

PROTECTING THE POOR AGAINST THE NEXT CRISIS

RAVI KANBUR

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FOREWORD

The global financial crisis of 2008 will pass, but for developing countries, periodic crises are likely to be the “new normal.” In this edition of the *Distinguished Lecture Series*, Ravi Kanbur, a leading scholar in the field of public and development economics, is of the view that since crises cannot be predicted, we might as well be prepared for them ex ante in order to cushion their impact on the poor. His main concern is to make protection of the poor in the face of crises part of the normal discourse of development through establishing a general system of social protection, capable ex ante of handling poverty increase coming from a wide range of different sources.

While the concept of *shelf projects* suggested by Professor Kanbur as a possible channel of social protection has been met with strenuous debate mostly regarding the source of funding, this concept deserves attention from policy makers in the course of designing a comprehensive safety net. It obviously has merit that one should have plans in place and possible courses of action rather than wait for the crisis to actually hit and then start to act. As described by one of the attendees of the lecture, this is similar to the work of crisis management centers. The discussions that followed this rich lecture were highly relevant and the answers provided by Professor Kanbur were insightful and constructive. Both the lecture and the discussion are included in this publication.

Hanaa Kheir-El-Din

Executive Director and Director of Research, ECES

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تقديم

سوف تمر الأزمة المالية العالمية التي بدأت في عام ٢٠٠٨ مثل غيرها من الأزمات. أما بالنسبة للدول النامية، فالأزمات تعد من سماتها الدائمة. وفي هذا العدد من سلسلة المحاضرات المتميزة، يرى البروفسور راقي كانبور، وهو أحد الاقتصاديين ذوي الشهرة العالمية في مجال الفكر الاقتصادي التنموي، أنه نظرا لعدم القدرة على التنبؤ بالأزمات، فمن الأفضل الاستعداد لها مسبقا للحد من تأثيرها على الفئة الأكثر تأثرا وهم الفقراء. ولتحقيق هذا الهدف، يرى كانبور ضرورة إدراج برامج حماية الفقراء من الأزمات ضمن جداول أعمال التنمية في كافة البلدان، وذلك من خلال تطبيق نظم للحماية الاجتماعية تتسم بدرجة عالية من الاحتواء في ظل الغموض الذي يحيط بطبيعة الأزمات ومصادرها والفئات الفقيرة المتضررة منها.

وعلى الرغم من المناقشة المستفيضة الذي تعرض لها مفهوم *المشاريع الاحتياطية* الذي اقترحه كانبور كإحدى وسائل الحد من تأثير الأزمات على الفقراء، وخاصة فيما يتعلق بمصادر التمويل، إلا أن هذا المفهوم جدير بمزيد من الدراسة في إطار تصميم شبكة شاملة للضمان الاجتماعي. فمما لا شك فيه أن الاستعداد مسبقا للأزمات أفضل من التحرك لمواجهتها بعد وقوعها. وبحسب قول أحد المشاركين في الندوة، فإن ما يقترحه البروفسور كانبور يشبه إلى حد كبير ما تقوم به مراكز إدارة الأزمات. وقد تطرقت المداخلات الثرية والمفيدة التي أعقبت هذه المحاضرة إلى العديد من الملاحظات والأسئلة المتعمقة، كما جاءت إجابات البروفسور كانبور عن استفسارات الحضور بذات القدر من التعمق والوضوح. ويضم هذا الإصدار كل من المحاضرة وملخص المناقشات.

أ. د. هناء خير الدين

المدير التنفيذي ومدير البحوث

المركز المصري للدراسات الاقتصادية

إبريل ٢٠١٠

ABOUT THE SPEAKER

RAVI KANBUR

T. H. Lee Professor of World Affairs, International Professor of Applied Economics and Management, and Professor of Economics at Cornell University

Ravi Kanbur is T. H. Lee Professor of World Affairs, International Professor of Applied Economics and Management, and Professor of Economics at Cornell University. He holds an appointment tenured both in the Department of Applied Economics and Management in the College of Agriculture and Life Sciences, and in the Department of Economics in the College of Arts and Sciences.

He holds a bachelor's degree in economics from the University of Cambridge and a doctorate in economics from the University of Oxford. He has taught at the Universities of Oxford, Cambridge, Essex, Warwick, Princeton and Columbia.

Ravi Kanbur has served on the staff of the World Bank, as Economic Adviser, Senior Economic Adviser, Resident Representative in Ghana, Chief Economist of the African Region of the World Bank, and Principal Adviser to the Chief Economist of the World Bank. He has also served as Director of the World Bank's World Development Report.

Professor Kanbur's main areas of interest are public economics and development economics. His work spans conceptual, empirical, and policy analysis. He is particularly interested in bridging the worlds of rigorous analysis and practical policy making. His vita lists over 150 publications, covering topics such as risk taking, inequality, poverty, structural adjustment, debt, agriculture, and political economy. He has published in leading economics journals such as the American Economic Review, Journal of Political Economy, Review of Economic Studies, Journal of Economic Theory, and Economic Journal.

PART I

PROTECTING THE POOR AGAINST THE NEXT CRISIS

1. INTRODUCTION

It is estimated that the global financial crisis of 2008-9 will have added 53 million people to the global poverty count using the World Bank's \$1.25 per day poverty line; the number rises to 63 million if the poverty line used is \$2 per day (Chen and Ravallion 2009). It is not surprising that a lot has been written about the impact of the crisis on poverty, and on immediate policy responses to alleviate the worst consequences for the poorest.¹ This is important. But this crisis will pass, like others before it. What is really important is to realize that *crises* are here to stay.

For developing countries, crises are likely to be the “new normal”, with multiple origins ranging from climatic to global financial. Indeed, it can be argued that such crises have been “the normal” for developing countries, and the 2008 financial crisis gave developed countries a taste of this normality.

In this paper, I want to address what happens when our “normal” development discourse, about the “normal” development path of a country, has superimposed on it, and interacting with it, the prospect of major country level shocks over which the country itself has no control. By the “normal” development discourse I mean the usual things—education, health, infrastructure, public sector management, public/private partnerships, etc. I also include in this category idiosyncratic shocks that are uncorrelated across individuals (e.g., certain types of health shocks), and insurance or lack thereof, on which there is a large literature. What I am

¹ See, for example, the references in Ravallion (2008).

focusing on here are country level systemic shocks. And my concern is protection of the poor in the face of these shocks.

I am going to take as read that it should be an aim of policy to protect the poor against systemic country level shocks. The straightforward ethical concern for the standard of living of the poorest is further buttressed by the longer term consequences of short-term collapses in the standard of living. There is now a large and growing literature on the persistent health, education and productivity effects of negative shocks.² But the imperative of protecting the poor leaves open the important questions of how and when exactly to do it. While detailed design issues are important, and these will be discussed, I will argue that the central requirement is a policy mindset that tries to anticipate crises and puts in place ex ante systemic protection rather than addressing each crisis after it has struck.

The plan of the paper is as follows. In Section 2, I discuss the nature of crises, highlighting the uncertainty of crisis type and the uncertainty of crisis timing. Based on this characterization, Section 3 conceptualizes social protection responses in terms of two key dimensions—comprehensiveness to address uncertainty of crisis type, and flexibility to address uncertainty of crisis timing. Equally, I argue that the entire range of government interventions and policy should be assessed as a collectivity as a crisis response mechanism, not just those components conventionally thought of under the social protection label. Section 4 focuses on policy responses, by developing country governments and by the international community. A key role for the latter is the provision of adequate finance to implement systems of protecting the poor against crises. I argue for pre-qualified lines of assistance from donors, and discuss IDA's Crisis Response Facility as a possible model. Section 5 concludes with an agenda for research and policy debate.

² See, for example, Hoddinott and Kinsey (2001), Maluccio (2005), De Janvry, Finan and Sadoulet (2006), and Bhalotra (2007).

2. THE NATURE OF CRISES

What are the features of the crises that I am concerned with? Of course, they have a major negative impact. Average incomes fall drastically (otherwise it would not merit the crisis label). So poverty needs increase at the same time as resources available to address these needs decline. But this is where the commonality ends.

Crisis can have a multitude of origins—including climatic, infectious diseases, unrest in neighboring countries, global collapse of a particular industry, and of course global financial crises. Further, each of these labels in turn covers a range of possibilities—the different types of financial crises, and their differing impacts, have been much discussed recently. Moreover, for a small economy the translation of a global or regional crisis to the national level depends on how precisely its larger neighbors respond to it. Each of these different types of crises can have very different impacts on the economy depending on its detailed structure. Thus, although it is definitionally true that crises reduce the mean of the income distribution, their impact on the composition of this distribution is difficult to predict *ex ante*. Who exactly is made poorer is not revealed until the crisis is well upon us.

Let me illustrate this with a few specific examples. It is well recognized that there are a number of mechanisms through which the 2008 global financial crisis affected, and continues to affect, developing transition countries. These include declines in remittances, private capital flows and aid, and more specific effects on sectoral demand. The impact of each of these depends on the production structure and initial conditions in a country. Here is how a recent monitoring exercise summarizes some of its findings (Te Velde et al. 2010, p. vii)³:

“The growth effects are highly varied. Cambodia saw a double digit growth rate reduce to zero in 2009. Kenya has had a low growth rate of 2 percent last year, compared to 7 percent in 2007, although other crises play a role as well. Uganda, Zambia and Tanzania saw their

³ The findings are based on the experiences of Bangladesh, Bolivia, Cambodia, Democratic Republic of Congo, Kenya, Mozambique, Ethiopia, Sudan, Tanzania, Uganda and Zambia.

growth rates reduce by much less.... Employment effects due to the crisis were mostly apparent in garment and mining sectors. At least 25,000-30,000 garments workers lost their jobs in the last eight months of 2009 in Bangladesh. Cambodia lost 102,527 jobs (either permanently or temporarily) over the period since September 2009, or one-third of the garment employment. Zambia lost 10,000 out of 30,000 jobs although some lost ground has been made up”

The 1998 financial crisis has now been much researched over a long period with better data, and the central message of diversity of experience remains. As Ravallion (2008, p. 4)) notes:

“Research on Indonesia’s severe economy-wide crisis of 1998 found sharp but geographically uneven increases in poverty, reflecting both the geographic unevenness in the economic contraction and the differing initial conditions at local level. Proportionate impacts on poverty were greater in initially better off and less unequal districts. Another study of the same crisis found that most households were impacted, but that it was the urban poor who suffered most; the ability of poor rural households to produce food mitigated the worst consequences of the high inflation. By contrast, the rural poor bore a heavier burden of the shock in Thailand around the same time, in part because of their greater integration with the urban economy than in Indonesia.”

As a final example, consider the impact of natural disasters. The literature on these generally finds significant impacts on poverty, but also finds that the impacts are conditioned by other factors, including preparedness:

“Econometric analysis, combined with qualitative deductive analysis, confirms the existence of a complex two way relationship between disaster and economic and social wellbeing in Fiji. It confirms that disasters increase poverty in the country and reduce national economic growth. It also confirms, conversely, that increases in poverty make disaster

outcomes much more severe. Ultimately, however, a complex set of factors influences the depth and breadth of these relationships.” (Lal, Singh and Holland 2009, p.10)

Beyond the uncertainty about the origin of the crisis and its specific impact on the poor, the uncertainty of *crisis type*, there is the uncertainty of *crisis timing*. The timing of crises is not known *ex ante*. We might be confident that one of the main sources of crises will kick in some time during the next few years, say, but when exactly it will happen is not known. Crises can come suddenly, and when they do come we will not know quite how quickly they will recede.

The uncertainty of timing is perhaps most apparent in the case of natural disasters, where it has been argued that climate change can have effects on the trends as well as the variability of weather patterns, increasing the latter.⁴ Crises induced by infectious diseases are also an example of uncertainty of timing. A good example is the outbreak of H1N1 influenza in 2009. This outbreak came from nowhere and impacted a number of economies very negatively, effects that lingered even after the epidemic (or pandemic) itself had passed.⁵

In their discussion of the 1998 global financial crisis, Delong, Cooper and Friedman (1999, pp. 254-255) note:

“The economies of the Asian Pacific Rim hit by the crisis—Indonesia, Malaysia, Singapore, South Korea, Taiwan, and Thailand—had, as a group, achieved the fastest sustained rate of economic growth ever seen in any group of countries in any era. Yet once investors in New York and elsewhere had decided that they had invested too large a share of their portfolios in Asia, the rapid shift in opinion, and in capital flows had the same consequences as in Mexico and Western Europe previously.”

⁴ There is a huge literature on this. For a recent contribution directly related to cyclones and hurricanes, see Emanuel (2005).

⁵ See Department of Health and Human Services (2009).

The crucial question for timing is posed by the phrase “once investors...had decided.” While exposure levels can give some guidance, when *exactly* sentiment will tip is not easy to predict. The 2008 global financial crisis also came upon us suddenly. There is a debate about whether, in fact, “no one saw it coming.”⁶ There were indeed warnings by some. But the fact remains that these warnings were not heeded by governments—neither from developed nor from developing countries. While I agree with the school of thought that the causes of financial crises have commonalities, so that the “This time is different” defense cannot be mounted again and again,⁷ it is nevertheless true that the *precise timing* of a crisis cannot be predicted with confidence. As conditions build up, warnings can be given of a possible impending crisis, but when exactly the bubble will burst cannot be predicted accurately. At the same time when normalcy will return cannot be predicted accurately either since, for small countries anyway, so much depends on policies adopted by larger nations.

Thus, while at one level crises are the same—they have a sharp negative impact on aggregate poverty and on resources available to address poverty, they differ greatly in their origin, their impact on specific groups of the poor, and their timing. This is in the very nature of crises, and should frame the way in which we formulate a response to them.

3. THE SOCIAL PROTECTION RESPONSE

These two features of systemic crises—uncertainty about who exactly they will impoverish, and uncertainty about when they will strike (and when they will recede)—are key in conceptualizing a social protection response. I have referred to these two features as *uncertainty of crisis type* and *uncertainty of crisis timing*. The first feature requires that we think of social protection as a *system*, rather than assessing it component by component and program by program, as we tend to do. The second feature of crises requires that the social

⁶ See Bezemer (2009).

⁷ Reinhart and Rogoff (2009).

protection system be *flexible*, that it be capable of being scaled up rapidly when a crisis strikes suddenly out of the blue, and that it be capable of being scaled down when the crisis passes.

Setting up a finely tailored structure to respond to the detail of this or that crisis is neither feasible nor desirable given the costs of setting up systems. By the time that system has been set up, the crisis will most likely have passed, and the next crisis will probably be of a very different nature with a very different impact. We have to have a more general system of social protection, capable *ex ante* of handling poverty increase coming from a wide range of different sources. But let me be clear. I am not suggesting that there has to be a single or a uniform mechanism of social protection. There are good reasons why, for example, different types of mechanisms are appropriate in rural and in urban areas. Rather, what I am saying is that we have to look at the collection of mechanisms as a system, and ask whether as a collectivity they provide protection to the poor against a range of crises.

Let me illustrate with the example of conditional cash transfers (CCTs) in the social sectors. These programs have exploded in developing and transition countries over the past decade.⁸ Typically, a household has to be below a poverty threshold to qualify for the program and within the program, and a cash transfer is made to the household conditional upon a behavioral response. In the most famous of these programs, Progresa-Oportunidades in Mexico, for example, the mother is given a cash transfer in return for a child attending secondary school. Now suppose that, starting from a position where a household does not qualify for a CCT, a crisis hits, the breadwinner(s) lose employment, and the household's income falls below the threshold for qualification. Now the household begins to receive a cash transfer for keeping its children in school. If the household would have kept the children in school in any case, this is an *infra-marginal* transfer. Thus, although not designed with a crisis in mind, in its effect it is straightforwardly a transfer to compensate for loss of employment earnings due to the crisis. If the household would have pulled its children out of school as a

⁸ For a recent overview, see Fiszbein and Schady (2009).

response to the loss of adult employment income, the transfer is no longer infra-marginal, but nevertheless provides a cash transfer when the crisis hits. If employment incomes are restored when the crisis passes, the household no longer qualifies for the program and in principle the transfer stops (whether this happens in practice is taken up later in this section).

The above example illustrates that the rules of operation of myriad government programs, albeit that they are designed in terms of their own logic and are not intended as a response to crises, nevertheless may well act as a cushion for the poor when a crisis strikes. This raises two questions. First, whether in the initial design of each program this aspect should be taken into account explicitly. Second, whether the collectivity of government programs should be seen and evaluated as a system of social protection of the poor in the face of crises.

The above discussion relates closely to a discussion in the literature on trade liberalization and poverty (see Kanbur 2010b). Recognizing that such policies can sometimes lead to worsening living standards for some poor people, there is a debate on the use of general versus specific compensatory policies. Specific policies are difficult and costly to design and tailor to each particular type of liberalization. General compensatory policies do not face these problems. As Winters (2000, p. 44) says:

“These policies—often referred to as safety nets—are designed to alleviate poverty from any source directly. They replace the problem of identifying the shock with one of identifying the poor. Ideally, countries should already have such programmes in place. Indeed, a major part of their effect arises from their mere existence rather than their use: they facilitate adjustment by assuring the poor that there is a minimum (albeit barely acceptable) below which they will not be allowed to fall. If trade-adjusting countries do already have these schemes, they have the advantages over tailor-made schemes of automaticity, immediacy and a degree of ‘road-testing’, and they also avoid the problems of targeted trade adjustment assistance. Sensibly constructed, they need not entail huge expenditure; there is rather little

chance of moral hazard problems if the thresholds are set low enough; and, since relieving poverty is more or less universally recognised as a responsibility of the state, there is little argument about the legitimacy of such interventions.”

I would like to argue that the above applies equally well to shocks caused by crises of the type we have been discussing—no matter what their origin or transmission mechanism. At the same time, I am arguing that programs that are not directly designed to cope with crisis shock can nevertheless act in that way and all programs should be assessed together to assess whether a comprehensive system of protection against crisis exists or not.

Let us turn now from the issue of comprehensiveness (to address uncertainty of crisis type) to the issue of flexibility (to address the issue of uncertainty of crisis timing). This flexibility has both technical and political economy dimensions. Let me illustrate with two examples—food and fuel subsidies on the one hand and public works schemes on the other.

There is, of course, a huge literature on whether or not food and fuel subsidies are well targeted.⁹ It has been argued that these subsidies are not very well targeted to the poor—there is significant “leakage” to non-poor groups. Proposals have been debated over many decades, with very mixed success, for targeting these subsidies more finely, by restricting access to them to those below the poverty line. My focus here is not directly on targeting, but on flexibility. However, as we shall see, the two issues interact in important and interesting ways, especially where political economy is concerned.

Food and fuel subsidies can be scaled up relatively easily from a technical point of view. For oil importers, for example, it might require nothing more than suspending “price pass-through” provisions. Scaling them up is also relatively easy from a political economy perspective, precisely because they are not finely targeted to the poor, but benefit a broad swath of the population including middle income groups. It is this ease of scaling up which perhaps explains why civil society, and the polity generally, gravitates towards this type of

⁹ For a recent overview of targeting issues, with food subsidies as a special case, see Grosh et al. (2008).

instrument. The alarm bells are usually rung by technocrats who point to the difficulty of scaling down such subsidies when the crisis passes. The difficulty is not of course technical, but political. The very fact that eases scaling up—the benefits are broadly distributed—induces political resistance in the scaling down.

Public works programs on the other hand offer employment at a relatively low wage. Such schemes are widespread in developing countries. Most recently, in 2005 the Government of India passed a National Rural Employment Guarantee Act (NREGA).¹⁰ Employment guarantee schemes are “self-targeting” to the poor. By definition, only those whose alternative wage is even lower will turn up to the public works site. Such schemes are preferred to generalized food subsidies because of their targeting properties. However, precisely because their benefits are not widespread, these schemes may not enjoy political support and may therefore not have sufficient budget to operate effectively to benefit the poor.¹¹

When a crisis strikes, if it is a crisis that affects employment and wages, applications at the public works site will increase. When the crisis fades and people have better employment opportunities elsewhere, applications fall off. Why should someone stay at the work site earning a low wage when there are opportunities for earning a higher wage elsewhere, now that the crisis has passed? The scaling down is automatic. So the problem is not in the scaling down. Rather, the problem seems to be on the scaling up side. There are again two issues, technical and political economy. On the political economy side, the question is simply whether the budget will increase as applications increase? If not, either the wage will have to fall, or there will have to be rationing (which in turn tends to discriminate against disadvantaged groups). It is for this reason, perhaps, that members of the 2004 Indian governing coalition demanded an *Employment Guarantee Act*, as opposed to an *Employment Guarantee Scheme*. It was to change the cost-benefit of the political economy (Basu, Chau and Kanbur 2007). Of

¹⁰ See Basu, Chau, and Kanbur (2007).

¹¹ For a detailed discussion of targeting issues, see Kanbur (2010a).

course, one way of easing the political economy tensions is to provide funds for the scaling up from the outside. I turn to this in the next section.

On the technical side, as applications increase the question is whether there will be useful projects to be worked on, or will it just be “digging holes to fill them up again”. This depends crucially on whether there exists a high return “shelf of projects” ready to go. The literature on employment guarantee schemes strongly suggests that the return on projects is a key component in establishing the cost-benefit viability of such schemes.¹² But this depends on adequate project preparation in normal times—I will return to this point in the next section.

The above suggests that in protecting the poor against the next crisis, there are strong arguments in favor of taking a systemic approach to social protection to provide a comprehensive coverage against a range of crises, and in favor of enhancing the flexibility of individual programs in the scaling up and in the scaling down. I turn now to the role of the international community in supporting governments to achieve these goals.

4. IMPLICATIONS FOR THE INTERNATIONAL COMMUNITY

The primary responsibility for protecting the poor against crises is that of the government. But the international community also has a role and a responsibility. If the above line of argument is accepted, what does it imply for the International Community? I propose three lines of action. Elements of these are of course already present in current work programs. I am suggesting a more systematic and sustained effort in these directions.

First, governments should lead and the international community should support the assessment of social protection programs in a country *as a system of protection for the poor against systemic crises*. This takes us beyond the many excellent evaluations of individual programs that exist and are ongoing. What I have in mind is “stress testing” of the system as a whole against a range of potential crises, to identify (i) gaps in coverage and (ii) enhancements

¹² See, for example, Murgai and Ravallion (2005), and Ravallion (1997).

in flexibility (for scaling up and scaling down). I view this as being somewhat analogous to what the Financial Sector Assessment Program (FSAP) does for the financial sector. This would be the Social Protection Assessment Program (SPAP).

Here is how the FSAP is described by the International Monetary Fund (IMF):

“Resilient, well-regulated financial systems are essential for macroeconomic and financial stability in a world of increased capital flows. The FSAP, a joint IMF and World Bank effort introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Supported by experts from a range of national agencies and standard-setting bodies, work under the program seeks to identify the strengths and vulnerabilities of a country's financial system; to determine how key sources of risk are being managed; to ascertain the sector's developmental and technical assistance needs; and to help prioritize policy responses.” (<http://www.imf.org/external/NP/fsap/fsap.asp>).

Using this as the template, and purely for illustrative purposes, here is how I would set out the introduction to SPAP:

“A wide variety of systemic crises threatens the short run and long run wellbeing of the poor in developing and transition economies. The SPAP, an effort led by the government and supported by the international community, aims to increase the effectiveness of social protection in the face of systemic crises. The work program seeks to identify gaps in coverage and in speed of response of social protection programs, and other relevant national and international programs, viewed as a system; to ascertain development and technical assistance needs; and to help prioritize policy responses.

Second, based on the recommendations of the assessment, the international community should over the medium term help to finance improvements in coverage and in flexibility. This is perhaps closest to what is done “normally” by the World Bank and by multilateral and bilateral donors, but elements of it may not be that easy. Take the example of having a shelf of projects ready to go for when a crisis strikes. Imagine going to the World Bank Board and

asking for funds to prepare the shelf of projects, but at the same time saying that these projects may not actually be implemented any time soon—that they will be activated when the next crisis strikes, and we don't know when that will be! It is clear that a major change in mindset will be needed by many in the donor community to finance project preparation without being followed by the immediate next step of “the concrete being poured.”

I should add that the difficulty is equally present in the mindset of developing country governments. Faced with the choice of devoting scarce resources to doing something now versus preparing a shelf of projects, or updating an existing shelf of projects, in preparation for a crisis that may or may not come anytime soon, the natural tendency would be to go for the quick results. This is both because of the tremendous immediate needs and, perhaps, the immediate political payoff. If the resources were available from the outside for this “insurance premium”, the tradeoffs would be much less painful for the government.

For the third and final line of action I want to focus on the World Bank, although what I propose applies equally to donors as a group. The World Bank and donors generally should consider developing a *pre-qualified line of assistance for social protection that kicks in automatically when certain crisis triggers are breached*, and for which access does not have to go through the usual time-consuming Bank process, and through a rejigging of a Country Assistance Strategy not designed for crisis reallocation of funds, and doing it all in a race against time (Kanbur 2009a, b). The SPAP would provide an evaluation on the basis of which countries would pre-qualify for varying amounts of funds through this window, the amount depending on the assessment, and access would be strictly governed by triggers that identify crises of certain magnitude, and not of the country's own making.

There already are, of course, instruments that attempt to do what I have in mind. For the wealthier among developing and transition countries, who are eligible for IBRD loans, the Bank has recently announced an enhanced Deferred Drawdown Option (DDO) for Middle Income Countries (MICs):

“As part of its engagement strategy with MICs, on March 4, 2008, the World Bank’s Executive Directors approved enhancements to IBRD Deferred Drawdown Option for Development Policy Loans (DPL DDO) and introduced a new instrument, the catastrophic risk DDO (CAT DDO).... Under the DPL DDO, the borrower may defer disbursement of a DPL for three years, renewable for an additional three years. The loan proceeds may be drawn down at any time during the three year drawdown period unless the Bank has notified the borrower that one of the drawdown conditions (adequate macroeconomic framework and satisfactory program implementation) are not being met....” The CAT DDO is part of a spectrum of World Bank Group catastrophe financing instruments available to assist borrowers with immediate liquidity following a natural disaster. It is meant to serve as bridge financing, while other sources of financing are mobilized. The borrower is expected to implement a disaster risk management program, which the Bank will monitor on a periodic basis. Funds may be drawn down in the event of a natural disaster resulting in a declaration of a state of emergency.

(<http://siteresources.worldbank.org/INTPERUINSPANISH/Resources/DDOProductEnhancements.pdf>)

More recently, for the poorest countries, the World Bank’s soft loan window IDA has proposed (and the World Bank’s Board has approved) a Crisis Response Window (CRW):

“.....Management proposes a two-phased approach for the establishment of a crisis response window within the IDA financial architecture. In the first phase, the immediate establishment of a pilot Crisis Response Window (CRW) in IDA 15 to assist IDA countries in mitigating the impact of the current global crisis is proposed. In the second phase, a proposal for a more general crisis response window will be presented in the course of the IDA 16 replenishment process,” (International Development Association, 2009, p (ii)).

The proposal for the immediate CRW has the following design features. Eligibility is restricted to 56 non-oil exporting IDA-only countries. The duration is from January 2010 to

June 2011 (i.e., the second half of the IDA 15 period). The size of the facility is about \$1.3 billion and “while most of the funding for the CW comes from the re-allocation of IDA resources, such funds will be additional for the IDA-only countries which are eligible to benefit from the CRW.” The broad structure of allocation relies on a classification of countries into high impact/low impact and high prior needs/low prior needs according to a range of indicators (e.g., growth rates before and during the crisis, and level of per capita income before the crisis). The specifics of the allocation process require a proposal from the country team covering crisis impact, pre-existing needs, resource needs and availability, and ability to utilize resources effectively. Further, there is to be an accelerated approval process through the Board.

I welcome these proposals from the World Bank. They represent a shift in mindset with a greater focus on crises. However, they could go further. For IDA, a pre-qualified line of assistance, present as part of the country assistance strategy, should be the goal. The present proposal is geared towards clearing up the mess of the global financial crisis, not preparing for the next crisis, from whatever source. It is encouraging, therefore, that the World Bank will be discussing such a broadening during IDA 16, which will run from July 1, 2011 to June 30, 2014. For IBRD, the Deferred Drawdown Option (DDO) comes closest to what I have in mind but (i) this is only for middle income countries, and (ii) the funds do not constitute a window for additional resources. At the most general level, what I have in mind is an analog to the Flexible Credit Line (FCL) discussed in the IMF recently for macroeconomic balances. Why should the Bank not have a comparable instrument to protect the poor during crises, a Social Protection Flexible Credit Line (SPFCL)?

Let me emphasize again that there are indeed many initiatives that attempt to address the role of social protection in the face of crises. The purpose of my three proposals is to challenge us to think systematically, and to think big, about the social protection system as a whole, in the face of systemic crises. Somewhat paradoxically, unanticipated crises are likely to be the

norm in development as we go forward. So we had better be ready to protect the poor when they strike.

5. CONCLUSION

In conclusion, let me summarize my main points. Crises are likely to be the new normal for developing and transition economies. In designing programs to protect the poor against crises, governments face two uncertainties—uncertainty of crisis type and uncertainty of crisis timing. In the face of these uncertainties, I have proposed three lines of action for governments and for the international community: (i) Conduct a Social Protection Assessment Program that “stress tests” the collection of social protection interventions against a range of possible crises to reveal gaps and vulnerabilities, (ii) Over the medium term, finance improvements in design to addressing these gaps and vulnerabilities, and (iii) offer a pre-qualified line of assistance for social protection which goes into action automatically when crisis triggers are breached.

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PART II: DISCUSSION

PROTECTING THE POOR AGAINST THE NEXT CRISIS

Participants in the discussion that followed Professor Ravi Kanbur's lecture included Essam Sharaf, Mohamed Qassem, Ali Soliman, Hania Sholqamy, Anissa Hassouna, Abdul Aziz Hegazy, Dorothea Schmidt, Sahar Al-Sallab, Diaa Abdou, Hussein Al-Gammal, Hamed Mubarak, Sherine Al-Shawarby and Amr Ramadan. The following is a summary of the discussion.

Moderator: Thank you for a very enlightening presentation. We now open the floor for discussion.

Participant: What is the difference between your proposed model and typical crisis management? Is there any analogy between them?

Speaker: Yes, there is direct analogy. In a crisis center, you imagine different things that could happen and prepare for the worst; and when a crisis actually happens you go back and see what exactly was not done right. I think this mindset is missing when we address systemic crises and their effect on the poor and this is what I would like to bring to the normal discourse of development.

Participant: I am uncomfortable with the idea of shelf projects. In the business world we know that such studies lose their importance with time. By the time we start implementing a feasibility study, it becomes just a guideline because things change. So, how are we going to deal with that?

Speaker: One should have plans in place rather than wait for the crisis to actually hit and then start preparing. But one also has to be flexible so as not to get caught in the past. It is this

mentality that we need to bring into the normal discourse of development. I need to point out though that certain areas can be a bit different from the fast-paced world of business. For example, if a village needs a feeder road to reach it or a check dam to capture water, this type of need is unlikely to disappear in the short term. The technology may change but the need is unlikely to disappear over the next ten years or so.

Participant: The question is not really about having shelf projects but rather about funding these projects. Any government would normally have a long list of projects that are pending due to lack of funding. But what we need is a mechanism from the World Bank or the IMF to finance such projects. Additionally, I would like to note that it is commendable to see international organizations such as the World Bank and the IMF focus on the impact of crises on the poor.

Speaker: I agree that there are always projects ready to go. We can think of large infrastructure projects as an example. Those are always there and ready, and if we don't have the necessary funding we just don't build them. But I am not talking about such types of projects; what I am talking about is smaller public employment-type schemes, and I think there is more to be done in terms of creating shelf projects in this area.

Regarding the focus on the poor and poverty, I think this is very important and we should indeed be discussing issues such as conditional cash transfers, among other things, to keep the children of the poor at school, etc. But what I am trying to say is that while discussing all that—which is what I call the normal discourse of development — we should be alert to what happens if a crisis hits and that's what we as policy analysts should be focusing on.

Participant: Do you think that the World Bank is a significant player in the narratives and conceptualizations of social protection? My second question is about the lack of synchrony between the political cycle and the protection cycle. You are proposing that governments invest political economy resources to ward off something that may not happen in their own life

span. I think that this is not a small problem, particularly in democracies where governments need to be popular. There is a risk of moral hazard here. My last question relates to something that I have always found a bit troubling which is that how countries like India in particular managed to ward off that sense of corvée labor. I know that in Bangladesh, for example, road works for women have been an amazing success. However, I am not sure a program like that will be popular in the Arab context.

Speaker: Regarding the first question, I think financially these institutions are important, and they are certainly important in terms of agenda setting at the international level. So, I think we should be engaged with them and criticize them when it is appropriate to do so. Regarding the political cycle and social protection, I agree with you on this point. Of course if I have an election coming up in one area I will do whatever it takes to win the elections: pave the road, build this or that just to secure votes in that area. That's why the design of the next phase of a crisis response window should come from the governments themselves in terms of resource allocation.

Concerning the issue of public works program, I think you are right, there are indeed cultural issues involved here and that is why having useful projects is indeed important because if you are actually digging holes to fill them up again that conveys a certain attitude; in fact that would not go well anywhere. But, if the village knows that a dam is being built to store water, they will have a different attitude. So in that sense, I think having a good shelf of projects is very important not just from the quantitative perspective but also from the qualitative perspective.

Participant: I agree with you regarding the point you have made earlier in your presentation that developing countries are living in a continuous crisis. As for shelf projects, our shelves are overloaded with unexecuted projects, and we don't have the luxury of thinking of other projects for the crisis. To begin with, it is very hard to get funding from international donors

for typical projects such as those needed to combat unemployment let alone convince donors to fund projects that are not needed for today.

Speaker: Regarding shelf projects, the point I am trying to make is that once funding is available, do we know exactly how it will be used the day after a crisis hits? Are there protocols ready? I don't know about Egypt, but at least for some of the countries that I am aware of, the government needs to do some work and domestic policy analysts need to do some work in terms of the design or about what will happen the day after a crisis hits.

Participant: I thought the discussion would touch on crisis prediction, but it didn't. Is there a scientific system for crisis prediction or will we just have to sit and wait for the next crisis to happen? You did not address the role of SMEs in facing crises, would not you think that these projects could be a good solution during times of crisis?

Speaker: About the prediction of crises, the premise of my discussion is that prediction is not possible. I can have a prediction model for example for something like commodity pricing and so on, but those models don't have good prediction records. Very few people predicted the spike in fuel prices in 2005-2007, and very few people predicted the current financial crisis. That was my starting premise and that's why we have to be ready ex ante.

Before I address your SMEs question, I would like to elaborate on the program of conditional cash transfers in Mexico. This program was intended to keep kids in school and was not designed as a crisis response program but ended up being one due to certain income qualifications embedded into the program. The incomes of those impacted by the crisis were reduced significantly, which made them fall into the program. However, a key requirement of a crisis response program is its ability to be launched rapidly in response to crises. This has to be built into the design of the system itself.

Regarding SMEs, a lot has been written and done in terms of a medium-term strategy and we can have a long debate and discussion about credit issues and entrepreneurial skills, etc. But I would like us to think about the crisis context. The reality is that we now have this crisis and I believe we should be thinking of whether existing programs—normal programs—respond rapidly enough to the new reality of people being out of jobs and how quickly we can take people into a training scheme when they become unemployed.

Participant: During crises, people tend to lose their jobs and that's the main issue. I think unless we take this into consideration we will never design a good crisis response program. Because we don't have the budget to give people money for an extended period of time, what we need to do is give people a job. Regarding shelf projects, in case there are no projects we can simply frontload running ones. For example, if we have a well-designed project and some additional funds we can implement it over a 2-year period rather than four. My third point relates to the importance of information availability; you need information both for assessment of the crisis and to design an appropriate social protection system.

Speaker: Clearly employment is a center piece of this and that is why I focus so much on public works. But while it is true that most crises would have employment related consequences, the nature of these consequences is not clear ex-ante. In terms of timely data and information availability, you get no disagreement from me on this point.

Participant: I believe that with donors and shelf projects we are really subsidizing the large financial institutions that were not transparent enough. I think if we are going to create shelf projects, these projects should include some sort of a regulation ensuring that the financial market would not let this happen again and ensure transparency on the part of companies. Also, with these shelf projects are we actually creating distortions in the supply and demand for projects?

Speaker: Let me start with whether the projects are subsidized. I would say that many of the projects I have in mind are in a rural context: building rural infrastructure and rural sectors. I am not sure that there is a conflict with market forces in that respect. Regarding the supervision of financial institutions, I would like to note that crises are not necessarily financial only. So, I would say that we have to be ready with that mindset to face crises regardless of their nature.

Participant: To protect the poor against the next crisis, first we need a well-designed and well-implemented long-term development strategy. We should not restrict ourselves to the short-term horizon, but also think in long-run terms as well. My second point relates to scaling up and down projects in the face of crises, which brings us to the issue of subsidy allocation and targeting. This is a problematic issue that we have been trying to address but so far unsuccessfully, whether during crises or in normal times.

Speaker: I agree with you that long-term planning is very important, and this is reflected in my presentation, which offers an assessment of the evolution of development thinking over the past six decades. Regarding subsidies, the reason why the polity gravitates to subsidies is that there are gaps in the system that are not covered by our normal social protection programs. Also, they are easier to implement. If the other mechanisms are working efficiently, the pressure on subsidies will be much less.

Participant: I think social funds around the world lend themselves to the delivery of a performance that is in line with the shelf projects you mentioned. For example, here in Egypt, there is the Nile Bank Protection Project and other labor-intensive public works. My question is why have not we been using social funds as a mechanism to prepare projects of that sort, which could alleviate poverty and act as safety nets?

Speaker: If the social fund mechanism is working well, the question should then be how quickly can we access funds through these structures to quickly respond to crises without going through the standard lengthy procedures. That's the key question.

Participant: We have a government project called the 1000-village program addressing regional inequality; we can scale it up during a crisis. However, I would like to point out that it should be designed within an overall program of poverty eradication. In other words, before we talk about scaling up or down, we need to define poverty, identify objectives and assess performance.

Speaker: The question is whether in this program or in the design of it, the issue of scaling up and down is considered. That's my point; we'll see how it could be used after the crisis actually hits. That's the point I am trying to get across.

Participant: I think we need to first establish an efficient and effective social protection system and then start thinking about how to react to crises. When we talk about shelf projects, I heard that we have many and even more than what we need and the problem is with funding. Actually, the problem lies also in how to choose and pick from this set of numerous projects. I don't think that we have cost-benefit analyses of any of these projects; we don't have information about returns to investments or their job creation capability.

Speaker: The issue of designing an efficient social protection program is a significant issue that is a normal part of the discourse of development. But my point is that when you say "first we have to think about efficiency and then worry about crisis," I don't think we have that luxury. Whether we like it or not, the crisis will hit and the existing systems will be used by policy makers in their attempts to contain the impact of the crisis. This is why assessment is important to see what will happen when the crisis is upon us.

Participant: I would like to point out that this precautionary attitude to crises would be particularly important in the area of climate change and its effect on agriculture and hence food price shocks.

Speaker: I agree with that point.

Moderator: Thank you very much for your thoroughness in answering questions and for your insightful lecture. I would also like to thank all participants for their relevant questions on this important issue.

