Social Safety Nets in Europe and Central Asia: Preparing for Crisis, Adapting to Demographic Change, and Promoting Employability

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Key Messages

- Social safety nets in the Europe and Central Asia (ECA) region responded to protect people’s incomes during the global recession, especially in countries where systems were developed before the crisis.
- As populations age and labor forces shrink, the elderly will increasingly rely on general revenues to supplement contributory pensions, competing with assistance for other vulnerable groups.
- Social safety nets that link to employment and other services can help people transition from reliance on social transfers to employability.
- Countries should not wait to confront these challenges. To further strengthen social safety nets, governments in ECA should consolidate and harmonize benefits, invest in systems improvements for greater efficiency, link social assistance and employment services, and actively communicate these reforms to their populations.

Overview of Safety Nets in ECA

Most countries in ECA operate extensive social protection systems, with both contributory social insurance components and noncontributory social assistance benefits. Social assistance benefits generally include: minimum-income programs; social pensions; disability benefits; family, child, and birth allowances; and heating, utility, and housing benefits. Social insurance benefits refer to pensions, unemployment insurance, disability insurance, maternity leave, and sickness, invalid, and survivor insurance. Given this extensive scope, total social protection spending is high in ECA, absorbing an average of 10 percent of GDP: 8 percent for social insurance (mostly pensions) and close to 2 percent for social assistance (figure 1).

In the majority of ECA countries, most people receive some type of social protection transfer (social assistance plus social insurance). Over half of the poor receive at least one social assistance benefit (figure 2). Coverage is not limited to the poor, however, as nearly 50 percent of the richest quintile receive at least one social assistance cash transfer in some countries (figure 3). This occurs because in addition to operating narrowly targeted, last-resort social assistance (LRSA) schemes focused specifically on the poor, many

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1 This Knowledge Brief was prepared with inputs from the Human Development Sector Unit (ECSHD) of the Social Protection Team in Europe and Central Asia.

2 For the purpose of this brief, we refer to “the poor” as those in the 20th percentile (quintile) of the population, ranked by presocial assistance-transfer consumption.
countries have categorical or universal social programs that provide broad coverage. Even before the 2009-10 crisis, spending on universal entitlement programs in a number of countries had expanded, reducing the resources available for poverty-targeted LRSA programs.

Figure 2. Coverage of the Poorest Quintile: Social Assistance, ECA Region

[Graph showing coverage of the poorest quintile]

Source: World Bank, ECA SP Database.¹

Figure 3. Coverage of the Richest Quintile: Social Assistance, ECA Region

[Graph showing coverage of the richest quintile]

Source: World Bank, ECA SP Database.

Three Priority Challenges in Social Safety Nets

Looking forward, social safety nets in ECA face three important challenges: protecting people in times of crisis, balancing demographic and social pressures, and helping people move from dependency to employability.

Protecting People in Times of Crisis⁴

Throughout the ECA region, social benefits helped protect families during the 2009-10 global crisis, with a generally stronger response in countries worse hit. Social benefits helped cushion poverty impacts by protecting the incomes of existing beneficiaries and expanding coverage to new ones; for example, the fall in household income in Bulgaria was far less than the contraction in GDP, largely due to social benefits (including pensions).⁵

Unemployment benefits were often the first line of response in countries that operated them, with the number of claimants increasing rapidly at the outbreak of the crisis. Unemployment benefits have a limited time duration, however, and they ran out in several countries before the onset of the recovery. In many cases, social assistance benefits expanded to provide income support to those whose unemployment benefits expired (see the Lithuania example, figure 4). Some countries expanded child allowances or introduced public works schemes as part of their crisis response packages. However, as the response of “last resort,” coverage of social assistance increased more moderately than unemployment benefits in many cases.

Figure 4. Response Pattern of Social Benefits: Lithuania

[Graph showing response pattern of social benefits]


³ Note for Figures 2–4: To facilitate comparison across countries, performance indicators are calculated using a standardized methodology that ranks individuals into quintiles based on harmonized consumption aggregates (World Bank 2005) and pretransfer consumption per capita (with the exception of those countries marked with an ⁴). Data on coverage, targeting accuracy, and generosity come from analysis of the latest household surveys using standardized ECAPOV and SP ADePT software. As such, these performance indicators reflect only those programs that were captured in the household survey questionnaires.

⁴ This section largely draws on an effort by the World Bank’s ECSHD Social Protection team to monitor the response of social benefits to the global crisis through an “observatory” in 14 countries in the region (from 2008–10). The findings of this “social benefits monitoring observatory” are reported in Aylin Isik-Dikmelik, “Do Social Benefits Respond to Crises? Evidence from Europe & Central Asia During the Global Crisis” (Washington, DC: World Bank, forthcoming).

Not all countries in the region were ready to respond. When the crisis hit, some countries, such as Moldova and Tajikistan, lacked basic systems (registries, targeting mechanisms) to operate safety net programs. Other countries had to undertake significant reforms to facilitate crisis response. For example, in Latvia, where financing and implementation of social assistance had been decentralized, local governments were strapped for funds and unable to increase coverage and maintain balanced budget requirements. Significant reforms to the system and design of the programs were needed to enable a response. Thus, almost a year elapsed from the time the crisis occurred to the moment when coverage of social assistance benefits expanded to protect the poor. Design features also constrained responses, and in many countries, the eligibility threshold of minimum income programs had eroded over time to such low levels that the programs had become too small and narrowly targeted. As a result, the “catchment” function of these programs was too limited to help those affected. Instead, some countries expanded categorical or universal benefits (such as child allowances or social pensions), and though these measures were effective in reaching larger segments of the population, they were fiscally costly.

**Balancing Demographic and Social Pressures**

Demographic projections suggest a rapid decline in the working-age population in the majority of ECA countries over the next 40 years (figure 5). Even in the demographically young countries (such as those in Central Asia), the percentage of elderly in the population is expected to triple in that time period. Moreover, as the rest of the region’s labor force shrinks, workers may leave these young countries for higher wages, better workplace conditions, and improved quality of life elsewhere.

With shrinking contributions, pension systems will increasingly become fiscally unsustainable. Without more ambitious reforms, pension deficits are projected to reach almost 7 percent of GDP by 2050, requiring supplemental financing from general revenues and putting increased strain on budgets. Moreover, with the rise in informality (essentially untaxed work), an estimated one-third to two-thirds of the future elderly will rely on social assistance, due to inadequate contribution histories in the formal pension systems. These pressures will further strain already fragmented safety net systems, and support to the elderly will compete with assistance to other vulnerable groups.

Most ECA countries already operate dozens of social benefits schemes. For example, there are 23 in Serbia; an average of 20 per region in Russia, with upwards of 40 in Moscow; 47 in Macedonia; and 57 at the central government level in Romania (pre-2011 reforms). These benefits often cover families and children, the disabled and their caregivers, the poor, and the elderly. Navigating these multiple schemes is costly for beneficiaries and inefficient for governments, creating gaps and duplications. The various programs typically have overlapping legislation, inconsistent eligibility rules, and a maze of separate application procedures. Moreover, benefits administration is often weak, with paper-based records and inadequate management information systems, oversight, and controls.

**Helping People Move from Dependency to Employability**

Policy makers in the ECA region frequently express concerns about high inactivity rates among the working-age population, the dependency on transfers, and the potential work disincentives provoked by assistance benefits. Activation (or “active inclusion”) is thus at the forefront of social policy, as governments seek to help people reduce their reliance on cash transfers and promote their employability and productivity. A well-designed social safety net linked to employment and other social services can facilitate this transition. While the objective of stimulating labor force participation can apply to the broader inactive population, it can also be tailored to focus on specific groups, such as social safety net beneficiaries, women, and youth.

Effective activation approaches are often multidimensional, combining case management, incentives, and support services. Case management methods can involve tailored action plans for each family or beneficiary, coaching and mediation, referral services, and monitoring. Benefit incentive mechanisms may include measures such as work or job-search requirements with possible sanctions, work...
incentives (e.g., back-to-work bonuses, earnings disregards), or guaranteed “return spots” in benefits programs to encourage beneficiaries to take up employment opportunities. Integrated activation approaches also actively link beneficiaries to support services to help reduce their obstacles to employment and productivity. Support services include active labor services, which can consist of job information and placement, skills and technical training, and transitional work arrangements, as well as other social and child care services that can be used to tailor the mix of support to the individual’s or family’s circumstances.

These “ingredients” are present in many countries in the region, but they tend to operate in silos. Social assistance benefits are implemented separately from public employment services, which function independently from social services. The challenge, therefore, is for ECA countries to link these various dimensions in a combined and consistent activation strategy, both horizontally (across the silos) and vertically (across levels of government). These linkages also require investments in implementation capacity (e.g., training of case managers, integrating management information systems, and providing institutional incentives to channel support to the hard-to-serve), which is currently lacking in most ECA countries. Finally, while concerns about transfer dependency and employability are not new, countries are still experimenting with combined activation approaches. Further evaluations are needed to trace what works and why.

**Addressing these Challenges: Cross-Cutting Priorities for Action**

Addressing these challenges cannot wait. To do so comprehensively, governments can consolidate, invest, build, and communicate.

First, governments can consolidate benefits with fewer programs that are focused on clear objectives, social policy goals, and priorities. Design features should be simplified and harmonized across programs. Assistance should be focused on those in need, including many categorical benefits, while last-resort programs should be expanded to cover a larger share of the poor and vulnerable.

Second, governments can continue investing in systems and tools to improve implementation efficiency, such as unified application and intake processes, automated integrated management information systems, unified payments systems, strengthened oversight and controls, improved monitoring and evaluation, and clarified institutional rules, roles, and financing with investments in capacity.

Third, governments can strengthen the links between benefits, employment, and social services to reduce dependency and promote employability. Diagnostic tools and case management can help identify and tailor activation approaches to target groups. Governments should also seek to promote these linkages by investing in capacity, integrating service delivery, and optimizing institutional incentives for effective employment support.

Finally, given social and political sensitivities, governments will need to communicate actively on social policy reforms, providing information on the fiscal and demographic drivers of reforms, changes in benefits rules and governance, and activation links. Communications strategies need to convey and build consensus for these changes within government ministries, among beneficiary populations, and in the general public.

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