The number of crises affecting households’ livelihoods is increasing worldwide. The note aims to inform the new Social Protection and Labor (SPL) Strategy 2012–2022 on how SPL practice in the World Bank can be more crisis-responsive, improving efficiency and making systems sustainable.

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,1 natural disasters,2 pandemics, or conflicts. Impacts on households depend on the nature of the crisis and its channels of transmission. In an economic crisis, impacts are more likely to pass through the labor market and result in job losses, financial and saving losses, or the decrease in purchasing power. In case of natural disasters and conflicts, physical destruction of human lives and infrastructure can generate huge social and economic costs.

Crisis response measures require four key attributes:3 (i) adequate, for providing consumption smoothing and protecting access to basic services; (ii) operationally feasible to ensure appropriate coverage and response speed; (iii) politically acceptable to prevent and manage social and political instability; and (iv) desirably, automated to ensure timely scaling up and down when a crisis begins and ends. Popular SPL crisis-response instruments are non-contributory social safety nets instruments, contributory social insurance, and active labor market policies. Some are more often used as permanent poverty alleviation programs (conditional or unconditional cash transfers), others as crisis responses (public works and food aid). All have been used to respond to crises.

Social Safety Nets

One of the key objectives of social safety nets (SSN) is to provide consumption-smoothing tools to the poor and vulnerable. SSNs gained popularity in the 1990s, a period of repeated economic crises. Brazil, Mexico,4 and Indonesia used conditional cash transfers for the first time. The trend was sealed in the last financial crisis, with governments now paying unprecedented attention to social safety nets.

Unconditional cash transfers (UCT) have been successfully used in the aftermath of natural disasters, for example in Turkey for earthquake victims. UCTs also have been used in low-income countries (LIC) and post-conflict/fragile situations (FS) to help refugees and internally displaced people, to ease the rehabilitation of ex-combatants, and to support peace-building activities.

Food and in-kind transfers are used widely to respond to natural disasters. In Bangladesh, various rapid response food programs (Test Relief) are designed to help different groups cope with the aftermath of natural disasters. In Haiti, the World Food Programme distributed the bulk of essential goods in the 2010 earthquake. To the 2008 food price spikes, school feeding programs in Liberia helped families cope with high inflation and encouraged kids to attend school; food-for-work programs were implemented in Cambodia and Lao PDR with donor and NGO assistance.

Subsidies are provided during and after crises to lower the prices of basic consumption or productive goods; they are relatively simple to administer, politically popular, but can be

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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.

3 Criteria have been adapted to a crisis situation, while 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.

4 Mexico and Brazil started implementing CCT in the mid- to late 1990s and followed by some other 30 countries (Grosh 2010).

5 World Bank (2005).
Economic Crises often Result in Increased Poverty Levels

<table>
<thead>
<tr>
<th>Country</th>
<th>Before Crisis</th>
<th>Year of Crisis</th>
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<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>
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costly, distortive, and regressive. Governments often turn to subsidies out of political pressure or in last resort.

Public Works Programs (PWPs) have been used under diverse circumstances. As counter-cyclical safety net instruments, PWPs were used to offset risk-induced unemployment in Korea in 1997-98 and prevented 10 percent of the Argentinian population from falling into extreme poverty during the 2001 recession. As a counter-measure to natural disasters, PWPs have been used against flooding in India and Bangladesh. In addition, they have supported income and rebuilt infrastructure in post-conflict/fragile situations. In all cases, permanent programs have evolved from roll-out responses to national and local disasters.

Social Insurance

With its automated triggers, social insurance can be a very effective crisis-response instrument, but it excludes the informal sector. Unemployment Insurance is the main instrument used and first benefit to reach crisis-affected populations in developed countries. Old age pensions can be effective “last resort” sources of income during economic contractions if coverage is broad enough. Active Labor Market Policies can act both as short term tools to reduce layoff and as investments to enhance worker productivity and contribute to sustainable recovery.

World Bank Response to the Global Economic Crisis

Lending multiplied by more than seven times for IBRD countries between 2007-08 and 2009-10 and only doubled in IDA countries. To support the latter, the Rapid Social Response (RSR) Program was launched.

Lessons Learned and Future Directions

A growing body of evidence suggests the increasing importance of SPL as a crisis-response measure. SPL can contribute to bolstering resilience to and even reducing the frequency of crises; can protect the most vulnerable from falling into destitution and from catastrophic losses of human capital; and can be an engine for recovery and growth, through strengthened social cohesion and promotion.

Recent experience indicates the importance of:

- Prudent economic policy in economic growth periods allows for creating the necessary fiscal space.
- Crisis-response measures in place before the crisis hits provide more effective and efficient protection.
- Respect for sunset clauses makes emergency programs more affordable and acceptable.
- The World Bank’s financial resources, product lines, convening power, knowledge, in-country presence matter.

References


6 Heltberg (2007).