

Protecting the Poor Against the Next Crisis

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Background Papers

- Ravi Kanbur, ["Macro Crises and Targeting Transfers to the Poor"](#), April, 2009, *Journal of Globalization and Development*, 2010.
- Ravi Kanbur, ["Systemic Crises and the Social Protection System: Three Proposals for World Bank Action"](#), Policy Note, April, 2009.
- Ravi Kanbur, ["The Crisis, Economic Development Thinking, and Protecting the Poor"](#), Presentation to the World Bank's Executive Board, July, 2009.

Outline

- Introduction: Crises as the New Normal
- The Nature of Crises
- Implications for Social Protection
- Implications for Donors and Governments
- Conclusion

Crises as the New Normal (1)

- The global financial crisis that the began in 2008 will have increased global poverty by 50 million in 2009. (World Bank estimate)
- Much is being written about The Crisis and Poverty. This is important. However, the present Crisis will pass. But ***Crises*** will still be with us.

Crises as the New Normal (2)

- For developing countries, periodic crises are likely to be the “new normal”, with multiple origins: climatic, infectious diseases, unrest in neighboring countries, global collapse of a particular industry, global or regional financial crises, etc etc.

Crises as the New Normal (3)

- Indeed, it can be argued that “crises” have always been “the normal” for developing countries. The 2008 crisis gave developed countries a taste of this normality.
- So, we need to think about what happens when our “normal” development discourse, about the “normal” development path, has superimposed upon it the prospect of major country level shocks over which the country has no control.

Crises as the New Normal (4)

- By the “normal” development discourse I mean the usual things—education, health, infrastructure, public sector management, public/private partnerships etc etc.
- I also include in this category idiosyncratic shocks that are uncorrelated across individuals (eg certain types of health shocks), and insurance or lack thereof, on which there is a large literature.

Crises as the New Normal (5)

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

The Nature of Crises (1)

- What are the features of these shocks? Crises will reduce average income sharply (otherwise it wouldn't be a crisis). So poverty will rise at the same time as resources to fight it decline.
- But this is where the commonality of Crises ends. Crises 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.

The Nature of Crises (2)

- 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.
- Added to this is the complication that a global crisis can be transmitted very differently to a country depending on how its (large and powerful) neighbors react to the crisis.

The Nature of Crises (3)

- 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. Each type of crisis will affect different countries differently, impoverishing different parts of the population

The Nature of Crises (4)

- Further, 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.

Implications for Social Protection (1)

- These two features of Crises—uncertainty about who exactly they will impoverish, and uncertainty about when they will strike and recede (uncertainty of crisis type and crisis timing)—are key in conceptualizing a social protection response.

Implications for Social Protection (2)

- The first feature requires that we think of social protection as a *system*, rather than assessing it component by component and program by program.
- 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.

Implications for Social Protection (3)

- By the time that specific intervention 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.

Implications for Social Protection (4)

- But please note, 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.

Implications for Social Protection (5)

- The second feature of crises, timing uncertainty, requires that the social protection system be *flexible*, that it be capable of being scaled up rapidly and scaled down rapidly.
- 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.

Implications for Social Protection (6)

- 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.
- It is this ease of scaling up which perhaps explains why civil society, and the polity generally, gravitates towards this type of instrument.
- The alarm bells are usually rung by technocrats who point to the difficulty of scaling down such subsidies when the crisis passes because of political economy resistance.

Implications for Social Protection (7)

- Public works programs on the other hand, offer employment at a relatively low wage. When a crisis strikes, applications at the work site increase.
- When the crisis fades and people have better employment opportunities elsewhere, applications fall off—the scaling down is automatic.

Implications for Social Protection (8)

- 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.

Implications for Social Protection (9)

- 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 post 2004 election 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.

Implications for Social Protection (10)

- One way of easing the political economy tensions is to provide funds for the scaling up from the outside.
- We will return to this in the next section.
- But before that, there is a technical dimension to the scaling up problem for public works.

Implications for Social Protection (11)

- 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, and this depends on adequate project preparation in normal time.
- We will return to this point later.

Implications for Donors and Govts (1)

- If the above line of argument is accepted, what does it imply for donors (and for governments?)
- 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.

Implications for Donors and Govts (2)

- First, governments should lead and the donors should support 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.

Implications for Donors and Govts (3)

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

Implications for Donors and Govts (4)

- Second, based on the recommendations of the assessment, the donors should over the medium term *finance improvements in coverage and in flexibility*.
- This is perhaps closest to what is done “normally” by donors and governments, 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.

Implications for Donors and Govts (5)

- 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 mind set 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.”

Implications for Donors and Govts (6)

- But this is not just an issue for donors.
- In “good times”, Governments may balk at spending resources on preparing a shelf of projects for potential use, rather than on projects with immediate return.

Implications for Donors and Govts (7)

- Third, the World Bank and donors should consider developing a *pre-qualified line of assistance for social protection which kicks in automatically when certain crisis triggers are breached.*
- Prequalification is important. Access should not have to go through the usual time consuming Bank process, and through a rejigging of a CAS not designed for crisis reallocation of funds, and doing it all in a race against time.

Implications for Donors and Govts (8)

- The social protection assessment 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.
- Access would be strictly governed by triggers that identify crises of certain magnitude, and not of the country's own making.

Implications for Donors and Govts (9)

- 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)?
- IBRD's 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.

Implications for Donors and Govts (10)

- In December 2010, the World bank Board approved a “pilot Crisis Response Window (CRW) in IDA15 to assist IDA countries in mitigating the impact of the current global crisis.”
- Let us look at the design features of CRW.

Implications for Donors and Govts (11)

- Eligibility: 56 non-oil exporting IDA-only countries.
- Duration: Jan 2010-Dec 2011 (second half of IDA15 period).
- Size: \$1.3b, additional, from a number of sources including “arrears clearance” etc

Implications for Donors and Govts (12)

- Allocation, Broad Structure: Classification of countries into High Impact/Low Impact and High Prior Needs/Low Prior Needs using various indicators (eg growth rates before and during crisis, and level of per capita income before crisis).

Implications for Donors and Govts (13)

- Allocation, Detailed Process. Proposal from Country Team covering:
 - Crisis Impact
 - Pre-existing needs
 - Resources needs and availability
 - Ability to utilize resources effectively
- Accelerated approval process through the Board.

Implications for Donors and Govts (14)

- I welcome these developments. They represent the start of a change in mind set. Additionality of resources for crisis management is an important feature. Attempted rapid response is another.
- But this is still some way from a prequalified line of assistance based on a social protection assessment program.

Implications for Donors and Govts (15)

- “In the second phase, a proposal for a more general crisis response window will be presented in the course of the IDA16 replenishment process.”
- In the design of this window the conceptual and process issues highlighted in this presentation should be taken into account.

Implications for Donors and Govts (16)

- What is needed is to
 - “Stress test” the existing system with respect to a range of crises.
 - Finance the improvement of the system for addressing uncertainty of crisis type and crisis timing.
 - Offer a pre-qualified line of assistance which goes into action automatically when crisis triggers are breached.

Thank you!