWPs are conceptually hybrid instruments: they are a form of CCT, where the beneficiary (unskilled manual workers) receives cash transfers in exchange for labor-intensive jobs (for this reason, PWPs can also be called as *cash-for-work*). As such, it is a form of social assistance program. PWP can potentially serve all three functions of social protection: *prevention*, because it contributes to build infrastructure and resilience; *protection* because it provides income support to the poor and vulnerable; and *promotion*, through the accumulation of assets and skills.

Public work programs represent a good crisis-response tool when there is high unemployment after the collapse of labor markets, even in low capacity and high informality setting such as LICs and fragile states. PWP also addresses individual unemployment in the absence of unemployment insurances, like in the case of LICs and fragile states.
PWPs perform potentially well under all the performance criteria. PWPs are a good instrument to provide temporary supporting income. They have relatively low administrative requirements, especially when self-targeted. While the similarities with CCT include conditionality and the building up of productive assets and skills (human capital and health in the case of standard CCT), the main difference is that public works are often subject to self-targeting based on the wage level, which is low enough to attract only the poor and unskilled. However, evidence suggests that PWPs are worthwhile only if the wage level is chosen carefully to ensure adequacy and self-targeting, if adequate attention is paid to ensure the quality of the assets created so that those assets can further be utilized for subsequent second-round employment benefits. PWPs are generally politically accepted because they contribute to building tangible infrastructure and productive assets for the country or for the poor, and can in fact be a temporary response to short term shocks, or can assist workers for a much longer time period, bridging to employment through training and upgrading. The transition to employment through AMPLs is recommendable, because PWP is not a suitable instrument in itself to tackle structural poverty due to their temporary nature. Moreover, the exit from the program can generate social attrition.

PWPs have been used as important counter-cyclical safety net instruments under diverse circumstances and for decades, both in MICs, LICs, and fragile states. PWPs were used to counter the financial risk-induced unemployment in Korea during the financial crisis of 1997-98. Argentina expanded the Jefes Program during the recession of 2001. Without the expansion, 10% of the population would have fallen into extreme poverty. Colombia did the same in the same time period, allowing for food consumption smoothing for the beneficiaries and bringing the unemployment rate for the young back to the national

53 Subbarao (2003).
54 On the contrary, the long term impact of public work programs on the poor is more controversial, due to the low salaries and the temporary character of the programs.
55 Problems were experiences in some cases, like in Bolivia, in the framework of PLANE temporary PW program.
56 Although capacity still remains a challenge, especially for the implementation of programs in Africa.
average rate. Finally, evidence from the latest financial crisis shows that PWPs have been popular in both developed and developing countries (LICs in particular). PWPs are also particularly adapted as response measures to natural disasters since they contribute to reconstruction while supporting income: In Asia and Africa particularly, PWPs have significantly mitigated the negative effects of climatic risks on poor farmers and farm laborers. India and Bangladesh have a very long experience of using cash transfers, in the form of cash-for-work, to respond to natural disasters: in both cases, the governments have disposed of permanent programs that they roll out in response to national and local disasters.\(^5^7\)

**In post-conflict/disaster countries and fragile states, PWPs have been largely implemented to provide income support to the vulnerable while contributing to generate basic infrastructure in urban and rural areas.** This has been the case for instance of Afghanistan, Angola, Burundi, East Timor, Eritrea, Ivory Coast, Liberia, Nepal, Yemen, and many others. In Ivory Coast, the government needed to reinsert 35,000 ex-combatants in the social and economic life of the country, in the aftermath of repeated political and military crises. This was done through a *Highly Labor Intensive PW* program, mainly in road building and rehabilitation. Before the last political setback, results were encouraging, with more than 5,000 at-risk youth benefitting from the program and more than 2,000 roads being maintained. The current situation in the country could jeopardize the effectiveness of this and other programs. In East Timor, a cash-for-work program was implemented to provide cash to the vulnerable, after the military crisis of 2006 caused the displacement of large parts of the population. The program was targeted to women (30%) and young people (57%), and works included the rehabilitation and maintenance of road.

\(^{57}\) Heltberg (2007).
Box 2: Importance of Transitioning from Emergency Program to Sustainable Safety Net Programs: The Case of Seguro Public Work Program in Argentina

Temporary PWP may be an option to response to short term shocks as long as they are designed to encourage the self-selection of appropriate beneficiaries and avoid distorting labor market incentives. A promising option is to develop programs that link temporary allowances for job-seekers to their participation in training and job search activities, along the lines of active labor market programs (ALMPs). The Seguro de Capacitación y Empleo program in Argentina, which is supporting the development of municipal employment office, is a good example of this approach. The program was established in 2006 to replace Jefes program and is now the main government instrument for providing social assistance to the unemployed. It provides beneficiaries with a monthly benefit for up to two years, worth about 20% of the minimum wage. In addition, participants receive job-search support through municipal employment offices and the national network of employment services, including labor intermediation services for public and private sector employment, basic and professional training, participation in training courses, and technical assistance for starting small businesses. There were over 70,000 beneficiaries receiving income transfers from Seguro in early 2009, in the middle of the global financial crisis, and new municipalities are included in the program every month as additional employment offices are opened.

3.2 Social Insurance

Just like social safety nets, social insurance can provide income support in times of crisis, although vias-à-vis contributory instruments such as health and unemployment insurances, and pensions. However, in the framework of a systemic crisis, social insurance can be adequate in protecting only the people enrolled in the programs, namely the middle class able to contribute financially, or formal sector workers. This characteristic limits the relevance and operational feasibility of social insurance to developed and middle income countries, where the formal sector can represent a considerable share of the economy and where the system is already operational. For these countries, social insurance can be a very effective crisis-response instruments due to its automation, which triggers not only its onset but also its end. In LICs, however, the informal sector can represent up to 80% of the economy, and social insurance is virtually inexistent.

Coverage remains a challenge, even in MICs. This depends on the fact that the informal sector, even in MICs, can still represent a considerable share of the economy. Certain
governments fear that social insurance could generate negative incentives for workers to stay in the informal sector due to the compulsory contributions. In the MENA region, social insurance covers only 33% of the population\(^\text{58}\) and no genuine unemployment insurance is offered. In Latin America social insurance is a privilege enjoyed by the non-poor and coverage remains very low (50% of coverage is the best case, in Brazil).

**Unemployment Insurance is one of the main crisis response instruments used in developed countries and it is the first benefit to reach crisis-affected people.** It can comply with all of the performance criteria outlined earlier, namely in terms of adequateness for consumption smoothing; operational feasibility (being triggered automatically); political acceptability (because it is temporary); and sunset clause. As in the case of PWP, exit should be linked to the implementation of AMPLs, bridging to employment and in this way, contributing to the recovery. Sparse coverage remains the inhibitor, as shown by Figure 5 where few ECA region countries cover more than 50% of unemployed workers.

![Figure 5: Limited Unemployment Insurance Coverage, Even in Richest MICs](chart)

**Figure 5: Limited Unemployment Insurance Coverage, Even in Richest MICs**

During the latest economic crisis, unemployment insurance proved critical in protecting workers of the formal sector. In several ECA countries unemployment insurance benefits

\(^{58}\) World Bank (2010b).
were the first government social protection response to help affected households and represented one of the most used instruments. Adaptations of unemployment benefits as a crisis response measure were used also in other regions and included extending the duration of unemployment insurance benefits (Thailand) and tax relief on unemployment benefits for retrenched workers (Malaysia).

**Old age pensions are not designed to act as a safety net but can be used as such in special circumstances.** Pensions can become an effective “last resort” source of income during economic contractions if the coverage is broad enough (the case of East European and Central Asian countries). In ECA, Armenia, Romania, Russia, and Turkey significantly increased minimum pensions in 2009 to protect the poor. In Romania the increase in pensions likely explains the small poverty reduction occurred during the global recession, when national GDP contracted by 7%.

### 3.3 Active Labor Market Policies

**Implemented during crisis, active labor market policies (ALMP) can contribute to both protection (because they protect jobs and preserve income) and promotion (because they allow for skills development and can bridge to new employment).** In principle, and provided that the skills being acquired thorough trainings are demanded by the labor market, training subsidies can act both as short term tools to reduce lay-off, and as investments which can enhance productivity for workers and contribute to sustainable recovery. During the latest crisis, South Africa implemented on-the-job trainings programs, financially contributing to the salaries of the beneficiaries, in order to keep them in a job. Singapore, in South East Asia, focused on ALMPs, as well as tax and credit programs, to help firms whether the crisis (see Box 3: Promotion Measures Are Useful During Crisis Both To Protect Jobs and To Set Recovery in Gear: Training Subsidies as an Element of Crisis Response in South East Asia). ALMPs have also been extensively used in the ECA region. By definition, though, these programs are addressed to work-age individuals (who generally are not the most
vulnerable) in formal sectors. Its relevance only for the formal sector makes ALMP virtually inexistent in LICs and Fragile states.

Box 3: Promotion Measures Are Useful During Crisis Both To Protect Jobs and To Set Recovery in Gear: Training Subsidies as an Element of Crisis Response in South East Asia

Most governments have accompanied their stimulus package with a mix of ALMPs to mitigate the impact on the unemployed of the last financial crisis. One element of these policies in several countries has been subsidies for training and retaining of workers impacted by the crisis. Singapore has implemented policies to encourage companies to retain workers by sending them for highly subsidized training with absentee payroll (SPUR program). The program helps companies to reduce the cost of recruiting and training (including on the job trainings) locals, design or redesign jobs to make them more suitable and attractive for locals, as well as undertake productivity improvements such as through better demand forecasting, job scheduling, or technology investments. Malaysia has provided employers with monetary incentives to retain/rehire employees, as well as opportunities to offer subsidized training. Thailand devoted significant stimulus funds to subsidizes targeted and three months cash allowances to start business for unemployed, so not be employed and new graduates in 2009 and 2010. To address the problem of unemployed urban workers, Cambodia implemented a cash-for-training program that provided vocational training in agriculture, industry, and mechanics for over 40,000 urban laid-off workers combined with daily food allowance and a small accommodation allowance. LAO PDR has also implemented a cash-for-training program in 100 villages, in partnership with WFP and IMG, and with a particular focus on literacy and weaving skills for women. It has put incremental resources into the vocational training programs of mass organizations such as women’s, trades, and youth unions in the first half of 2009 training over 18,000 people in areas such as agriculture, food processing, and services.

Source: Regional and Country reports of ASEAN assessment on the social impacts of the global financial crisis, July 2010.
Table 5: Summary of SP&L Instruments Performance as Crises Response Measures

<table>
<thead>
<tr>
<th>Effectiveness criteria / SP&amp;L instruments</th>
<th>Conditional Cash Transfers</th>
<th>Unconditional Cash and in kind Transfers</th>
<th>Public Works</th>
<th>Subsidies</th>
<th>Unemployment benefits/pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy: Temporary Consumption smoothing</td>
<td>• Yes, for the poor, but only if already in place and scalable in coverage or benefits, and if conditionality can be temporarily released.</td>
<td>• For cash: yes for the poor, but only if already in place and scalable in coverage or benefits.</td>
<td>• Yes, for the poor, by providing short term employment.</td>
<td>• Yes, by reducing the price of basic items such as food, fuel, fertilizers and medical treatments.</td>
<td>• Yes, for non-poor and poor,</td>
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<td></td>
<td>• No: can’t capture the new poor or those who are most affected by the crisis.</td>
<td>• No: can’t capture the new poor or those who are most affected by the crisis.</td>
<td>• No: not always targeted to the poor: there is no evidence that subsidies smooth consumption.</td>
<td>• No: not always targeted to the poor: there is no evidence that subsidies smooth consumption.</td>
<td>• NO: only for formal sector, and enrolled in the insurance.</td>
</tr>
<tr>
<td>Operational feasibility: requirements, including targeting</td>
<td>• Yes: if disposing of capable and flexible public administration. One can capitalize on targeting system and scale up.</td>
<td>• For cash: Yes (less demanding than CCT), if disposing of capable and flexible public administration. One can capitalize on targeting system and scale up.</td>
<td>• Yes, both in MICs and LICS, self-targeting possible.</td>
<td>• Yes, both in MICs and LICS, especially when untargeted.</td>
<td>• Yes, but only for workers employed in the formal sector.</td>
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<td></td>
<td>• NO: targeting complex, coordination with supply side and monitoring needed. Can’t be started in times of crises.</td>
<td>• In-kind: can be started in times of crisis with support of international relief organizations.</td>
<td>• No: not easy to set right wage and guarantee high labor intensity.</td>
<td>• No: often leakages and governance issues.</td>
<td>• NO: not viable in LICS</td>
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<td></td>
<td>• No: less viable in LICS.</td>
<td>• No: Less viable in LICS, donor assistance needed. Targeting complex.</td>
<td>• No: Less viable in LICS, donor assistance needed. Targeting complex.</td>
<td>• No: Coverage is a problem, and scale up not easy.</td>
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<tr>
<td>Political acceptability</td>
<td>• Yes, it is cash-for</td>
<td>• Yes, because it benefits the</td>
<td>• Yes, especially if coupled</td>
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<td>Automation: triggers and exit strategy</td>
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<tr>
<td>Yes, in MICs and for donors in LICs because of incentives to behavioral change.</td>
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<td>No: can be politically delicate in LICs at the community level (targeting).</td>
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<tr>
<td>Yes: CCT are mainly permanent programs and contribute to the reduction of chronic poverty through Investments in human capital.</td>
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<td>Yes: triggers can be linked to a certain level of income, but informality is a problem.</td>
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<td>No: Increase in benefit should be temporary</td>
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<td>Yes, in emergency situations.</td>
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<td>No: Less accepted, both in MICs and LICs, because of absence of incentives for behavioral change (SP&amp;L as handout).</td>
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<tr>
<td>No: can be politically delicate in LICs at the community level (targeting).</td>
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<td>Yes, they can be designed as temporary or permanent.</td>
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<td>Yes: They can (and should) be transformed into permanent income support programs.</td>
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<tr>
<td>Yes: triggers can be linked to a certain level of income, but informality is a problem.</td>
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<tr>
<td>No: Increase in benefit should be temporary</td>
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<td>Yes, public works generally are temporary.</td>
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<td>Yes, when longer term, they bridge with employment through training.</td>
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<td>No automation exists.</td>
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<td>Yes: Active labor market Policies.</td>
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<td>Yes, unemployment benefit limited to the period of unemployment.</td>
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<td>Yes: Active labor market policies should take over after the crisis to help find a new job</td>
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<td>YES: CCT are mainly permanent programs and contribute to the reduction of chronic poverty through Investments in human capital.</td>
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<tr>
<td>YES: They can (and should) be transformed into permanent income support programs.</td>
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<tr>
<td>YES: triggers can be linked to a certain level of income, but informality is a problem.</td>
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<tr>
<td>YES, when longer term, they bridge with employment through training.</td>
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<td>NO: Exit strategy is problematic, because politically difficult.</td>
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<td>NO: It represents a heavy burden on government budget.</td>
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<tr>
<td>YES: Active labor market Policies.</td>
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IV. WORLD BANK CRISIS RESPONSE IN SOCIAL PROTECTION

4.1 Evolution of World Bank Activities

The review of social protection and labor lending and the evolution of instruments at the World Bank from the early 1990s until today shows three important characteristics. First, activities were highly concentrated in a few regions, with more than two-thirds of lending in ECA and LAC and, to a much lesser extent from the 2000s, Africa. Evidence shows that programs were primarily developed in MICs, reflecting, among other factors, capacity and budgetary constraints, both for low income client countries (MICs dispose of more resources to invest in SP&L programs) and for the Bank (LICs projects are subject to IDA funds, which are limited and pro-cyclical by definition). This also indicates that the Bank has historically supported countries that already had SP&L programs in place, while it has been less active in promoting social protection in LICs and fragile states.

**Figure 6: Regional Distribution of Bank Lending, 1990-2007 (% of Total)**

![Pie chart showing regional distribution of Bank lending from 1990 to 2007.]

*Source: Business Warehouse (2011).*

Second, at the beginning of the period, pensions constituted the main area of practice for lending, concentrated in labor market adjustments due to the restructuring of state-enterprises in post-Soviet transition countries. As Figure 7 shows, SSN lending has grown more prominent through the years, together with the shift of focus on poverty as a consequence of structural
adjustment social impacts. The first loan provided by the Bank to cushion the social costs of adjustment was for Bolivia in 1987. The country suffered from a very serious economic collapse from 1980 to 1985, with GDP dropping by 20% and inflation topping out around 24,000%. The magnitude of the impacts raised real concerns for the social costs of crisis and the government needed to deliver promptly something to support the poor.59

**Figure 7: Number of Countries with Bank Projects in Social Safety Nets (Theme 54)**

Third, SP&L lending seems to have a strong countercyclical character, with peaks corresponding to country or regional crisis. At the end of the 1990s, the financial crisis that hit East Asia and Latin America spurred an increase in safety nets implementation, while adjustments of social protection frameworks, and pensions in particular, were still being implemented in ex-Soviet countries; between 2001 and 2003 a serious financial crisis hit Turkey and Argentina, followed by recession in both countries; while between 2003 and 2005 all Latin America suffered from several economic shocks, to which the Bank helped governments to respond with an increase in SSN and pensions lending. From 2005 to 2009 lending in SP&L and L showed a significant decreasing trend, while it increased exponentially in response to the latest international economic crisis, in particular through SSN.

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59 Grosh (2010).
During past crises, lending was provided with fast-disbursing procedures (mainly through Adjustment Lending), which supported a large range of reforms and quickly returned to pre-crisis levels after the crisis response. This was particularly evident during the East Asia Financial Crisis: From FY95 to FY97 total adjustment lending amounted to almost USD 5 billion a year, while it more than doubled in FY 98 (USD 11 billion) increase further in FY99 by 50% (USD 15 billion) and returned to pre-crisis levels by FY00 (USD 5 billion).60

The World Bank has also been very active in supporting impact mitigation and reconstruction following other types of crisis, including post-conflict recovery, Tsunamis, hurricanes, floods, droughts, and earthquakes. Relevant examples include the earthquake in Turkey in 1999 – currently one of the largest single funding packages in response to a natural disaster – and the major South Asia disaster in 2004 and 2005, both with lending and with AAA works. The Bank response to major disasters generally consists of a multi-sectorial mix of interventions, including rehabilitation and reconstruction of infrastructure and housing, agriculture and forestry, budget support, and emergency preparedness. Although the accent is generally put on reconstruction efforts, the organization is increasingly aware that relief, reconstruction, and long term development cannot be separated, as also recognized by 2000-2001 World Development Report and the Independent Group Evaluation in 2006.

Figure 8: Total Lending by Area of Practice, 1990-2010 (USD mil)


60 Lessons from World Bank Group Responses to past Financial Crises (2008), Evaluation brief n.6 IEG, WBG.
In its review of Bank performance during past crisis episodes, IEG underlined that three main factors contributed to the poor effectiveness (or failure) of some of the implemented programs. The most important one relates to conditionality associated to the Bank policy-based lending, which was very common in the proposed programs during the 1990s: while policy reforms were needed, many countries were not ready to take them up and often the proposed reforms did not take into consideration country conditions, ending up being counter-productive. The second factor is that the focus on poverty was generally inadequate. Very few programs included contingency plans to launch measures to strengthen permanent SSN, both for economics crises and disasters. Finally, the Bank was not very effective in convincing countries to move beyond temporary crisis measures towards longer term SP&L programs, especially in low income and fragile states where resources are scarce. Evidence from the Bank response to the last FFF crisis suggests that some of the shortcomings have been, at least partially, addressed.

4.2 World Bank Response to the Global Economic Crisis

The World Bank has capitalized on the past to improve its SP&L response. As highlighted by the preliminary review carried out by IEG, the Bank response to the recent crisis was more effective than in the past, under several respects. More focus was put on poverty, as witnessed by the spectacular increase in SSN lending (see Figure 9 below), and in particular CT and CCT. This evolution is in line with the demand of countries and, as highlighted in the previous chapter, contributed to considerably cushion the impact of the crisis on the most vulnerable. On top of this, few conditionalities were attached to programs. The Bank’s use of conditions has declined sharply over the past decade: The average number of conditions per operation fell from 35 in the late 1980s to about 12 in FY05, across all regions and for different groups of borrowers. In several regions, in particular in South Asia and in Africa, the Bank fruitfully launched the debate for the establishment of long term SP&L programs or reforms where SP&L systems were absent or inefficient/ineffective (like in Pakistan or in several African Countries).

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The World Bank has launched several initiatives to streamline and gear up its disaster response in order to include a stronger poverty-sensitive focus through cash transfers programs. A new multi-donor global partnership was created to address hazard management, the Global Facility for Disaster Reduction and Recovery. In South Asia, the World Bank has launched a Regional hazard Risk Management Program focused on emergency preparedness, risk mitigation, and institutional capacity building. Finally, the Bank issued a new policy on Rapid Social Response to Crises and Emergencies (OP.08; RSRCE), setting a framework for faster and more effective response to crises better aligned with borrower needs and include contingent emergency loans.\footnote{For a review of recent cash transfers programs supported by the WB in South Asia see Heltberg (2007).} Despite this, the Bank may still remain slow where speed is the essence: if the organization is not able to provide support quickly enough, governments may design and implement sub-optimal schemes.

During the FFF crisis the Bank was able to provide faster responses, thanks to new lending instruments and the high responsiveness of countries. To respond to the need of accelerating disbursement while easing the transition to longer-term SSN programs out of emergency plan, the Bank has made use of, on the one hand, Programmatic Development Policy Loans (vs. simple DPL) which were not available in previous crises, and of more Investment loans, on the other hand. Belonging to the family of DPL, PDPL provides budget support, minimizing the administrative burden linked to the loan, while it is more suited to finance longer-term recovery.
plans. In turns, the shift to Investment Loans is the evidence of the increase in CT and CCT in the portfolio, since IL generally finances these instruments. On the other hand, client countries contributed to make disbursement and implementation quick. Middle income countries have been rapid in requesting financial support to the Bank, and rapid to use it, especially those who had the instruments already in place and just needed to scale up, as highlighted in the previous chapter. Finally, in many countries the response was already about to be implemented for the food and fuel crisis (South and South East Asia) and just needed additional funding to increase coverage.

**However, lending remained highly concentrated in MICs, leaving LICs behind.** To put this in figures, lending was multiplied by more than seven times for IBRD between 2007-08 and 2009-10, and “only” doubled in LICs. On top of the capacity constraints characterizing LICs and fragile states, the Bank’s lending to these countries remains somehow limited by funds availability, which corresponds to member countries donations. ODA, by definition, is a pro-cyclical- non-expandable resource. The question of defining new financial tools able to be quickly deployed in all contexts remains relevant and certainly a topic for the Bank to investigate in the future.

### 4.3 Social Protection in LICs: Rapid Social Response

The World Bank launched the Rapid Social Response Initiative in order to address the problem of its limited support in LICs and fragile states. Based on Policy OP.08 (RSRCE), SRS operates through a multi-donor trust fund that gathers more than USD 60 million and provides fast-disbursing grants to start establishing the basis of SSN in LICs and fragile states. While 70% of the funds are going to SSN (mostly in the form of cash transfers), another 21% is going to protect access to basic social services for the poor, while 9% is going to labor market and employment creation. To date, RSR projects cover 43 countries in all the regions, concertedly in Africa (almost 50% of the projects are in the African continent). Finally, the Bank was able to better capitalize on its presence in the countries to start a new dialogue where no SP&L framework was in place. This was the case of Pakistan and several African countries.
IV. CONCLUSIONS – LESSONS LEARNED AND FUTURE DIRECTIONS

While showing that social protection has progressively become an essential complement in any crisis-response package, the previous chapters examined the effectiveness of SP&L instruments in past crisis, described the World Bank’s activities in this domain, and highlighted questions.

The study gives evidence of the growing importance of SP&L as a crisis-response measure. This derives from the recognition of governments that: (i) SP&L can contribute to increase resilience to crises and even reduce their frequencies; (ii) SP&L can protect the most vulnerable from falling into destitution and from catastrophic losses of human capital; and (iii) it can be an engine for recovery and growth, through strengthened social cohesion and promotion. The last crisis sealed this evidence, whereby an increasing the number of countries that did not have anything in place are now considering implementing some sort of permanent SP&L framework. The Bank has been pro-active in this sense and used the crisis to dialogue anew on reforms.

The review of SP&L instruments was done considering a series of four performance criteria, partly derived from the literature and partly from the characteristics that crisis-response measures should have, as emerging from past experiences (e.g., rapid, temporary, and targeted). The criteria include: adequacy as a consumption smoothing tool and livelihood provider; operational feasibility in terms of administrative requirements to implement or scales up an initiative to cover all who need protection; political acceptability in order to smooth tensions, decrease social discontent, and foster social cohesion; and automation, which speaks to the triggers of benefits and the exit strategy from the crisis response measure.

In summary, the main conclusion of the review is that SP&L instruments are characterized by different degrees of design complexity, which can be adapted for crisis response. The effectiveness of instruments as crisis response measures depends on their maturity and size, on country capacity to concretize their potential by building on them, as well as on the typology of crisis, impact, and affected population.
The review of these criteria, operational feasibility in particular, allowed highlighting two important tensions in SP&L practice that need to be addressed. The first one is the tension between long term/normal time SP&L programs and short term/emergency measures, especially in resource-poor countries where the tradeoff is particularly relevant. The second one is the tension between response rapidity and its quality and transparency. The following messages try to address these tensions providing directions for the future.

5.1 Lesson 1: Macroeconomic Stability for Counter-cyclical Social Protection

In times of crises, governments need to disburse a large quantity of public money in order to cover all those in need, while managing political expectations and social tensions. This is probably the biggest difference between interventions in normal times and crisis responses. Prudent economic policy in economic growth periods allows creating the fiscal space to respond in times of crisis, create the conditions to have access to capital markets in case of budget-constrained economies, or foster recovery. Redistributive social policies in times of crisis are not only important because they support households and enhance equity, but also because they help governments build legitimacy and credibility. In highly indebted countries, including MICs, LICs and fragile states, donors have an important role to play in filling the gap. In the case of natural disasters or pandemic, it is generally easier to raise funds to organize relief response, while it is more difficult in case of economic and financial crises. During the last financial crisis, the Bank played this role more effectively than in the past, multiplying by more than seven times its lending to IBRD countries and almost doubling its support to IDA countries. However, more can be done to ensure the counter-cyclicality of the World Bank SP&L lending.

The Way Forward:

- The World Bank should continue stressing the importance of sound macro-economic management, urging governments to create space to implement counter-cyclical spending in times of crisis. With resources becoming more and more scarce and fiscal management challenging, the Bank might want to deepen its coordination with PREM and the IMF.
• At the same time, the Bank should find ways to ensure the counter-cyclicality of its own SP&L support, especially for IDA countries and fragile states. The experience in the past crises was that the GFRP and IDA Crisis Response Window gave tools to the Bank to move money with expedited procedures and IDA lending for safety nets did increase. However, the increase was not as timely as expected, inherent constraints of overall IDA allocations remain and trust funds financing is of a limited time period at present, and many country projects will soon reach their conclusion.64

5.2 Lessons 2: Preparedness

Crisis response measures should be in place before the crisis hits, in order to increase effectiveness and timeliness of the response, but also to contribute to build resilience to crisis. As the experience of LAC and ECA shows, countries with past investments in SP&L programs (social insurance and SSN) have greater capacity to respond in times of crisis. In particular, the advantage of having instruments already in place resides in their automation: they can be automatically triggered or adapted (moving the parameters-benefits and/or thresholds) in period of crisis. A high level of automation65 can be beneficial for three reasons: first because to launch a brand new program implies implementation lags as illustrated earlier-on, which slow the rapidity of the response; second because they incorporate what was called the sunset clause (the programs stops, or benefits decrease when the crisis and/or its consequences are over); and third because ex ante planning of policy responses to a downturn can lead to better-designed programs during the crisis, and a smaller fiscal burden (as opposed to discretionary measures such as subsidies). Automation, however, requires capacity and flexibility. It is generally used for Social Insurance but ways to apply it to SSN programs more systematically could be explored. The Bank support in the past ten years has been concentrated in MICs, and more particularly in countries already disposing of some SP&L instruments having different degrees of complexity, while it has been relatively less successful in advocating for the creation of SP&L programs in LICs and fragile states. By now, however, the

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64 World Bank (2010).
65 World Bank (2010b).
World Bank has internalized the importance of setting basic systems building blocks in every country in order to increase crisis preparedness, as witnessed by the Rapid Social Response initiative. More need to be done in order to convince countries to invest in SP&L as an ex-ante measure of crisis response, by better understanding the political economy.

The Way Forward:

- In the coming years, it is crucial that the Bank strengthens its support to countries willing to implement sustainable and scalable SP&L programs as a long term investment in crisis preparedness, especially in LICs and fragile states, as a further step towards crisis preparedness. To do so, the Bank needs to advocate more for investment in social protection, by showing what the costs of non-intervention are, based on new analytical work.
- Crisis Preparedness and Vulnerability Assessments can be a first step in this direction. Preparedness assessments have started in several LICs and fragile state but should be systematized.
- A second step would be to identify and set in place the building blocks of permanent SP&L systems in LICs and fragile states, ready to be used as crisis response measures when needed. Operational initiatives like the RSR should be evaluated and continued, and be instrumental to this aim. Examples of building blocks are the creation of databases and household registries management information systems to ensure early warning, the development of a targeting mechanisms, payment systems, delivery mechanisms, and tools for basic monitoring.
- Monitoring mechanisms are critical to increase preparedness and the speed of the response, and new mobile technologies can make a difference in this domain (i.e., LAC project for quick surveys, crisis-oriented, collected through mobile phones). This open ways to collaborate with ICT and Disaster Management units.
- Parallel to the creation of SP&L programs, it is important that the Bank associate a strong capacity-building (technical assistance - TA) component into any operation, in order to assist countries in building their administrative capacity.
Box 4: Importance of Being Flexible and Responding Quickly: Case of Social Funds in Honduras Reconstruction Actions

Social Funds can provide a very effective way to quickly respond to temporary crises. One of the best-known examples is the response of the Honduran Social Fund, the FHIS, following Hurricane Mitch in 1998. The hurricane left the Honduras devastated, with damage estimated by the United National Economic commission for Latin America (ECLAC) at 5% of GDP. In the first year following the hurricane, while line ministries sometimes struggled to organize their responses, the FHIS was widely recognized as one of the most effective agencies in the reconstruction effort. In the immediate aftermath of the hurricane, the destruction of parts of the road network made it difficult for national government agencies to respond quickly. Local governments were often in a better position to decide on priorities for reconstruction, especially with regard to small-scale infrastructure. The FHIS had an established system for targeting resources to the municipal level based on a credible poverty map and had an existing pool of resources (including a newly negotiated World Bank loan) available to fund the implementation of reconstruction efforts. It also had an autonomous administrative structure, which allowed it to take decisions and contract for civil works relatively quickly. Following the hurricane, FHIS directors were dispatched to the regions to carry out rapid appraisals in partnership with local authorities. Based on their analyses of need, the available funds were channeled into priority reconstruction efforts. Similarly, in the Caribbean region, social funds and similar agencies – such as the Basic Needs Trust Fund (BNTF), a multi-country program financed by the Caribbean Development Bank providing funding for small-scale social and economic infrastructure projects, and community development funds – have played an important role in emergency response efforts following hurricanes due to their flexibility and capacity to mobilize resources quickly in times of crisis. For instance, after Hurricane Keith in 2000 and Hurricanes Chantal and Iris in 2001, social funds were used to channel donor support for reconstruction in the countries of the Caribbean.

5.3 Lesson 3: Short Term Crisis Response Measures Can Still Be Necessary and Should Be Ready for Quick Implementation

Increasing the coverage of program coverage during a crisis is a major challenge, especially in LICs and fragile states. How can governments achieve this objective if nothing is in place when the crisis hits? And, even if instruments are in place, are they adapted to a crisis situation? Can the new poor be reached? While it is important over the long term to lay the basis of SP&L systems (Lesson 2), governments still need to respond to crises when they occur. This implies that, parallel to efforts to build permanent and scalable SP&L programs, as shown in Table 3 (above), which are subject to administrative complexities and monitoring needs, efforts should be made to implement emergency programs tailored to the institutional and administrative
context and able to reach affected groups, fast. For instance, governments can be in the process of putting in place a targeting mechanism that would allow them to effectively implement a cash transfer program over the long term and alleviate poverty. However, this program could not be ready when the crisis hits, or could be too young to be scalable, or its targeting mechanisms could be inadequate to reach the affected population. On the same line, delivery design could be inadequate because of massive infrastructural or institutional disruption. In all these cases, governments need to turn to emergency programs, with simple design and targeting mechanisms, such as public work programs or in-kind distribution with the assistance of the donor community or, in specific situations, to subsidies. Donors can play a critical role in this respect.

The Way Forward:

- In some LICs and fragile states, the World Bank should help governments implement short term crisis response measures that ensure the maximum coverage. Doing so, could require a revision of the Bank’s internal procedures to meet the needs of countries in terms of timing (avoid procurement delays!). The World Bank should also advocate for governments to include social protection in their Disaster Management Plan. This opens ways to collaborate with the Disaster Management Unit.
- In collaboration with other specialized agencies, the Bank could design emergency/relief interventions to be deployed in countries and based on standardized emergency design, especially in LICs and fragile states. Collaboration with the World Food Programme or other specialized agencies.
- Light monitoring mechanisms should be newly designed and associated to these ready-to-go emergency measures.
- In some cases, the Bank should be ready to discuss the use of sub-optimal instruments, such as subsidies, with governments in order to enhance design and improve their effectiveness in protecting people.

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66 During the last FFF, trust funds (like GFRP) financing has provided short term emergency support to smooth consumption amongst some of the vulnerable groups.
• In MICs, where different instruments are already in place, the can assist governments to implement their crisis response tools in a coordinated way through a new technical assistance emergency initiative.

5.4 Lesson 4: Importance of Scaling Back, while Pursuing Poverty Reduction Programs

Once the crisis and its consequences have passed, governments are often advised to respect the sunset clause and discontinue emergency programs, but this must depends on conditions. While scale-back or discontinuation of emergency measures is important, it depends on the context, including reducing the number of beneficiaries according to normal time targeting or decreasing benefits in case of permanent programs. This often proves challenging and politically delicate, especially in the case of subsidies. Two important points emerge. First, because scale-down is politically sensitive and economically harmful if done at the wrong moment, there is some advocacy for more automation. The respective benefits already illustrated in Lesson 2. The linking of programs parameters to crisis conditions can be safer both for the onset and the end of benefits that. However, as illustrated earlier, automation comes with capacity, not only to implement, but also to monitor the indicators of the programs. For this reason, automation does not represent a viable solution for low capacity settings where monitoring capacity is weak. Second, although scaling back is critical to preserve fiscal sustainability and not to misalign incentives, poverty concerns need to remain a priority and temporary emergency programs need to be substituted by long term SSN programs. Indeed, evidence show that good short term emergency program, such as PWP, may not be adapted to reduce chronic poverty and increased resilience. For this, they should be complemented or followed by longer term SSN programs or ALMPs to ease the transition to employment.

5.5 Lesson 5: World Bank Has Improved Its Own Instruments

However, the organization should continue to invest in its comparative advantages to further address challenges. The Bank’s comparative advantages include: (i) Financial resources: the capacity to mobilize financial resources, including leveraging those coming from other donors (RSR); (ii) Large variety of product lines: they can be adapted to many different contexts, both
in LICs and MICs countries, and adjusted to the implementation capacity of the country; (iii) **Convening power**: it allows the organization to gather around the table in order to facilitate coordinated responses; (iv) **Knowledge**: the focus on knowledge-generation and -sharing enables the Bank to build upon lessons learned from its global experience and provide technical assistance much needed in times of crisis; and (v) **Long term presence** in client countries allows the Bank to support governments to shift from short term emergency responses to longer term reconstruction, poverty reduction, and development practices, including the establishment of sustainable social protection systems. For the same reason, the Bank is able to support politically sensitive reforms, if the governments are willing initiate the process to build a sustainable long term system.

5.6 Lesson 6: A New Knowledge Agenda to Define New Crisis Response Programs

The implementation of the above-mentioned lessons will have be built on the development of a new crisis-oriented knowledge agenda. Based on the analytical framework sketched in Section II, the analysis of the performance of existing SP&L instruments during past crises and the lessons learned from the Bank operations, this papers has proposed five lessons and directions for the future. However, the implementations of such lessons will require both in-depth research and policy experimentation in the several topics, including:

- **Chronic poverty programs versus crisis response in the context of low capacity and resource scarcity**: What is the priority? Should LICs outsource the management of crises to development partners?
- **We know what did and did not work in terms of SP&L instruments**: now it is time to define the characteristics of a new instrument in terms of design, targeting, and monitoring, one fungible to the plethora of crisis and country contexts.
- **How to improve counter-cyclical financing in the context of a crisis**: the definition of new financial mechanisms, flexible and prompt, adapted to the challenges of MICs and LICs.
Table 6: Crisis Decision Tree, According to Context

**MICs** | **LICs and Fragile states**
---|---
**Prevention** | Crisis Preparedness Assessment/Vulnerability
| There is SP&L program/s in place
| SP&L program/s is not scalable
| There is no SP&L program/s in place
| Long term: permanent SP&L program/s are implemented to lay the basis of SP&L system (Conditional or unconditional cash transfers; improving targeting and monitoring mechanisms to scale up).

**Protection** | CRISIS
| SP&L program/s are scaled up in a coordinated way to cover all who need protection
| (Increase coverage, increase level or length of benefits)
| Short term: New emergency SP&L program/s are implemented with Donors assistance, tailored to context (subsidies, PWP). It could overlap with the lone

**Promotion**

- Programs scaled back to normal, maintaining permanent poverty reduction programs (SSN)
- Introduction of promotion programs, to foster recovery and improve livelihoods (trainings to bridge to new employments)

Source: Authors (2012).
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Abstract

The main goal of this paper is to draw lessons from the past to better understand the role and potential of social protection in response to crisis, and support the definition of the World Bank Social Protection and Labor Strategy 2012–2022. This paper uses selected crises (1990–present), their social impact, and government responses to evaluate the social protection instruments deployed and provide lessons learned and possible directions for the future, including questions for further analytical work.

While experience seems to suggest that governments and the World Bank are increasingly committed to the mainstreaming of social protection in crises prevention and management, important challenges and questions to be answered still remain to effectively protect populations, especially in the case of low-income countries and fragile states. Among the main messages emerging from the paper are, first, that crises are very diverse in origins, channels of transmission and impacts; second, preparing for crises by fiscal prudence and by setting programs in place is crucial to dispose of the necessary financial resources and to increase the speed and reach of the response; third, the design of permanent programs can be different from what is required for crisis management measures, especially in the aftermath of natural disasters. A solution could be to equip programs with ready-to-implement, standardized emergency toolkits.


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