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


• Tony Addison, David Hulme and Ravi Kanbur, "Poverty Dynamics: Measurement and Understanding from an Interdisciplinary Perspective", in Tony Addison, David Hulme and Ravi Kanbur (Editors), *Poverty Dynamics: Interdisciplinary Perspectives*, Oxford University Press, 2009.


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Some Caveats

- Mainly conceptual.
- No facts and figures.
- No detailed country experiences.
- BUT,
- A framework.
- Some warnings.
- Many questions.
Introduction: A Framework (1)

Wellbeing outcomes (think of income or consumption for simplicity) depend on (i) medium term factors like assets and access to opportunities, (ii) insurance mechanisms to cope with short term shocks and (iii) the magnitude of the short term shocks.

Short term shocks can translate into medium term consequences for assets, opportunities and wellbeing.

Improving the wellbeing of the poorest thus depends on (i) increasing their assets and opportunities in the medium term, (ii) improving insurance mechanisms and (iii) addressing the actual outcome of shocks when they hit.
• BUT, two sets of issues:

• First, interventions in (i), (ii) or (iii) have consequences for the others. For example, public interventions in (ii) could diminish private arrangements, leaving (iii) unchanged. Public intervention in (iii) is implicitly like intervention in (ii). Intervention in (i) also helps with (iii).

• Second, given limited public resources, where is it best to use them—(i), (ii) or (iii)? Not good enough to duck the question and say do all three. In what combination, then?
Analysis of poverty and inequality has undergone a data revolution in the last 20 years. Household surveys (LSMS, DHS, sub-national surveys) have mushroomed. Panel data sets have spread, including in low income countries. There has been a coming together of Qualitative and Quantitative Methods to complement each other. Bottom line of all this—there is significant and systematic evidence of risk and volatility at the micro level.
Consensus I: Importance of Risk and Volatility

- At the macro level, evidence of increased growth volatility compared to the “golden age” of growth from 1945 to 1979.
- Also, evidence of greater volatility in climate, and of ease of spread of infectious disease because of labor movements.
• At the micro level, just as the household uses multiple strategies in integrated manner to address risk, governments need to take a systemic perspective across the whole range of programs and interventions.

• In terms of macro shocks, there are multiple sources of these shocks—global financial meltdown, collapse of an export market, spread of infectious disease, natural disaster, etc. Since the shock cannot be predicted in advance, the consequences of a range of shocks need to be anticipated, and how the current set of programs will respond need to be assessed systemically.
I have argued that for macro shocks, we need a Social Protection Assessment Program (SPAP), analogous to the Financial Sector Assessment Program (FSAP).

But this SPAP can in principle be an integrated documentation and assessment of the set of social protection programs in a country, viewed as a system advancing objectives (i), (ii) and (iii).
• When crises hit, their impacts are felt immediately by the poor.

• But national and international response is typically slow.

• Slowness of national response can be addressed through the findings of the Social Protection Assessment Program (SPAP).

• However, a key issue has been the slowness of international response in making funds available to scale up Social Protection needed during the crisis.
Consensus III: Global Assistance For Crisis Response (2)

• What is needed is a **pre-qualified** line of assistance to help scale up programs to protect the poor in the face of the crisis.

• Some movement on this in the World Bank, through IBRD’s “CAT-DDO” and through IDA’s Crisis Response Window.

• More needed, but direction is right and is evidence of a consensus on this issue.
Challenge I: Insurance vs Redistribution (1)

• Social Protection—Is it Primarily Insurance or Redistribution?

• It is conceptually useful to separate out I from R. It can also be useful politically (I sells better than R).

• But the fact of the matter is that in practice (i) I cannot be separated out from R, and (ii) SP is primarily R rather than I.
Examples:

“Social Insurance” for formal sector employees is effectively a transfer to them from the fisc—highly regressive.

Cash transfers are directly redistributive, but also provide insurance implicitly (for example, when a family becomes eligible after a macro or micro shock reduces its income to below the eligibility level).

Support for insurance schemes among the poor is, effectively, redistribution in favor of the poor compared to the opportunity cost of the funds. This helps build their medium term assets, but is no different distributionally than an equivalent amount spent on building equivalent assets directly.
So the challenge to the SP community is:

– (i) analytically, to estimate the insurance and the redistribution components of each program, or the system of programs.

– (ii) politically, to not hide behind the more palatable “insurance” label but to be explicit about the redistributive dimension of SP (positive or negative).
Challenge II: LICs vs MICs (1)

• SP is significantly more widespread in MICs than in LICs.

• Is this the “natural” order of things? Can SP only be “afforded” once the LIC/MIC threshold is crossed? Are SP Programs better implementable in MICs than in LICs?
On the face of it there is indeed an issue if the following assumptions are true: (i) resources available for financing SP programs are limited in LICs and (ii) capacity for implementing SP programs is also less in LICs.

This is because in general lower level of resources for transfers requires a finer degree of targeting. But a finer degree of targeting requires better implementation capacity. Hence the argument that for LICs SP programs are not appropriate.
So the challenge for the SP community is:

- To argue that redistribution is required *as much if not more* in LICs than in MICs.
- To show that there is indeed successful SP program implementation in LICs (e.g., recent IEG review of Social Safety Nets).
- To assess the characteristics of successful SP programs in LICs (e.g., smaller scale, focused program rather than programs with wide, even national, reach).
• Prior to any SP intervention, families, communities and markets will have developed various ingenious insurance mechanisms. They are of course wholly inadequate, but they exist.

• Three challenges for SP community:
  – To encourage expansion of these mechanisms, or introduce state mechanisms directly?
  – If the former, how to encourage them?
  – If the latter, what happens to the existing mechanisms?
There are several arguments against expansion of direct state mechanisms of insurance in LICs:

- Given small size of formal sector and lack of monitoring and implementation capacity in general, informal sector is likely to be left out (as is indeed the case now).

- As is seen in many examples, state insurance mechanisms are liable to capture by high paying employees of the state and formal private sector, and morph into very effective mechanism for redistribution from the fisc to the better off.
So, how to encourage non-state mechanisms?

– Positive incentives. A lot written about these.

– Less written about removing negative incentives. Example of SEWA’s micro-insurance in India.
Challenge III: State vs Private Insurance (4)

- Physics; Third law of motion: Every action has an equal and opposite reaction.
- Policy; First law of intervention: Every intervention has a reaction which undoes to some extent the intended consequences of the intervention.
- For insurance, other mechanisms will naturally shrink in response to state intervention. The challenge is to take into account this shrinkage in assessing the overall impact of the evaluation—“gross” versus “net” benefits of the intervention.
• CCTs are all the rage now. Hardly any questioning of them in the policy discourse.

• Microfinance was all the rage ten years ago. A more sober assessment is now coming into view. In particular, about whether the benefits flow to the poorest of the poor.

• So, here’s a challenge for the SP community on CCTs—at least on the first C.
• Basic structure of a CCT
  – Identify target households
  – Define “Good behavior” (keeping kids in school, attending ante-natal health clinics, etc) and monitor this behavior.
  – Those who achieve a given behavioral standard receive a cash transfer.

• But what if the behavioral standard is more likely to be attained by wealthier households? (Typically, “education” and “health” are “normal goods” ie households go for more of these as they get wealthier.

• Then, clearly, CCTs have an inbuilt regressivity. Specifically, it can be shown (Carlos Rodriguez) that with a fixed budget a UCT reduces depth of poverty by more than CCT.
• So the SP community must ask itself--what exactly is the gain of the first “C” in “CCT”?
  
  – Is the gain a political one, assuaging middle class concerns about “handouts” versus “investment”?
  
  – Clearly, conditioning moves behavior in the direction of the conditioning. There is a mountain of evidence on this, but this is perhaps not that surprising. The real question is—what would a UCT, with the same budget, achieve in terms average behavioral change and progressivity of this change? We do not have an answer to this question.
Challenge V: Flexible vs Regulated Labor (1)

- There is a tendency in the SP discourse, for example in WB Concept Note, to shy away from a very sharp debate in development policy—on the efficacy of regulating labor markets, and extending the regulation of labor markets to the previously informal sector.

- There are major disagreements between those (eg ILO) who argue that labor regulation is at the core of social protection, and those who argue that these regulations are “job killers”

- Hiding behind “training and capacity building etc” as the lead intervention will not make this debate go away.
• It could be argued that this debate is not really relevant to LICs, where the formal sector is tiny.

• But the case of India shows that the debate is alive and well—even though by some estimates 93% of the workforce is in the informal sector.

• Key question in assessment is whether or not the labor market in the currently unregulated sector is competitive or not in the conventional economic sense.
• If it is, then the case for regulation is difficult to make. If it is not, there is in principle a strong case for regulation (of course, implementation issues may still derail the case for regulation).

• The economic assessment of public works schemes is also turns out to be radically different if the labor market into which they are introduced is non-competitive ie one with employer power. (Basu-Chau-Kanbur).

• So the challenge for the SP community is—what exactly is the nature of the labor market in LICs—competitive or non-competitive? We have assumptions, but no convincing empirical evidence on this one way or another.
Conclusion: Five Questions

• Is SP primarily Insurance or Redistribution?
• Why precisely are some SP programs in LICs better than in MICs?
• How do pre-intervention mechanisms by families, communities and markets adjust when SP programs are introduced?
• What exactly is lost (and what is gained) if we go from CCTs to UCTs?
• Are informal labor markets in LICs competitive or non-competitive?