Systemic Crises and the Social Protection System: Three Proposals for World Bank Action[1]

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1. Introduction

In these brief comments 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 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. 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.

2. The Nature of Crises

What are the features of these shocks? 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.

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. 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. 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.

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

[1] Presentation to the World Bank's Poverty Reduction and Economic Management (PREM) Network, April, 28, 2009. For background, see my longer paper written for the Growth Commission, http://www.growthcommission.org/storage/cgdev/documents/kanbur.pdf. I have also drawn on Martin Ravallion's excellent paper, http://works.bepress.com/cgi/viewcontent.cgi?article=1014&context=martin_ravallion

not known. Crises can come suddenly, and when they do come we will not know quite how quickly they will recede.

3. Implications for Social Protection

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.

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. 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.

The second feature of crises requires that the social 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. 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. 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.

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. 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 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 times—I will return to this point later. 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 last 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. 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.

4. Implications for the World Bank (and Donors Generally)

If the above line of argument is accepted, what does it imply for the World Bank and for donors? 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, the World Bank and 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. 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).

Second, based on the recommendations of the assessment, the World Bank and donors should over the medium term *finance improvements in coverage and in flexibility*. This is perhaps closest to what is done "normally" in the Bank, 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 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."

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*, and for which access does 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. 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, and access would be strictly governed by triggers that identify crises of certain magnitude, and not of the country's own making. In my view this goes well beyond the Current World Bank OP 8.00 (March 2007), and the Rapid Response Fund. 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.

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.