Resilience to Crisis: What have we learned?[1]

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- *I've never made any mistake, never done anything wrong. It's probably because of my age …it's very difficult for older people, difficult to get a new job - even youths find it hard (*41 year old female garment worker dismissed from a factory in Serang, Indonesia)
- *I feel cheated as I wonder how economic problems somewhere in America can make my cash crop suffer here in Malawi. It's a shame that I cannot boil and eat it (*Cotton farmer, Malawi)
- *[My relatives in the US] are unable to send me money because the job opportunities are not there any more. Their support is a huge contribution to the family here because it helps us to support children in school and pay medical bills when one is sick(*54 year old in Monrovia, Liberia)

This briefing note summarizes the evidence from Oxfam's research[2] on the impact of, and response to, the global economic crisis that began in 2008, and discusses the policy implications for governments, aid donors and international financial institutions. It focuses on two issues in particular: resilience at household level, and the looming fiscal crunch affecting many poor countries.

What has Happened?

The crisis has hit poor countries through a number of transmission channels, each with their own rhythms and severity. Some impacts are already receding while others are still to strike. The first developing countries to experience the crisis were those with the most globally integrated financial sectors. Next came the impact on trade, as volumes and prices of commodities and manufactures collapsed across the globe. Women and men selling food on the street, doing piece work in the home, and picking through waste were affected as demand for their services dropped and more people joined their ranks. Remittances from migrant workers in rich countries fell, though not as badly as anticipated. Finally, with an even greater lag time, comes the impact on government spending in poor countries and donor aid budgets – it is yet to be seen whether rich country governments will stand by their aid promises, or force poor countries and people to pay the price of their financial folly.

Generalizations are risky with such a complex picture, but overall Oxfam has seen the crisis hit East Asia primarily through trade and labour markets, with mass layoffs in supply chains producing garments and electronics for the world's consumers, and knock-on impacts into the informal sector. In sub-Saharan Africa and the Pacific Islands, the

[1] Paper for UN Expert Group Meeting on Poverty Eradication, Addis Ababa, 15-17 September 2010
[2] Oxfam International carried out fieldwork in 12 countries, involving some 2,500 individuals, supplemented by a review of studies by a range of universities, thinktanks and international organizations. The research paper can be found on http://www.oxfam.org.uk/resources/policy/economic_crisis/economic-crisis-developing-countries.html and all other GEC-related research on http://www.oxfam.org.uk/resources/issues/economic_crisis/introduction.html

impact has been mostly via commodity exports and reductions in trade revenues, starving governments of cash and threatening a fiscal crisis in the months and years to come. Latin America has experienced both. Eastern Europe has suffered the highest degree of financial contagion and has seen the largest falls in GDP, while Central Asia has been hard hit by its dependence on the Russian economy, which suffered both from falling oil prices and a banking crisis. South Asia has been largely insulated from the crisis, with Sri Lanka the worst affected country in the region.

Few analyses have highlighted the gender impact of the crisis – a serious omission. In countries such as Thailand and Cambodia, women employed in the frontline of the world's consumer supply chains have lost their jobs in large numbers. Many others have suffered wage freezes, reductions of work hours or were pressured into less secure contracts, as companies have taken advantage of the crisis. Gender norms (the ideas about women and men that shape relations between the sexes in the household, community, market, and wider society) also matter: employers are targeting women first because they view them as only the secondary breadwinner in the family. It is clear that many women are paying a particular price through their additional unpaid work to support their households. They have migrated or worked more without social security or legal protection in the informal economy to prop up the family income, and in the home, women have been eating less to provide for their husbands and children.

Resilience

If one theme emerges from Oxfam's research into the impact of the crisis, it is 'resilience' and the multiple ways countries, communities, households and individuals have been finding to weather the storm Resilience, to date, explains the 'dogs that didn't bark' - things that we expected to happen, based on previous crises, but that have happened differently or not at all. In a surprising number of cases, migrants have failed to return to their villages; people have kept their jobs, albeit with lower wages, fewer hours, and worse conditions; families have managed to keep their kids in school; governments haven't slashed public services and political regimes have avoided major upheavals (apart from Iceland). Although the research reveals that, to a surprising degree, many countries and households are toughing it out in the short-term, it remains an open question as to how sustainable or erosive these coping mechanisms will prove to be in the long run. Individuals' lack of access to social protection and the consequent reliance on informal coping mechanisms poses a real danger of significantly depleting poor people's 'capabilities' in the longer term.

Resilience to a shock such as the crisis, and the degree to which it will bolster future development, is to a large extent determined long before the crisis actually strikes. Pre-crisis factors that have strengthened resilience on this occasion include:

Social networks: At a household level, resilience is largely built on the agency of poor people themselves, their friends and families, and local institutions such as religious bodies or community groups. Everywhere, people have turned to one another to share food, money and information to recover from lost jobs or reduced remittances. Families with land for subsistence farming or access to fishing have been able to survive much better than those without. Migrants with strong social networks could rely on support locally, or even (in Vietnam) on reverse-remittances from home.

Economic Structures: Dependence on one or two commodities or markets increases the risk should they go into freefall; the degree and nature of integration with the global economy, particularly of the financial sector, has also proved a source of vulnerability. Countries such as Brazil that retain state control over a portion of the banking system have been more able to use those banks to channel credit to cash starved small producers and small and medium enterprises. Countries with effective systems of domestic taxation in place reduce their vulnerability to sudden losses of trade taxes or foreign capital inflows. Regional trade links can offer a bulwark against slumps in global markets for example in South-East Asia many countries benefitted from continuing strong demand from China.

Role of the State: Resilience is enhanced when governments have entered the crisis with fiscal space, in the form of high reserves, budget surpluses and low debt burdens. Effective state bureaucracies capable of responding rapidly to the crisis with fiscal stimulus measures have also shown their worth. Well-designed and implemented labour laws are needed to deter unscrupulous employers from taking advantage of the crisis to attack workers' rights. State support for small-scale agriculture and fisheries bolstered household survival strategies in countries such as Viet Nam and Sri Lanka.
Social Policies: Countries with free health and education, and effective social protection systems, have proved more resilient, reducing the vulnerability of poor people to health shocks, avoiding school dropouts in response to falling incomes, and providing shock absorbers against falls in household incomes. More generally, automaticity is beneficial in a crisis: if automatic stabilizers such as unemployment insurance, or demand-driven public works schemes like India's National Rural Employment Guarantee Scheme are already in place, they can respond immediately to a crisis rather than wait for decisions by hard-pressed governments fighting the crisis on several fronts.

The crisis has also exposed serious flaws. Even those countries that are adopting improved social protection systems seldom extend them to those working in the informal or unpaid caring economies, both of which have been significantly affected.

And resilience, whether national or individual, has its limits, where 'coping' tips over into desperation. It is best able to cope with a 'narrow V', in which shock is rapidly followed by recovery, (which mercifully describes the crisis so far in many poor countries). Even then, assets once depleted take years to recoup, preventing poor people from participating in the rebound; working extra hours in second or third jobs leaves a legacy of exhaustion; loans taken on to finance consumption accumulate into crushing debt burdens; and meals forgone can affect children for their entire lifetimes.

The extent to which resilience is thus far being sustained appears somewhat at odds with the big, bad, numbers routinely quoted by development organizations (including Oxfam) in discussions of the crisis, for example that 50–100m more people (depending on the source) were driven into extreme poverty in 2009 due to the crisis. These numbers are rough and ready, and largely based on either the predicted fall in economic output or the poverty elasticity of growth at regional or national levels, or on predicted changes in consumption levels (assumed to be distributionally neutral within country). It will be some time before household surveys provide a genuine picture of the poverty impact of the crisis, but Oxfam's research suggests the final figures may well fall short of these dire expectations.

How Have Governments Responded?

Many governments have used fiscal policy to stimulate their economies. The focus of stimulus packages and counter-cyclical expenditures has included increasing public spending and infrastructure investment, as well as tax cuts and subsidies to stimulate both consumer and business demand.

This attempt at counter-cyclical policy (i.e. spending in a downturn and being prudent during an upturn) also characterizes the responses of the poorest countries. African governments have done their best to protect public spending and those with IMF programmes have had more success in this due to the extra resources available.

But while spending initially held up, revenue has slumped, through falling direct and indirect taxes, and lower trade taxes and royalties from commodities such as oil and minerals. Overall, the crisis has left poor countries with a $65bn fiscal hole, and after an initial attempt to defy fiscal gravity, in 2010 that deficit is forcing cuts in health and education. Two thirds of the countries for which social spending details are available (18 out of 24) are cutting budget allocations on one or more of the priority social sectors of education, health, agriculture and social protection. Education and social protection are particularly badly affected, with average spending levels in 2010 lower even than those in 2008.

Since aid has been inadequate (see below), most LICs have resorted to domestic borrowing, which is far more expensive. This threatens to create a new, *domestic* debt crisis. In effect, poor countries are being forced to bail themselves out of a crisis not of their own making, at huge economic and human cost.

Building Back Better?

If 'resilience' merely means the ability to return to an unacceptable status quo ante of poverty and deprivation, then it falls far short of the adaptive capacity that poor people require to both recover and progress in the face of a world of shocks, general and particular. What determines whether households, communities and nations can 'build back better'?

Lessons drawn from the crisis are relevant far beyond the specifics of the global meltdown of 2009. Shocks are a defining feature of poor people's lives, whether they stem from economic crisis, climate change, natural disaster or more individual calamities such as accidents or illness. Many of the steps to building resilience are similar for diverse kinds of shock.

What to do when a crisis hits? At a minimum, keep spending (in the medium term): Governments in most countries entered the crisis in a better fiscal position than in previous crises, and have largely been keeping to their spending commitments, avoiding the kind of pro-cyclical cuts that have aggravated recessions in the past. In so doing, many have gone into fiscal deficit, and it remains to be seen whether they can maintain such commitments until the economy picks up again. When and if the good times return, the lesson is that countercyclicality applies in both boom and bust – governments need to accumulate the fiscal space in good times, so that they can respond in the bad. There are trade-offs here – it means governments restraining spending when economies are growing – but the crisis shifts the balance of evidence in favour of such parsimony.

Make sure the right people benefit from responses: On the ground, real-time monitoring of the impact of the crisis, and genuine dialogue with affected communities are essential to identify who has been hardest hit, and what kind of support they need. One near-universal characteristic of responses to date is gender blindness. Even where responses have addressed the symptoms thrown up by the crisis itself, seldom have they sought to go beyond and address the underlying, systemic, issues that perpetuate gender inequalities. Governments have responded to job losses in textiles and garments industries, largely of women, by channeling fiscal stimuli into construction, which mainly employs men. Attempts to inject credit into cash-starved economies too often end up being pounced upon by large enterprises, who employ relatively few workers, rather than benefiting small, labour-intensive firms, or people working in the vast informal economies of the South.

How to build resilience before a crisis?

The key lesson here is that resilience can more easily be strengthened either side of a shock – building it during ‘peacetime’, and replenishing it when the shock is past. The crisis has marked the political coming of age of social protection as a development issue. Social protection comprises a range of ‘shock absorbers’, including social assistance or safety nets for the most vulnerable (eg cash transfers) and social insurance based on individual contributions (eg unemployment insurance).

What emerges from study of the crisis is that, in the ‘fog of war’ that prevails during a crisis, it is hard to introduce new systems from scratch, and ensure that they reach the intended beneficiaries – not that this should detract from those without established pre-crisis social infrastructure attempting to do something, but short-term responses may be preferable trying to introduce permanent systems in a crisis. By contrast, from Burkina Faso to Brazil, governments with social protection systems already in place have been able to rapidly scale them up to cushion poor people.

Besides putting in place effective social protection systems that can be rapidly scaled up in a crisis, governments can also build resilience prior to a shock by:

- Introducing measures to ensure that loan sharks don’t prey on poor people’s need for finance during a crisis (e.g. interest rates caps, support to microfinance for emergency loans)

- Recognizing the role played in crisis response by community organizations and religious bodies, by investing in pre-shock disaster management training and capacity building
- Putting in place a system to prevent debt foreclosures on homes, land or other crucial assets, for example through pre-agreed repayment holidays

Aid donors, IFIs and the G20

The international community can support the resilience of poor people and communities in a variety of ways:

1. **Improve prevention**: In 2008/9, the crisis prompted soul-searching at the highest levels, and genuine calls for radical overhauls of a financial system that had become too big, too volatile, and too impervious to public or government scrutiny. Discussions over reform continue, in the shape of talks over improved banking supervision and regulation, ways to curb tax havens and volatile financial instruments, and the introduction of a financial transactions tax. But the danger is that as growth resumes, the appetite for reform will fade along with the memories of the crisis.

2. **Help poor countries respond to and recover from those shocks that can't be prevented**. In the coming years, especially in low income countries, much will depend on aid donors sticking to their promises to increase aid, despite their own fiscal constraints, and poor countries having access to other forms of sustainable finance. On the supply side, a review of past banking crises in donor countries gives little cause for optimism; data from 24 donor countries between 1977and 2007 shows banking crises are associated with a substantial fall in aid flows, in most cases by an average of 20 to 25 per cent (relative to the counterfactual). Aid flows typically bottom out approximately a decade after the banking crisis hits.[3] On the demand side, the preliminary results of research for Oxfam by Debt Finance International[4] into the fiscal impacts of the crisis in the world's poorest countries are equally alarming.

Despite G20 and donor country promises to help poor countries cope with the effects of the global economic crisis, only $8.2bn in grants has made its way to poor countries – plugging only 13 per cent of the fiscal hole opened up by the crisis. With aid providing just one dollar for every eight lost from poor country budgets due to the crisis, countries that were already failing to meet the Millennium Development Goals on reducing poverty and guaranteeing health, education and other aspects of a decent life, are being pushed further off track through no fault of their own. If aid donors and international institutions cannot buck the historical trend of cutting aid after a crisis, the prospects for many poor countries look grim.

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[3] H Dang, S Knack, and H Rogers (2009) 'International Aid and Financial Crises in Donor Countries' Policy Research Working Paper 5162, Washington D.C.: World Bank.

[4] The Impact of the Global Financial Crisis on the Budgets of Low-Income Countries: A report for Oxfam by Development Finance International, DFI and Oxfam International, July 2010, http://www.oxfam.org.uk/resources/policy/economic_crisis/economic-crisis-budget-impact-low-income-countries.html

The conclusion is straightforward – the poorest countries need increased aid to withstand the crisis, even though aid budgets are themselves under huge political pressure from the crisis.

Conclusion

The extraordinary turbulence of 2008-9, with its ‘triple F’ crisis of food, fuel and finance, has shifted the way we understand development. Poverty is not just about income, it is about fear and anxiety over what tomorrow may bring. This crisis is not the last, but if one of its lessons is that reducing vulnerability and building resilience is the central task of development, then future crises may bring less suffering in their wake.