

Resilience to Shocks: Response to MCC Note

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- Last time we were talking about ‘resilience’ and preparing for the next crisis was during the financial crisis.
- Ravi Kanbur, “Getting Ready for the Next Crisis,” Presentation to World Bank Vice Presidents’ Round Table, December 21, 2011.
- Ravi Kanbur, Stress Testing for the Poverty Impacts of the Next Crisis,” in Ambar Narayan and Carolina Sánchez-Páramo (eds.). *Knowing, When You Do Not Know*, The World Bank, pp. 50-55, 2012
- Three years after that crisis we were back to business as usual.
- Now we are talking again about being prepared for crises....

- By crises we mean correlated shocks that affect an entire economy or significant chunks of it.
- If we knew the nature of the shock and the timing of its arrival, it is still bad news but at least we can prepare for it.
- The dilemma arises when we do not know the nature of the shock nor its timing.
- It could be hurricanes, floods, infectious diseases, refugee flows, tourism shut down because of perceived terrorist threats in neighboring countries, remittances drying up because of events in other countries, etc.
- And it could happen this year, next year, or five years from now.

- How does one prepare for such a prospect?
- In terms of ex ante preparedness and ex post response, the specificity of the crisis matters. Building levies and rescuing stranded citizens from their roofs is different from setting up refugee camps and creating meaningful employment for refugees when they arrive. To the extent that the anticipated crises are specific and their timing can also be anticipated, preparations will follow that course.
- But in the absence of specificity, of crisis type or crisis timing, what are the generic responses that policy makers and development assistance agencies should be making?

- The first one is obvious, and happens to some extent everywhere and a lot in well prepared governments, and that is to “game” a range of crises and simulate the likely physical and economic impact of each possible crisis. Relatedly, gaming out the possible responses.
- An obvious role for development agencies is to provide expertise and finance for such preparedness exercises. If the assessment suggests need for key investments in physical and human infrastructure then financing for these in the usual way is also a role for development agencies.
- How confident are we that the governments of MCC countries have such comprehensive assessments and plans? What assistance can be provided in developing them?

- This is all ex ante, before the crisis hits.
- But the best laid plans for addressing a crisis after it hits will not be possible without an upsurge in financing.
- There are two key elements to financing—amount and timing. The amount can be calibrated ex ante. The timing obviously cannot.
- If the financing does not arrive in timely fashion as soon as the crisis hits then recovery from the crisis will be delayed and hysteresis will ensure long term damage.
- Other agencies have developed instruments (eg IBRD's Deferred Drawdown Option and IDA's crisis window) where pre-agreed triggers can release funds automatically. These are not perfect but at least they are there.
- Does MCC have such instruments that it can deploy in the context of its country agreements?

- Let me illustrate these principles with the case of social protection during a crisis. Generically, a crisis will lead to decline in incomes. What should be the response for protecting the poor?
- There are already myriad schemes on the ground, each with its own rationale and logic, but together they offer some protection in the face of declining incomes.
- But how much protection and to whom? And how would we know?

- The answer is to “stress test” the system by imagining crises of different sorts, simulating the income impacts, and thus the gaps left by the current system of schemes.
- Such an analysis, done ex ante, would reveal weaknesses that need to be invested for.
- The analogy is with the Financial Sector Assessment Program (FSAP) which does precisely this for the financial sector.
- A Social Protection Assessment Program (SPAP) would do the same for protecting the poor.
- There is some good movement in this direction recently through the World Bank’s Adaptive Social Protection toolkit.

- Ex post, however, operation of the (hopefully improved coverage) social protection system during the crisis will require a spiked increase in resources.
- Again, the question is whether development agencies institutional mechanisms are in place to deliver these resources automatically and without getting caught up in procedures—all the due diligence having been done ex ante rather than after the crisis strikes.
- After all, the whole point of the current conjuncture is that we don't when the crisis will strike and its exact nature, but that there be one for sure in the next few years.
- So we'd better have the instruments to address this new normal (which is actually the same as the old normal).

Thank You!