Can Public Works Programs Help the Poor During Crises?

Economic crises can be particularly arduous for poor and vulnerable people. In particular, job losses stemming from economic downturns undercut the ability of more vulnerable households to support themselves. Public works programs, which help sustain poor households through temporary employment, are one method used by governments to lessen the impacts of crises. Apart from providing people with a source of income, they have the added benefit of helping governments maintain infrastructure and provide services that otherwise might be foregone during crises. But such programs raise important questions. Do they successfully target the poor or do better-off households end up benefitting the most? Do those enrolled in public works programs lose out on other opportunities to support themselves, either through alternative employment or government transfers?

The World Bank is focused on helping countries end poverty. Key to this is knowing which programs do and do not yield tangible results. To help policymakers assess the effectiveness of Latvia’s public works program, the World Bank supported an evaluation of the government-sponsored public works initiative, which was launched in response to the global financial crisis of 2008–2010. The evaluation found that the program successfully reached its intended target, helping Latvia’s worst-off cope with the crisis by increasing their short-term incomes. For policymakers and development experts, this evaluation underscores the usefulness of public works programs as emergency social safety net instruments even in upper-middle income countries.

Latvia’s public works program, partly financed with European Social Funds and conducted with technical assistance from the World Bank, was launched amid soaring unemployment in 2009, following the onset of the global financial crisis. In Latvia, the crisis worsened labor conditions and unemployment jumped from a pre-crisis low of 5 percent to more than 20 percent in 2010. The goal of the public works program,

Did you know:
In 2004, when Latvia joined the European Union, Gross Domestic Product (GDP) was $13.8 billion.
By 2008, GDP had more than doubled to $33.7 billion
In 2010, in the midst of the financial crisis, GDP fell to $24 billion

All figures are in current U.S. dollars.
called Workplaces with Stipends, was to assist families through the crisis by providing them with income-generating opportunities through a temporary job creation program. The program, which ran from the end of 2009 through the end of 2011, created more than 110,000 temporary jobs. All registered unemployed people who were not receiving unemployment benefits were eligible to participate in the program on a first-come, first-served basis for up to six months within a year, with a two-week minimum participation requirement. No limit was set on the number of times a worker could benefit from the program. Job opportunities ranged from public infrastructure maintenance to environmental clean-up to social, municipal, and state services.

Researchers used over-subscription of the public works program to define a control group—in other words, a group similar to the program beneficiaries. Data for the analysis was derived from a one-time, specialized household survey of a sample of registered unemployed people. The survey, which was commissioned by the Latvian State Employment Agency and carried out from December 2010 through March 2011, sampled unemployed people in all five regions of the country. In each region, those sampled were split into two groups: people enrolled in the public works program for less than 6 months; and people waitlisted for the program. About 1,000 people were randomly sampled in each of the two groups. The survey questionnaire included questions on education, employment, asset ownership and other issues related to daily life.

The public works program was successful in targeting its intended beneficiaries: The poor.

Beneficiaries were overwhelmingly drawn from the country’s poor. Almost 83 percent of those who enrolled in the public works program had incomes that fell in Latvia’s bottom 20 percent of the income distribution, while 96 percent were in the bottom 40 percent of the income distribution. Less than 5 percent of participants were from the top 40 percent of the income distribution. Therefore, the program concentrated a high level of resources on poor people, meaning that leakage of program benefits to non-poor people was low.

To promote participation by the poor, the program relied on self-selection targeting mechanisms. The monthly stipend was set at 100 LVL a month ($200), or about 80 percent of the binding minimum wage, with no tax deductions or social contributions. The work itself was labor-intensive, which helped focus the program on people with less skills and less education. Many of the public works jobs contributed to the social good, such as helping the elderly, building needed structures in national parks, cleaning roadsides and collecting garbage.

The program was set up in such a way as to minimize the chance that municipalities would try to save money in their own budgets by transferring jobs to the
temporary employment scheme. Municipalities had to show that they were creating new positions and the central government offered technical assistance to help municipalities identify public-works eligible jobs and followed up with inspections.

**Despite the low stipend and the labor-intensive work offered, the program proved very popular.**

The program was continually over-subscribed. The waiting list was always nearly twice the number of available positions in the program. The over-subscription reveals two important factors. First, people trying to gain employment faced immense difficulties because job opportunities were simply unavailable during the crisis. Second, given the scale of the crisis, the number of job opportunities created through public works was far smaller than needed.

**Beneficiaries did see their household incomes rise, showing that the program was an effective short-term safety net.**

The average gain for participating households was 67 LVL, or about two-thirds of the stipend, when compared with the income gains for those that remained outside the program. In other words, people in the program earned about 37 percent more than those who had been laid off but were not enrolled in the public works program. Low foregone income levels suggest an inability for non-participants to generate income due to a lack of alternative labor market opportunities, which was also reflected in the record unemployment rates.

Interestingly, relative to public works programs in other countries, foregone income in Latvia’s program was low. For example, in Peru foregone income due to the A Trabajar Urbano program was equal to 76 percent of the nominal transfer.* In the Jefes y Jefas program in Argentina, foregone income was one-third of the benefit in 2002. By May 2003, foregone incomes had jumped to two-thirds of the transfer.**

**The program did help people cope better on a day-to-day basis in terms of meeting their basic needs.**

Participating households were less likely to cut back in key areas related to nutrition, health and adopt harmful coping strategies, meaning those coping strategies that might have a longer term impact on household welfare, than similar households that were not in the public works program. For example, households in the program were 7.3 percent less likely to reduce consumption of staple foods; 6.7 percent less likely to cut down on doctor visits; and 5.1 percent less likely to stop buying medicines relative to households not in the program. Households also adopted other coping strategies in response to the crisis, but the public works program again reduced the need to turn to these coping strategies. For example, households in the public works program were 5.7 percent less likely to reduce electricity, heating, or water consumption; 3.2 percent less likely to cancel phone service; and 4.2 percent less likely to cancel television service relative to households not in the public works program.

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One of the hardest-hit countries during the 2008–2010 global financial crisis, Latvia’s unemployment rates rose sharply, peaking at almost triple the pre-crisis levels. In response, the government of Latvia launched a public works program known as the Workplaces with Stipends program, which provided temporary employment for people who were registered unemployed but did not qualify for unemployment benefits. Latvia’s experience highlights the importance of public works programs as a short-term emergency safety net instrument.

For policymakers and development experts interested in public works programs, the evaluation raises some points worth considering when designing a program:

- Setting the stipend level below the binding minimum wage and making participants engage in labor-intensive activities increases the chances of good targeting performance, because non-poor people will not apply for the program.
- Timing public works programs to coincide with spikes in unemployment (shocks, low seasons) can help people during periods when other employment opportunities are limited and alternative income sources are low.
- Public works programs during times of crises can help families maintain nutrition and health, thus preventing long-term problems from cutting food or foregoing medical visits.

Conclusion