Getting Ready For The Next Crisis

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Outline

- Introduction
- Evaluation of WB Safety Net Operations
- A Social Protection Assessment Program
- Pre-Qualified Assistance for Crisis Response
- An Aside: The IDA issue
- Conclusion
Some Papers


• Ravi Kanbur, "Protecting the Poor Against the Next Crisis", Distinguished Lecture Series, Egyptian Centre for Economic Studies, Cairo, April, 2010.


• Ravi Kanbur, "Aid to the Poor in Middle Income Countries and the Future of IDA", October, 2011.
Introduction (1)

• Idiosyncratic shocks (health, work accidents, death of breadwinner etc) are now accepted as normal part of the pattern and experience of poverty.

• Acceptance also of the need for safety nets and other public interventions to supplement inadequate private and community mechanisms.
Introduction (2)

• More recently, acceptance of systemic shocks as a normal part of development, especially with increasingly open economies and increasing climate volatility.
• These systemic shocks, or crises, are overlaid on idiosyncratic shocks in their impact on the poor.
• Need to protect the poor against these shocks because of (i) short term worsening of poverty and (ii) long term consequences of short term shocks eg on asset accumulation or child development
Introduction (3)

• Crises are by their very nature uncertain as to (i) their timing and (ii) their origin.
• This means that policy response has to be (i) ex ante and (ii) comprehensive.
• As noted by the Advisory Panel to the recent IEG evaluation of WB support to Social Safety Nets: “Perhaps the most important recommendation of the evaluation is that support for SSNs need to be treated systematically and systematically, rather than one-off interventions in response to crises or particular political exigencies.”
Introduction (4)

• Three steps in a “systemic and systematic” policy response:
  – Analysis to identify gaps and weaknesses in protection mechanisms seen as a system
  – Investment to fill gaps and overcome weaknesses
  – Additional Financing of social protection when crisis strikes.
• How does the World Bank do on these fronts?
• My assessment: The Bank in fact does better on Investment than it does on Analysis and on Financing Instruments.
• I will first look at Bank Projects, then Bank Analysis and finally Bank Financing Instruments.
Evaluation of WB Safety Net Operations (1)

• On the face of it, Safety Net Operations may appear to be more difficult than more conventional projects such as infrastructure, or more long standing sectoral interventions such as in education.

• At the same time, it might be thought that Safety Net Operations may be more difficult in LICs than in MICs—because of lack of experience, or capacity constraints.
Evaluation of WB Safety Net Operations (2)

• However, results of recent IEG evaluation report question this perspective for 2000-2010:
  • “Eighty-six percent of operations supporting SSNs were rated moderately satisfactory or higher, compared with 78 percent for all other Bank projects. This higher performance is particularly striking for LICs, where 88 percent of projects with an SSN objective were rated moderately satisfactory or higher, compared with 74 percent of operations Bank-wide.”
Evaluation of WB Safety Net Operations (3)

Percentage of Projects with a Performance Rating of Moderately Satisfactory or Higher, by Country Income Level
Evaluation of WB Safety Net Operations (4)

• On the one hand this is encouraging for interventions in LICs.
• But on the other hand it raises the question, why? Why are SSNs better in LICs than in MICs, despite arguments to the contrary?
• My hypothesis—it is precisely because Safety Nets in general are less well developed and entrenched in LICs that Bank operations can be designed reasonably well as stand alone isolated operations. In the more developed, but more complex SSN terrain in MICs, design of successful SSNs is trickier.
A Social Protection Assessment Program (1)

• How does the Bank do on Analysis?
• My view is that the Bank does very well on individual pieces of analysis and evaluation (for example, recent assessment of CCTs in Africa).
• However, I do not see much that corresponds to a “systemic and systematic” country level assessment of social protection broadly defined, which identifies gaps and exposes vulnerabilities.
A Social Protection Assessment Program (2)

• I have argued in the past for a Social Protection Assessment Program (SPAP), analogous to the Financial Sector Assessment Program (FSAP).

• Such an assessment would (i) provide a detailed account of the structure of social protection programs in the country and (ii) would “stress test” the system with respect to systemic shocks such as the collapse of exports, a natural disaster, etc.
A Social Protection Assessment Program (3)

• “A comprehensive social protection assessment, done not under crisis conditions but in the framework of an ongoing dialogue with the government, can reveal gaps in coverage, inefficiencies in the existing interventions, and the data and monitoring and evaluation requirements.” (From Statement of Advisory Panel to IEG Evaluation of SSNs).
A Social Protection Assessment Program (4)

• An important issue with both Analytical and Operational work. The IEG evaluation notes:

• “SSNs are a challenge within the Bank, as they fall under the general responsibility of the Social Protection Sector, yet less than half of projects containing SSN support fall under that Sector board. SSNs involve all Networks and 13 sector boards.... Analytical work is often undertaken by regional PREM Poverty units, investment projects and technical knowledge of SSNs are housed in the regional Social Protection department (which also produce considerable AAA), and multisectoral DPLs involving SSN components are supported by the regional economic policy unit within PREM.”
A Social Protection Assessment Program (5)

• “....accountability mechanisms are inconsistent with the multisectoral nature of the work involved, as there is no clear mechanism of cooperation, recognition, or quality control procedures for cross-sectoral situations.”

• Question: Might a country focused SPAP be the vehicle for cross-sectoral collaboration?
Pre-Qualified Assistance for Crisis Response (1)

• As noted earlier, crises are uncertain in their timing and their origin.
• After the crisis hits is not the best time to design social protection systems.
• But after the crisis hits is also not the time to begin to find extra finance for the systems that do exist.
Pre-Qualified Assistance for Crisis Response (2)

• Rather, what we should be aiming for is Pre-Qualified lines of assistance for social protection when certain crisis triggers are breached.

• Now, we do have some instruments of the “pre-qualified” variety.
  – IMF precautionary lines of credit.
  – IBRD’s DDOs
  – IBRD’s CAT DDOs
Pre-Qualified Assistance for Crisis Response (3)

• With these instruments, all the “legwork” will in principle have been done. If the crisis meets the relevant criteria, the credit line can be drawn down.

• What I would like to see is an exploration of extending these instruments to (i) IDA and (ii) social protection.
Pre-Qualified Assistance for Crisis Response (4)

• Does IDA’s Crisis Response Window do the job?
• Reading the publicly available documents, I am not entirely sure that this is a “pre-qualified” line of credit facility.
• “Management would consult with the IDA Board shortly after the disaster occurs, and indicate to the Board that access to CRW resources would form an appropriate part of the response from the World Bank Group.”
Pre-Qualified Assistance for Crisis Response (5)

• Now, there are tradeoffs. If the money set aside in these pre-qualified lines comes from the overall IDA allocation for a country, then the country has a difficult choice between using the funds for urgent needs now, versus letting it sit as insurance. The choice may be particularly difficult if an election is coming up!
Pre-Qualified Assistance for Crisis Response (6)

• This all the more reason to start a dialogue with the government on the nature of insurance that these funds can provide, helping the country in Getting Ready For The Next Crisis.

• Moreover, part of the pre-qualification process would be an assessment based on an SPAP.

• But first we need an instrument that is tailored to IDA and to financing social protection.
An Aside: The IDA Graduation Issue (1)

- Projections by Moss and Leo of the Center for Global Development suggest that over the next ten years the following countries will likely graduate from IDA:
An Aside: The IDA Graduation Issue (2)

<table>
<thead>
<tr>
<th>IDA 16/17</th>
<th>Angola, Armenia, Bhutan, Bolivia, Bos&amp;Herz, Congo, Djibouti, Georgia, Guyana, Honduras, Moldova, Mongolia, Sri Lanka, Sudan, Uzbekistan / Cameroon, India, Nigeria, Vietnam, Yemen, Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA 18/19</td>
<td>Cote d’Ivoire, Kenya, Kyrgyz Rep, Laos, Mauritania, PNG / Cambodia, Ghana, Lesotho, Nicaragua, Pakistan, Senegal, Tajikistan</td>
</tr>
<tr>
<td>IDA 20/21</td>
<td>Bangladesh, Benin</td>
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An Aside: The IDA Graduation Issue (3)

- We are sleep walking into a situation where over the next decade and a half concessional development assistance will disengage from the bulk of the world’s poor.
- This is happening because countries that are graduating into Middle Income status still have large numbers of poor people.
- This new situation, where three quarters of the world’s poor live in Middle income Countries, raises fundamental questions about the operational rules of access to concessional development assistance such as that provided by IDA.
An Aside: The IDA Graduation Issue (4)

• In my writings I have argued for a new window of IDA which recognizes that poverty persists and development problems remain despite the welcome graduation of many countries to Middle Income status.

• In particular, volatility and vulnerability will continue to characterize the lives of the poor in the newly Middle Income Countries.
An Aside: The IDA Graduation Issue (5)

- Between the current IDA threshold and twice this threshold, IDA resources would be available for projects and interventions targeted specifically to the poor—for example through projects focused on regions whose per capita income is below the IDA threshold, or through projects focused on sectors such as basic health, basic education and social protection which would reach the poorest of the poor.
An Aside: The IDA Graduation Issue (6)

• The proposal is politically problematic, of course!
• But I believe it is a fight worth fighting, not least because of a natural tendency in graduating countries to cut back on “soft” sectors when soft money stops.
Conclusion (1)

• Systemic shocks are here to stay. We must prepare to protect the poor against the next crisis.

• How is the Bank doing?

• Not so badly on individual projects, although room for improvement, of course.

• But could do much better on systemic and systematic assessment of weaknesses and vulnerabilities at the country level.
Conclusion (2)

• And could do much better in developing instruments for pre-qualified disbursement for social protection when a crisis hits.

• IDA graduation is a looming problem for social protection financing. The Bank had better get ready for *that* crisis, which will be upon us soon.
Thank you!