



# **Addressing the COVID-19 economic crisis in Asia through social protection**

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## Executive summary

The COVID-19 pandemic has created a perfect storm of crises across Asia, resulting in widespread job losses or cuts in wages in both the formal and informal economies. All Asian economies have been hit hard by the crisis, with economic growth falling significantly, while some countries are predicted to fall into recession. Across the region, prior to the crisis, most families in Asia were living on low and insecure incomes and were ill-prepared to withstand the impacts of the COVID-19 crisis. Nonetheless, a high proportion of families have experienced very large reductions in their incomes across the welfare distribution. If an effective fiscal response is not forthcoming, national economies will suffer and they will take a long time to recover. In addition, hundreds of millions of people will experience hardship while levels of poverty will increase dramatically.

In response to the COVID-19 crisis, many high-income countries have put in place large fiscal response packages to help stimulate their economies and minimise the recessions they are facing: for example, the Group of Seven countries are spending, on average, 5.6 per cent of GDP. In effect, they are doing ‘whatever it takes’ to rescue their economies and support the majority of their citizens. Asia needs to follow a similar approach, ensuring that those most in need are covered.

To date, low- and middle-income Asian countries have responded to the COVID-19 crisis by either expanding existing social security programmes or introducing new schemes. However, so far the magnitude of these fiscal responses, ranging between 0.02 to 0.8 per cent of GDP, is still too small to constitute effective economic stimulus packages; they are also not up to the task of countering the devastating effect on the wellbeing of vulnerable members of the population.

Underdeveloped and weak social security systems have limited the capacity of governments across Asia to respond adequately to growing needs brought about by COVID-19. A public health crisis layered over a high incidence of poverty, food insecurity, gender gaps and income inequalities, will require much more than currently exists or has been initially presented as an emergency response. Response plans so far have largely been based on existing poverty-targeted social assistance (or poor relief) schemes and social registries (or poor lists). But the targeting effectiveness of these programmes and registries is weak, often excluding over half of the poorest members of society. Further, a high proportion of those most affected by the crisis—across both the informal and formal economy labour force—are families on middle, but still low, incomes who are unable to access social security through existing systems. The perceived arbitrariness of targeting and the exclusion of those on middle and low incomes is likely to increase the risk of social unrest.

Some countries have put in place larger responses. For example, the Philippines is providing a transfer aimed at the 75 per cent poorest households across the country. However, by using its social registry to identify beneficiary households, it is likely that a considerable portion of intended recipients will be excluded. Sri Lanka’s response is reaching almost 70 per cent of households while Timor Leste is planning an almost universal transfer to households. India has announced a package of support equivalent to 10 per cent of 2019 GDP but only 0.8 per cent of GDP is intended to go towards social protection.

Asian countries need to adopt innovative approaches to social protection if they are to effectively protect the most vulnerable during the COVID-19 crisis. The IMF has suggested establishing emergency universal transfers across the region. One option is to set up simple, temporary universal lifecycle social security schemes, learning the pros and cons of doing so from the design and delivery of social security systems in high-income countries.

Another option gaining growing traction internationally is to offer all legal residents within countries a universal basic income (UBI), at least temporarily. In Sri Lanka, at a cost of around 4 per cent of GDP, a UBI could provide an average transfer of around US\$95 per household per month (equivalent to 29 per cent of GDP per capita) for a duration of six months, providing all recipients nationally with

an average of around 45 per cent of pre-household expenditure, and around 100 per cent to the households that, prior to the crisis, were the poorest.

Countries in Asia should also explore additional measures. One option for countries without unemployment benefit systems would be to use their social insurance or income tax systems to identify workers who lose their jobs and provide them with a proportion of their salary, in other words a partial payment while on furlough, as long as the employer keeps them on the pay-roll. However, this would be restricted mainly to employees in the formal economy. Thus, it should be combined with other broad-based schemes that reach the majority of the population.

It is, of course, a challenging context for low- and middle-income countries with low government revenues to finance a large stimulus package. Indeed, as economies contract, tax revenues will fall. There is a range of options that countries could use to finance fiscal stimulus packages, although they need to be tailored to the context of each country. If a stimulus package helps economies and hence tax revenues to recover more quickly, governments will be able to pay back financial liabilities that they take on now. Further, if countries do not act, they will likely face hostility from their citizens and potential political instability, requiring them to spend on costly public order measures while their economies will face an increasing risk of collapsing.

The COVID-19 crisis and its widespread impacts demonstrate the need to reform current social security systems in Asia, which, to a large extent, are based on models that high-income countries had been using in the 18<sup>th</sup> and 19<sup>th</sup> centuries. It is essential that countries build modern, comprehensive and universal systems that can effectively reduce poverty and inequality, and are more effective in tackling large-scale shocks. These reforms must also address gender disparities in wages and benefits, access to economic opportunities, and unpaid care work. The current crisis presents an opportunity to build more effective social security schemes that can be scaled back once the crisis finishes. If a further crisis hits, they could be expanded once more. In contrast to the conventional belief that social security for all members of society is a cost to governments, it needs to be recognised as an important component of a long-term, sustainable development strategy.

UNDP has a mandate for sustainable development, a strong programmatic country presence and relevant expertise, and an integrator role in UN Country Teams. It is thus well-positioned to assist governments at national and subnational levels to help improve, scale up and, where necessary, integrate social protection systems in a manner that remains compatible with long-term fiscal and social viability. This could significantly extend the reach of social protection payments and help all members of society cope with any sharp deterioration in their welfare stemming from the crisis. In turn, this would help contain inequality, and alleviate the risk of rising social tensions, necessary factors for a smoother post-crisis recovery and progress on the SDGs.

To summarize the main points in this Position Note on the social protection response to COVID-19:

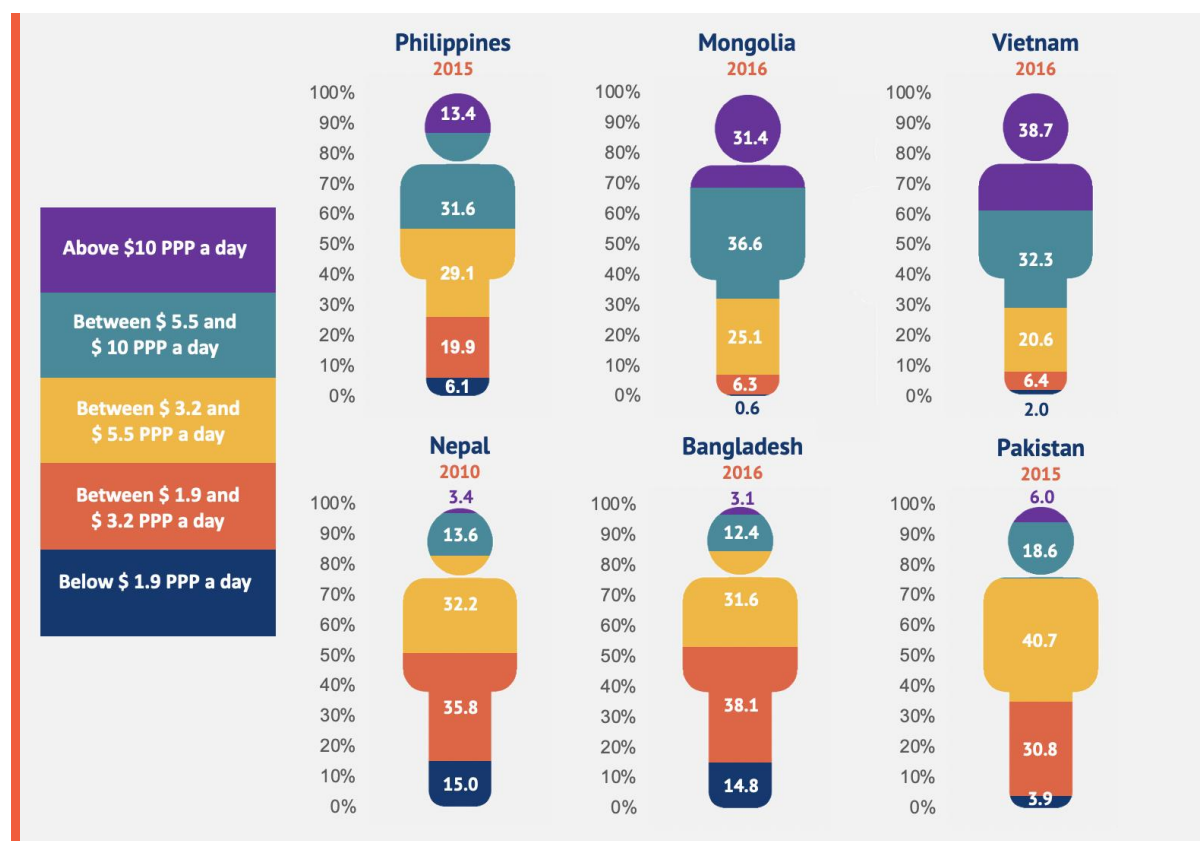
- Social protection systems in Asia have large gaps in coverage that need addressing urgently;
- Current national responses tend to be too small to contain the massive socio-economic impact; a few are now expanding and begin to reflect a re-think of social protection systems;
- The key goal in the policy response is to promote sustainability by reaching the most vulnerable; rapid data diagnostics are key to keep targeting on track and fast evolving to catch those falling back into poverty.
- Emerging social protection systems needs to blend innovative approaches with existing ones, so not starting from nothing and not throwing out what has worked well before;
- UNDP has an important role to play in helping governments of the region shape the social protection response, bringing experience from elsewhere, new data and tools, and working with partners both in the UN and outside to leverage the policy, programme and resourcing needed.

# 1 Introduction

The COVID-19 pandemic is having a significant impact across Asia, slashing economic growth rates and pushing a range of countries into recession. It is a perfect storm of crises: since it is a global crisis, demand for countries' exports are falling, resulting in widespread job losses or cuts in wages in both the formal and informal economies; countries that have adopted physical distancing and lockdown measures are experiencing a further reduction in national demand, with many people unable to work while businesses are closing; and, as people fall ill, their capacity to work reduces, as does their income.

Prior to the crisis, across most low- and middle-income Asian countries, the majority of the population were already living on low and insecure incomes. As Figure 1 indicates, in many countries, the majority were living on less than \$5.50 (PPP) per day with few people above \$10 (PPP) per day, which some would argue should be the international poverty line.

**Figure 1: Proportion of the population living under different poverty lines (PPP international \$) across a selection of Asian countries**

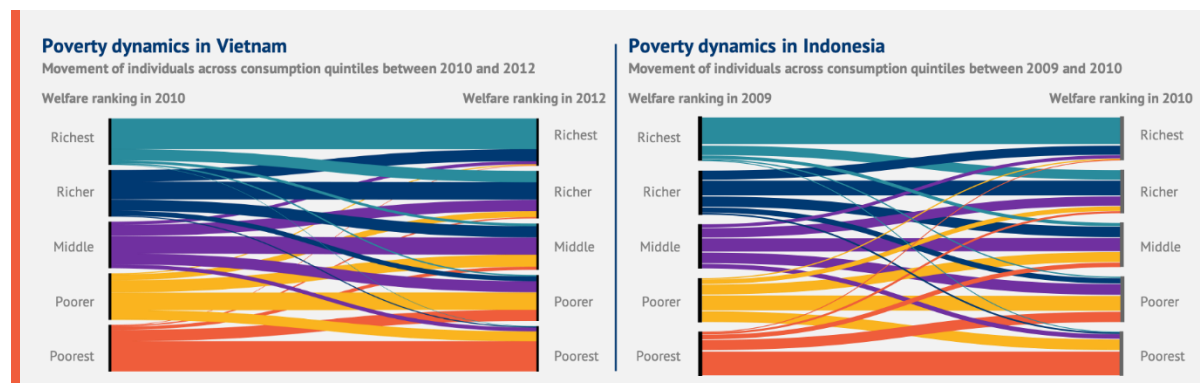


Source: Created using internationally comparable data from PovcalNet, retrieved from <http://iresearch.worldbank.org/>.

In addition, incomes were insecure. Figure 2 illustrates the movement of households relative to each other across welfare quintiles over a two-year period in Vietnam and over one year in Indonesia. In both countries, many households changed their position within the wealth distribution as they were

affected by shocks or responded to opportunities, although, on average, year on year the economic position of the population as a whole will have improved slightly, as economies grew.<sup>1</sup>

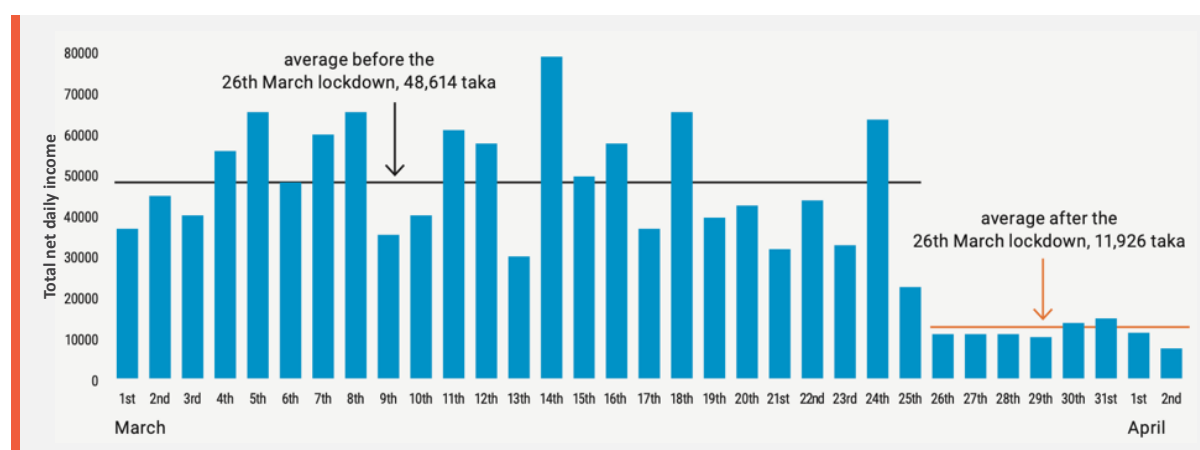
**Figure 2: Movement of individuals across consumption quintiles in Vietnam (2010-2012) and Indonesia (2009-2010)**



Sources: Secondary analysis of Vietnam Household Living Standards Survey and Indonesia SUSENAS Panel Survey

Therefore, an already challenging situation for families and individuals has been significantly exacerbated by COVID-19. Thirty-eight per cent of employment in Asia-Pacific is in sectors that are most at risk due to the COVID-19 crisis, mostly labour-intensive low-paid and low-skilled work. However, the crisis has the potential to affect a wide range of workers across informal and formal economies, resulting in significant and sometimes catastrophic losses in income. Figure 3 is a vivid example of the impact of COVID-19. It shows the average incomes of 60 low-income households in Bangladesh, as recorded in daily diaries, and indicates the dramatic fall in incomes when lockdown measures were introduced.

**Figure 3: Combined total net daily income for 60 low-income households in Bangladesh during the period when lockdown was introduced in March 2020, in Taka**



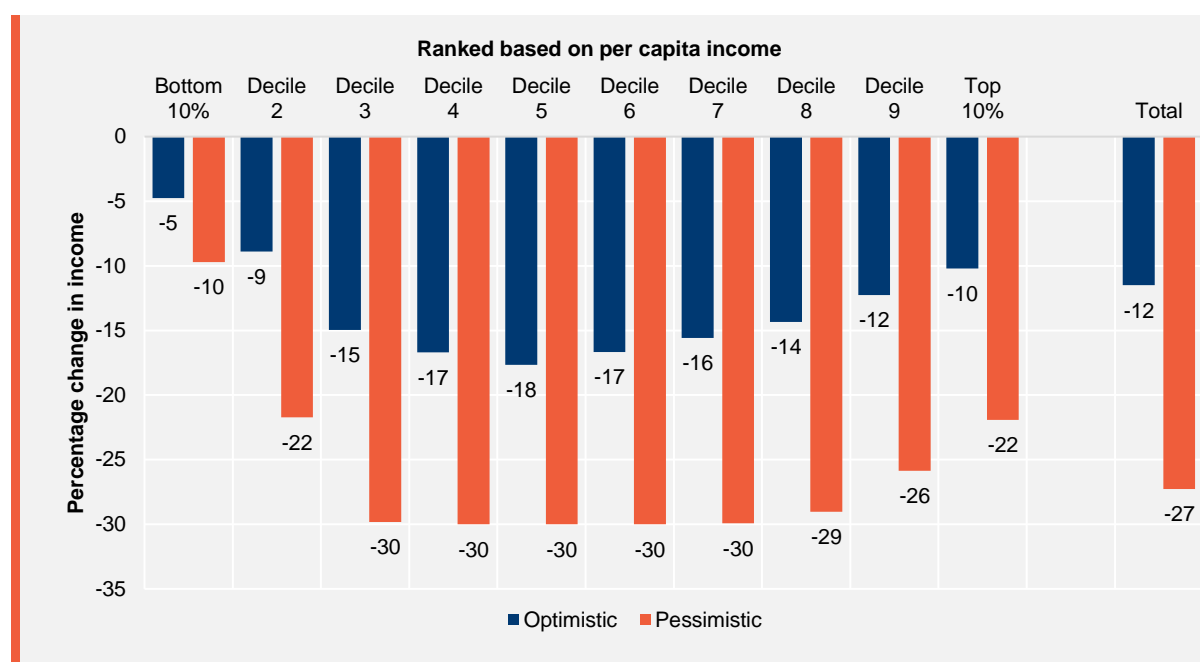
Source: UNICEF (2020)

Similarly, analysis undertaken in Sri Lanka by UNICEF suggests that, on average, households will face a reduction in income of up to 12 per cent under an optimistic scenario and up to 27 per cent under a pessimistic scenario. Figure 4 shows the estimated reduction in per capita incomes as a result of

<sup>1</sup> In the context of COVID-19, there will have been a sharp downward trend for most households, with more households falling more steeply from the higher welfare quintiles and, overall, an even more dynamic situation.

COVID-19, across welfare deciles. It indicates that those on middle incomes will be hardest hit, with incomes falling by up to 30 per cent under a pessimistic scenario. A survey undertaken in early May 2020 by UNICEF indicates that 40 per cent of households in Sri Lanka have entirely lost their incomes and 32 per cent have experienced a fall in income.<sup>2</sup> Another survey by World Vision (2020) found that 44 per cent of people have lost their jobs and that the average income in Sri Lanka has fallen US\$126 per month to a mere US\$35. Even in the early stages of the crisis, many households were dipping into their savings, taking loans, pawning their possessions and reducing their meals or eating much less nutritious food.

**Figure 4: Impacts of COVID-19 on wellbeing in Sri Lanka, measured as change in income by welfare decile**



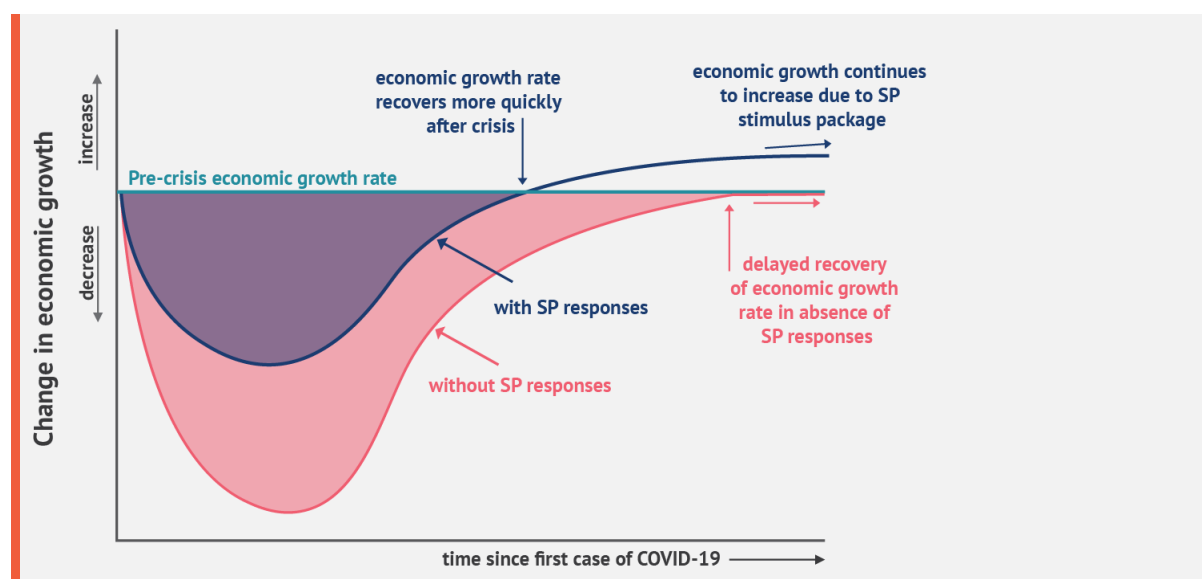
Source: Tran et al (2020).

In response to the economic crisis caused by COVID-19, it is essential that countries put in place large-scale rescue packages that can: a) provide an economic stimulus that generates, as much as possible, greater consumption and demand in the economy; b) protect businesses, large and small, so that the drop in supply is contained and they are in a position to bounce back, once the crisis lessens; c) offer a minimum level of income security for everyone; and, d) minimise the risk of social unrest, a danger that has been highlighted by the IMF (2020b).

While countries need to put in place a range of measures to combat the COVID-19 crisis, a core component of a broader stimulus and support package has to be a significant short-term provision of income support at levels that can be adequately financed. Countercyclical investment by governments through social security during a crisis is regarded as good practice and, indeed, is being followed by many high-income countries which are investing between 5 and 20 per cent of GDP in stimulus packages. The logic behind using a stimulus package as a response to the COVID-19 crisis is set out in Figure 5. By generating greater consumption across the economy, the depth of a recession as well as the risks of escalating social tensions would be reduced, thereby enabling countries to recover more quickly. If the social security system were maintained following the crisis, although somewhat scaled-back, this could also generate higher future economic growth.

<sup>2</sup> Tran et al (2020).

Figure 5: Diagrammatic representation of how large-scale stimulus packages would support economies during the COVID-19 crisis<sup>3</sup>



Source: Authors' illustration

Further, countries should also use the current crisis as an opportunity to build more effective social security schemes that can be scaled back once the crisis finishes but which, in normal times, will offer better income security than current systems and, if a further crisis hits, be scaled up once more as a more effective response than has been the case with the COVID-19 crisis.

This short paper examines potential social security responses that countries can put in place. It provides a brief overview of social security systems in Asia, examines responses that Asian countries have already implemented and proposes a range of more effective complementary or alternative approaches.

<sup>3</sup> This graph is a modified version of a graph that appeared in World Bank (2020).



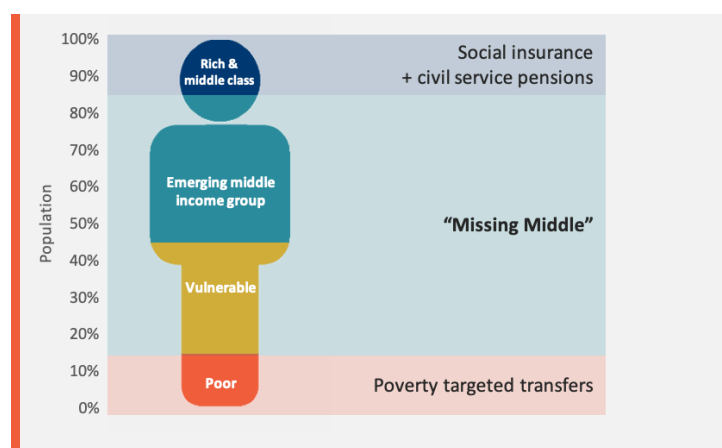
## 2 An overview of Asia’s social security systems

The extent to which Asian countries have been able to respond to the COVID-19 crisis has been shaped by their existing social protection systems. In general, across Asia, social security systems are relatively underdeveloped, which has limited the capacity of governments to implement effective responses. Across most Asian countries, a dual system of social security can be found comprising:

- **Tax-financed ‘poor relief’ schemes targeted at the poorest members of society.** Some of the larger schemes include China’s *Dibao* programme, the *Pantawid Pamilyang Pilipino Program (4Ps)* conditional cash transfer (CCT) in the Philippines, Indonesia’s *Program Keluarga Harapan (PKH)* CCT, Sri Lanka’s *Samurdhi* programme, Pakistan’s *Benazir Income Support Programme (BISP)* and the old age, widows’ and disability allowances in India and Bangladesh. To a large extent, these schemes follow the same ‘poor relief’ model that was used by a number of high-income countries in the 18<sup>th</sup> and 19<sup>th</sup> Centuries.
- **Social insurance schemes and civil service pensions for the formal economy workforce.** Most social insurance schemes focus on providing old age, disability and survivors’ pensions but a small number provide additional benefits, such as unemployment insurance.

This dual system is represented in Figure 6. As can be seen, there is a large ‘missing middle’ who are unable to access social protection, mainly comprising those in the informal economy and their household members.

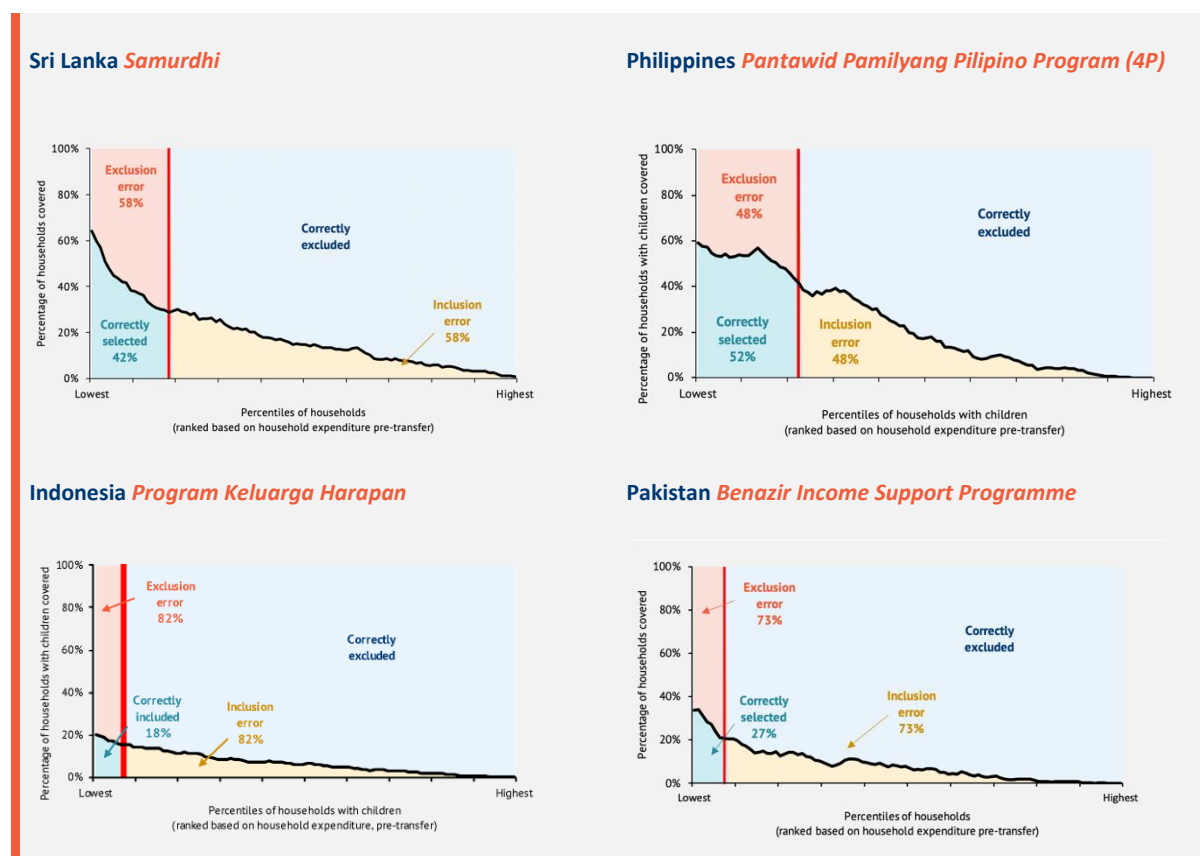
**Figure 6: The typical social protection system in Asia**



Source: Authors’ illustration

A further weakness of the typical social security system in Asia is that all poor relief schemes had very inaccurate targeting, with high exclusion of their intended recipients. Figure 7 gives four examples of the targeting effectiveness of some well-known programmes across Asia. In the graphs, across each percentile of the population, from poorest to richest, those under the black line have accessed the schemes while those above are excluded. The Philippines’ (4P) Pantawid programme performs the best, with an exclusion error of 48 per cent (in other words, almost half the intended recipients are excluded from the scheme). However, Pakistan’s BISP, which is targeted based on the National Socio-Economic Registry, has an exclusion error of 73 per cent, Indonesia’s PKH, based on the Unified Database social registry, excludes 82 per cent of its intended recipients, and Sri Lanka’s Samurdhi programme excludes 58 per cent of eligible households (Kidd and Athias, 2019).

**Figure 7: Targeting effectiveness of a selection of poor relief schemes across Asia**



Source: Kidd and Athias (2019); Kidd et al (2020a)

Recognising the challenge of poor quality targeting, many Asian countries – often with support from donors – have invested significant effort and finances in trying to improve it. The most common method has been to develop so-called Social Registries or Poor Lists. These are databases of national households, which include information on a range of household characteristics and use them to predict incomes, usually through a methodology called the proxy means test.<sup>4</sup> However, there is minimal evidence that Social Registries perform better than other simpler targeting mechanisms, such as unverified means tests. For instance, the Samurdhi programme does not use a Social Registry yet performs better than Indonesia’s and Pakistan’s programme, which have invested significantly in Social Registries (US\$60 million in Pakistan in 2009 and US\$100 million in Indonesia in 2015). One challenge is the high cost of maintaining these registries which means that the required household surveys are undertaken infrequently: for example, Pakistan is currently using data from 2009 to target its COVID-19 support while Indonesia is using data from 2015.

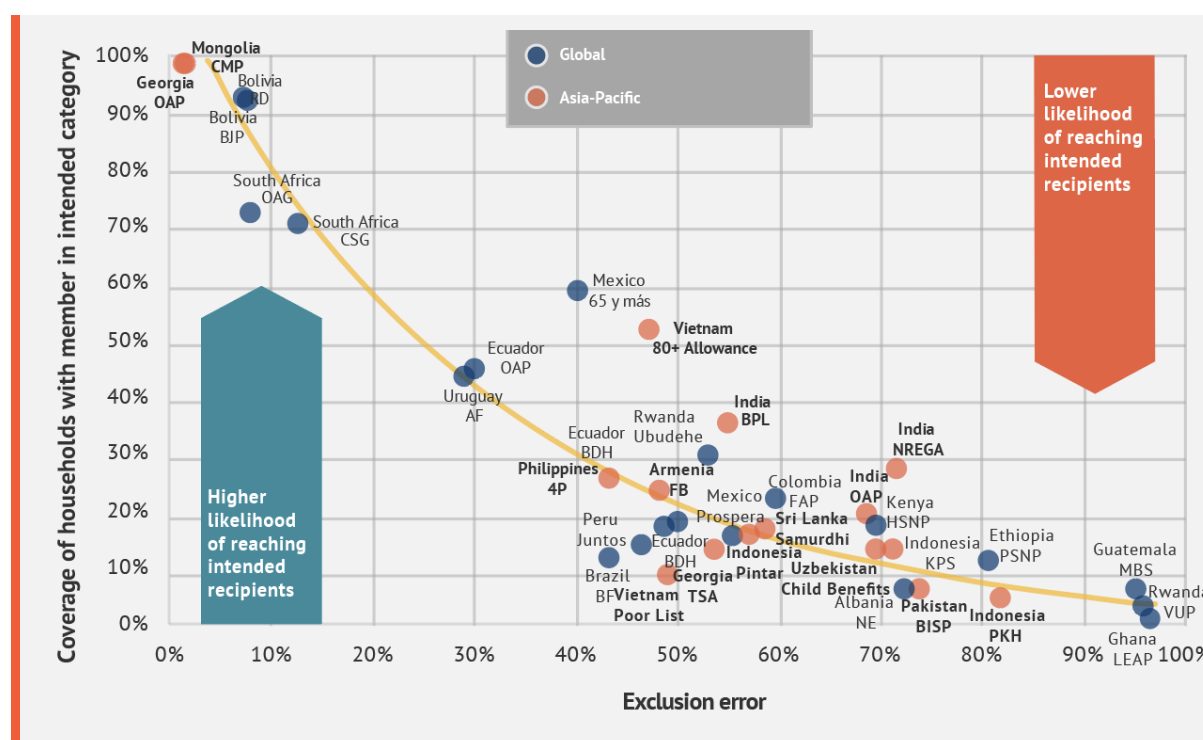
There are, of course, other challenges with poverty targeting. The perceived arbitrariness of the selection process can undermine community cohesion and trust in government and, more broadly, the social contract.<sup>5</sup> Poverty targeting can disincentivise engagement in the labour force and create poverty traps, since people may fear losing their benefits if their incomes increase (Kidd, Gelders, et al., 2019). And, there is disturbing evidence from the Philippines of the 4P programme being associated with an 11 percentage point increase in stunting among young children outside the coverage of the programme (Filmer et al., 2018).

<sup>4</sup> See Kidd et al (2017) for a description and analysis of the proxy means test methodology.

<sup>5</sup> Kidd et al (2017) provide more information on how proxy means tests undermine community cohesion.

In reality, there is a strong relationship between coverage and targeting effectiveness: the higher the coverage, the lower the exclusion error, as indicated by Figure 8 which examines a wide range of social security schemes across low- and middle-income countries and shows schemes in Asia in orange. Indeed, the most effective schemes are, unsurprisingly, universal categoric schemes such as Georgia's old age social pension and Mongolia's Child Money Programme, which was universal in 2016 when the survey was undertaken (Kidd & Athias, 2019).

**Figure 8: Relationship between coverage and exclusion errors across a selection of social security schemes in Asia-Pacific**



Source: Adapted based on Kidd and Athias (2019)

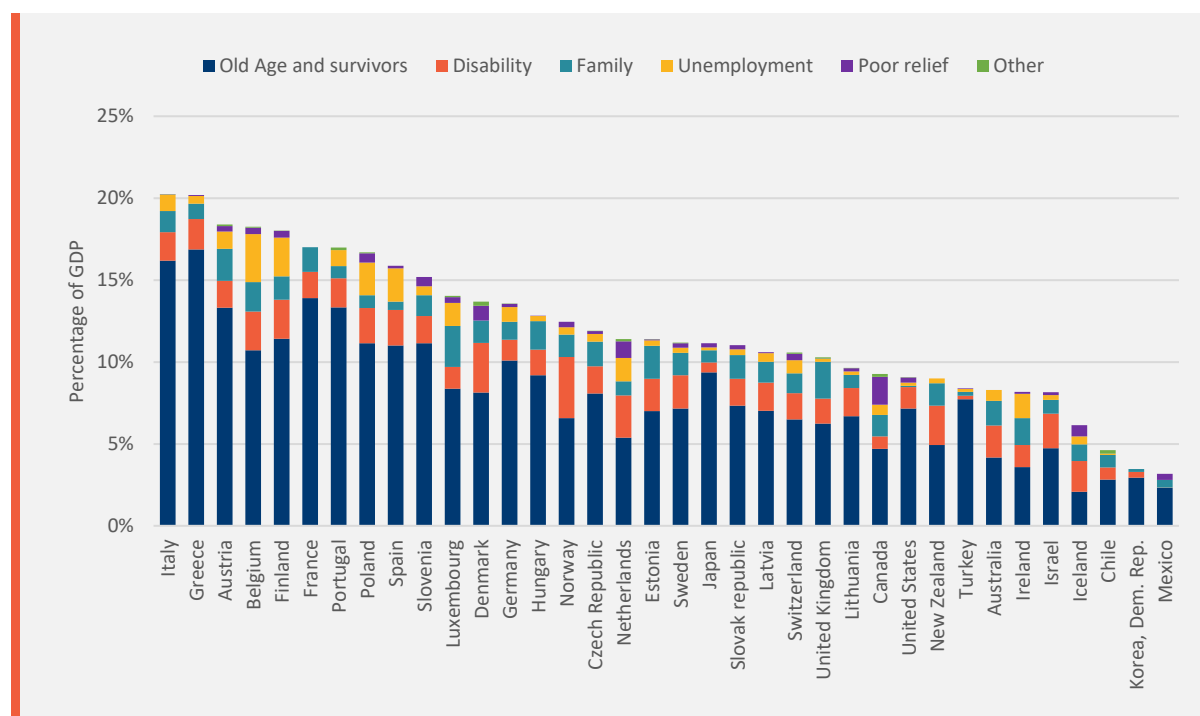
However, some Asian countries offer more comprehensive social security systems and are moving towards the type of modern systems found in high-income countries. For example: Mongolia provides universal coverage for older people and people with disabilities via both social insurance and tax-financed schemes, as well as a child benefit for 80 per cent of children (the scheme used to be universal, until the government was obliged to introduce targeting by the World Bank, IMF and ADB); Nepal, Brunei, Kiribati, Thailand, Samoa, Timor Leste – among others – have introduced universal old age pension coverage, comprising, mainly, large tax-financed social pensions;<sup>6</sup> and, Nepal, Timor Leste and Vietnam have universal disability benefits, although coverage is limited due to implementation challenges.

Nonetheless, most countries in Asia are well behind high-income countries in building more effective and comprehensive social security systems. The overall level of spending on social security across OECD countries is 12 per cent of GDP, which is well beyond the level found in Asia, apart from in a few outliers such as Mongolia and Uzbekistan. As Figure 9 shows, most spending in high-income countries is on universal old age, disability and sickness, child, survivors' and unemployment benefits, funded from both general taxation and social insurance. Schemes targeted at the 'poor'

<sup>6</sup> Vietnam and Myanmar have also universal pensions systems, but the age of eligibility for the social pensions is high so overall coverage across older people is relatively low.

nowadays comprise a very small proportion of overall expenditures. OECD countries are, therefore, in a much better place to use their existing systems to respond to the challenges presented by the COVID-19 crisis although even they are struggling. In response, some have introduced innovative schemes, such as guaranteeing wages for employees, as long as employers commit to maintaining people in jobs.

**Figure 9: Level of spending on social security schemes across OECD countries, 2014-2016**



Source: OECD Social Expenditure Database (SOCX), retrieved from <https://www.oecd.org/social/expenditure.htm>

The COVID-19 crisis and its widespread impacts on populations across the Asia-Pacific region emphasises that countries need comprehensive social security systems based on universal transfers to be able to effectively tackle national level shocks. The implementation of inclusive schemes is feasible across low- and middle-income countries. In contrast to the conventional belief that social security is a cost to governments, it can promote economic growth in a number of ways including: offering citizens a level of income security so that they are more willing to invest in riskier but higher return activities; enabling families to invest in their children to build a nation’s human capital; and, generating higher consumption nationwide which can provide opportunities to entrepreneurs and act as an immediate stimulus to economies. As the benefits of social security to society grow, their popularity and prioritisation within public expenditures is likely to increase, with societies willing to accept relatively high levels of spending and tax.

However, as it stands, in most Asian countries social security systems are not fit for purpose with regard to their capacity to provide an effective response to the COVID-19 crisis, given their reliance on inaccurately targeted poor relief and a lack of access for those on middle incomes, in effect those who work – or used to work – in the informal economy.

### 3 Social security responses to the COVID-19 economic crisis across Asia

To date, Asian countries have responded to the COVID-19 crisis by either expanding existing social security programmes or introducing new schemes. Countries have used both tax-financed and social insurance schemes in their responses. Examples of both approaches are set out in the following sections.

#### 3.1 Tax-financed social security responses

There are three main approaches through which Asian governments have provided income support to individuals and families affected financially by COVID-19 via schemes funded from general taxation:

- **Vertical expansion:** transfer values are increased for the recipients of existing schemes;
- **Horizontal expansion:** new recipients are incorporated into existing schemes;
- **Temporary schemes:** short-term, temporary programmes are established to provide financial assistance to individuals or households.

Table 1 provides a summary of tax-financed social security initiatives taken by governments across the Asia-Pacific region to respond to the COVID-19 crisis. There are examples of all three approaches being used, although there are still a number of countries that have done very little. Further, there is a range of challenges with most of the initiatives undertaken which are discussed briefly below.

**Table 1: Summary of social security responses to COVID-19 across a selection of low and middle-income countries in the Asia-Pacific region using tax-financed schemes**

Name of scheme	Number of recipients	Increase in transfer (local currency and US\$)	Transfer value (% GDP per capita) <sup>7</sup>	Duration of support	Cost of emergency response (% of GDP)
<b>Bangladesh</b>					
Payment to households who have suffered job loss	Unknown	Tk. 2,000 (US\$ 23.50)	3.25%	Unknown	0.03%
<b>India</b>					
National Social Assistance Program (NSAP) for elderly, widows and disabled	35 million recipients	Rs. 1,000 (US\$ 14.60)	7.1%	Unknown	0.8%
Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGS)	27.5 million workers	Daily wage rate increased from RS 180 (US\$ 2.60) to Rs. 202 (US\$ 2.90) + direct cash transfer	Unknown	Unknown	
PMJDY (Jan Dhan financial inclusion)	200 million women	Rs. 500 (US\$ 6.50)	3.5%	3 months	
Social Pension (Delhi)	850,000 recipients	Rs. 4,000 (US\$ 58.40) to RS 5,000 (US\$ 73.00)	28.4% to 35.5%	Unknown	
<b>Indonesia</b>					
Program Keluarga Harapan	10 million recipients	IDR 39,375 (US\$ 2.75) per month	2.2%	3 months	0.27%
Sembako (food voucher)	20 million households	33% increase in value of food transfers		9 months	

<sup>7</sup> The transfer values, as a percentage of GDP per capita, have been adjusted to reflect the per capita transfer, based on individual recipients. For one-time payments, or transfers paid in instalments, it is assumed that the transfer should last recipients for the duration of three months, reducing the size of the monthly transfer.

Cash transfer for households registered in the social registry but not receiving PKH or Sembako	9 million	IDR 600,000 (US\$ 36.80)	2.8%	3 months	
<b>Iran</b>					
Emergency transfer to low-income families with no permanent jobs	3 million households	R. 6 million (\$400.00)	1.7%	One time payment in four stages	0.3%
<b>Malaysia</b>					
Means-tested payment to households and single individuals	3.4 million single individuals 5.1 million households	RM 500 (US\$ 115.70) to RM 800 (US\$ 185.10) (individuals) Rm 1,000 (US\$ 231.40) to RM 1,600 (US\$ 370.40) (households)	4.1% to 6.6% (individuals) 2.1% to 3.4% (households)	One time	0.62%
<b>Mongolia<sup>8</sup></b>					
Child Money Programme	912,000 children	MNT 10,000 (US\$ 3.65) per month	1%	3 months	0.06%
<b>Pakistan<sup>9</sup></b>					
Ehsaas Emergency Cash Programme	10 million households	Rs. 1,000 (US\$ 6.00) to Rs. 3,000 (US\$ 18.00) per month	1.4% to 4.2%	4 months	0.3%
<b>Philippines<sup>10</sup></b>					
Emergency Subsidy Program reaching 75 per cent of households nationwide	18 million households	P. 5,000 (US\$ 93.20) to P. 8,000 (US\$ 149.20) per month	4.0% to 6.5%	2 months	0.22% - 0.34%
<b>Sri Lanka<sup>11</sup></b>					
Samurdhi, Senior Citizens', Disability and Chronic Illness Allowances	3,213,868 recipients	LKR 5,000 (US\$ 26.30)	1.6%	Unknown	0.29% <sup>12</sup>
Farmers' Pension Insurance Scheme	160,675 recipients	LKR 5,000 (US\$ 26.30)	1.6%	Unknown	
Fisherman's Pension	4,600 recipients	LKR 5,000 (US\$ 26.30)	1.6%	Unknown	
Unemployed Graduates	40,000 recipients	LKR 20,000 (US\$ 105.30)	21.2%	Unknown	
Self-employed workers	1,924,967 recipients	LKR 5,000 (US\$ 26.30)	5.4%	Unknown	
Pre School Teachers	39,784 recipients	LKR 5,000 (US\$ 26.30)	5.4%	Unknown	
<b>Thailand</b>					
Emergency cash payment to uninsured informal workers	9 million recipients	B. 5,000 (US\$ 153.00)	23.3%	3 to 6 months	0.02% of GDP
<b>Vietnam</b>					
Households on Poor list	Unknown	VND 1 million (US\$ 43.00) per month (poor) VND 500,000 (US\$ 21.50) per month (near-poor)	4.3% (poor) 2.2% (near-poor)	3 months	0.45% of GDP
Social Assistance and Merit (Former Freedom Fighter)	7.7 million recipients	VND 500,000 (US\$ 21.50) per month	8.6%	3 months	

<sup>8</sup> Mongolia's Child Money Programme includes a top-up of MNT 10,000 on top of the existing transfer of MNT 20,000.

<sup>9</sup> Pakistan's Ehsaas Emergency Cash Programme includes 4.5 million existing recipients who will receive a top-up of Rs. 1,000 to reach a maximum transfer value of Rs. 3,000

<sup>10</sup> The Philippines' support to households includes a top-up of between P. 3,650 (US\$ 68.0) and P. 6,650 (US\$ 124.0) to households receiving the 4P scheme to reach a maximum transfer value of P. 8,000 (US\$ 149.0)

<sup>11</sup> Sri Lanka's Samurdhi scheme and Senior Citizens' Allowance includes a one-time top-up for existing recipients to provide a maximum transfer value of LKR 5,000.

<sup>12</sup> This refers to the is the cost after 2 months of support.

Source: Gentilini, Almenfi, et al. (2020); Kidd, et al. (2020a).

It is difficult to know the appropriate size of a fiscal response to the COVID-19 crisis, but many high-income countries have put in place large stimulus packages: for example, the fiscal response across the Group of Seven major economies averages 5.9 per cent of GDP.<sup>13</sup> Essentially, they are doing ‘whatever it takes’ to rescue their economies and support their citizens, an approach endorsed by the IMF.<sup>14</sup> The opinion of Martin Ravallion – a former World Bank Chief Economist – could be regarded as guidance for a minimum level of response: “As a rough rule of thumb.....I think that a near-term fiscal injection of transfers less than 2% of GDP should be judged as inadequate.”<sup>15</sup>

While it is positive that some Asian countries have taken action, the magnitude of most of these responses is still too small to be effective as economic stimulus packages (although it needs to be recognised that some countries are providing other support to businesses and their economies). Although it is difficult to give the precise costs of the tax-financed social security packages that are being put in place, most are well below the level of support proposed by Ravallion, ranging from 0.02 to 0.8 per cent of GDP. Asian countries need to be much more ambitious in their social protection responses if they are to minimise the losses to their economies and, in some cases, avoid deep recessions, with significant human impacts.

India has announced one of the largest responses to COVID-19 crisis, which is estimated to cost up to 10 per cent of 2019’s GDP. Most of the support aims to enable businesses and organisations survive through, for example, helping small and medium-sized businesses access unsecured state guaranteed loans, ensuring liquidity in banks and subsidising state power companies.<sup>16</sup> While this support is important, only around 0.8 per cent of GDP is directed at providing social protection support to families. Much more needs to be done to help families survive the crisis and generate greater consumption and demand. This in turn would help keep markets open for many businesses and to provide a greater boost to the economy.

A further challenge is the identity of the recipients. Even if the aim behind the support packages is to reach the poorest members of society, in reality – and as explained earlier – if Asian countries use poverty targeted programmes or Social Registries as the core of their response, the majority of the poorest members of society will be missed, unless coverage is very high. For example, while recipients of India’s Old Age Pension will be given a payment of Rs.1,000 (US\$14.60), in reality 68 per cent of eligible older people will be excluded; and, while Pakistan’s emergency transfer is meant to reach the poorest 27 per cent of households – in effect, a large expansion of the Benazir Income Support Programme (BISP) – based on international experience, it will almost certainly exclude at least 45 per cent of intended recipients.<sup>17</sup> Further, attempts to rapidly develop means tests, as in Malaysia, are likely to similarly deliver high errors.

One example of a country attempting higher coverage is Sri Lanka, through a mix of expanding poor relief schemes to 47 per cent of households nationally and a transfer that is meant to reach all informal economy workers, which have, by early May, been provided for two months. However, as indicated by Figure 10, simulations using the most recent national household survey suggest that around 34 per cent of households nationally are likely to be excluded, including a high proportion who were already on low incomes prior to the crisis as well as those who were in the better-off deciles but will have been badly affected through, for example, job losses. For example, while

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<sup>13</sup> IMF (2020b).

<sup>14</sup> Fouad et al (2020).

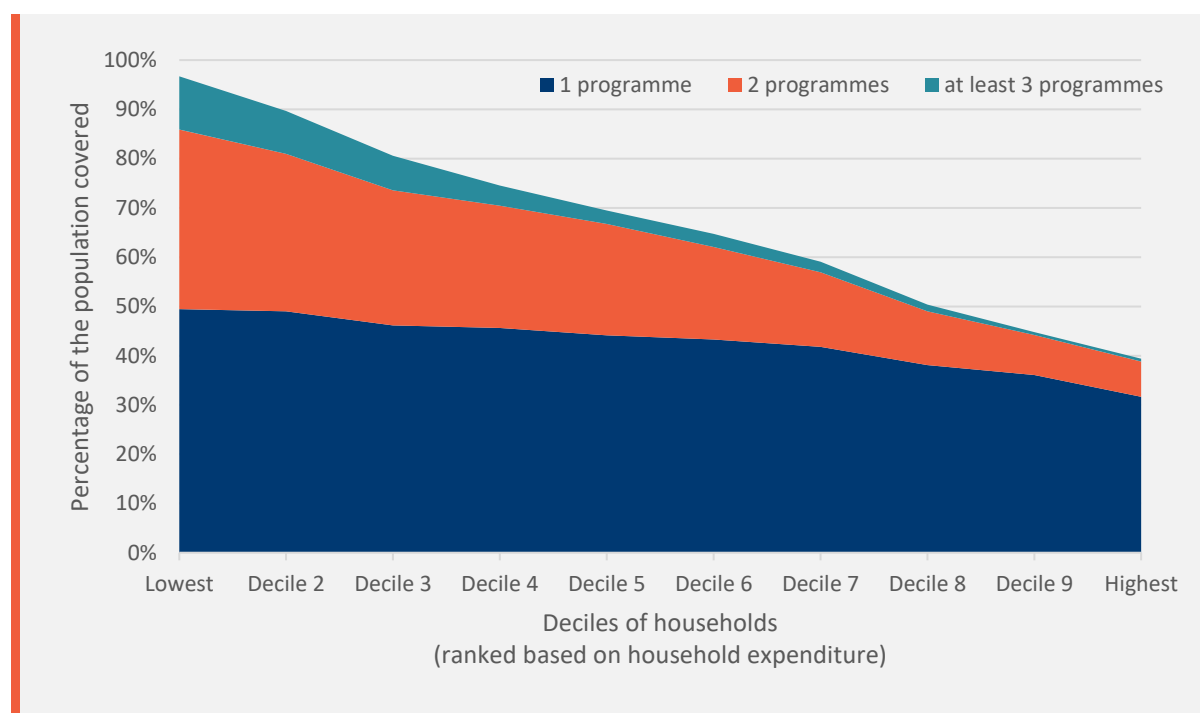
<sup>15</sup> Ravallion (2020).

<sup>16</sup> <https://qz.com/india/1856488/details-of-modis-coronavirus-package-atmanirbhar-bharat/>

<sup>17</sup> Kidd and Athias (2019).

coverage may be higher among the poorest decile – although the simulations are likely to overestimate coverage – among those in the 3<sup>rd</sup> poorest decile of the population, 20 per cent will be excluded. Further, 38 per cent of recipient households are likely to receive at least two packages of support, although the intention is that each household should only receive one. A recent survey by UNICEF indicates that these predictions are sound, since they found that 35 per cent of households across the country did not receive support in April.<sup>18</sup>

**Figure 10: Recipients of the COVID-19 support measures in Sri Lanka, across the wealth distribution<sup>19</sup>**



Source: Kidd et al (2020a).

The Philippines is also providing a transfer to a relatively high proportion of the population, aimed at 75 per cent of the poorest households across the country. It is probably using its Social Registry to identify the beneficiary households, but this will still result in exclusion errors: international experience would suggest that, around 13 per cent of the intended recipients would be excluded.<sup>20</sup> An alternative would be to provide a Universal Basic Income (UBI) as this would minimise exclusion (and this is discussed further in Section 4). And, if transfer levels remained the same, a UBI would have the further advantage of being a more robust stimulus to the economy.

A further concern when poor relief schemes – or emergency schemes targeted at the poorest – are used as the basis of support is that a high proportion of those most affected by the crisis – across both the informal and formal economy labour force – will also miss out. This includes, in particular, the aforementioned ‘missing middle’ of families, most of whom were – as discussed earlier – already living on low and insecure incomes prior to the crisis. However, as noted by the IMF (2020b), this is

<sup>18</sup> Tran et al (2020).

<sup>19</sup> The analysis is based on the numbers that received the transfer in April 2020, before others were added in May following appeals on their exclusion.

<sup>20</sup> This estimate is based on the analysis on targeting undertaken by Kidd and Athias (2019).

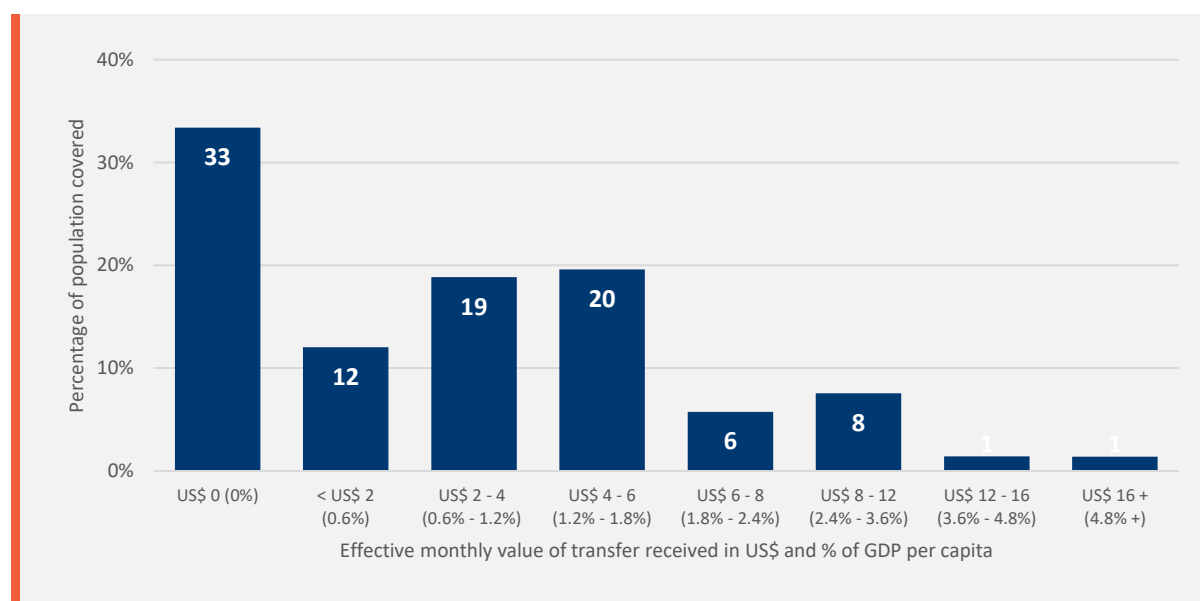


the group in the population that it likely to be at the heart of any social unrest. The Government of Indonesia is recognising the danger and is already putting in place public order measures to address any potential unrest.<sup>21</sup>

The transfer values provided through poor relief schemes, even when their value is increased, are also low, and unlikely to provide meaningful support to families. As Table 1 indicates, most of the household transfer programmes are providing less than 5 per cent of GDP per capita per person, which is very low.<sup>22</sup> For comparison, the value of an average social pension in a low- or middle-income country is around 15 per cent of GDP per capita. Further, analysis undertaken by Development Pathways for UNICEF Sri Lanka has shown that the LKR5,000 (US\$26.30) transfer covers only 7.5 per cent of the normal monthly consumption requirements of a household.<sup>23</sup> Even among the poorest households, the support would cover less than a fifth of what they normally consume.

When transfers are provided as a flat rate to households and are, therefore, not adapted to the size of the households, the effective transfer for individuals can vary greatly. Figure 11 shows effective transfer values for individuals in Sri Lanka, which is providing a flat rate per household. The value is variable, with the lowest effective transfer values going to the largest households which, on average, are more likely to have lower per capita incomes anyway. Ideally, countries should provide transfers that vary according to the size of household but, potentially, are reluctant to do so due to fears that households may inflate their size to claim more money.

**Figure 11: Proportion of individuals – across the population of Sri Lanka – receiving different effective monthly values of the transfer<sup>24</sup>**



Source: Kidd et al (2020b)

Therefore, while using poor relief schemes and social registries as an initial immediate support measure is a positive first step, it is not at all adequate, and is likely to mean that the majority of

<sup>21</sup> Straits Times (2020).

<sup>22</sup> In these calculations, we have assumed that all transfers should last at least three months. So, if a transfer is a one-off payment, we have divided its value by three, to determine how much it would provide, on average, over three months.

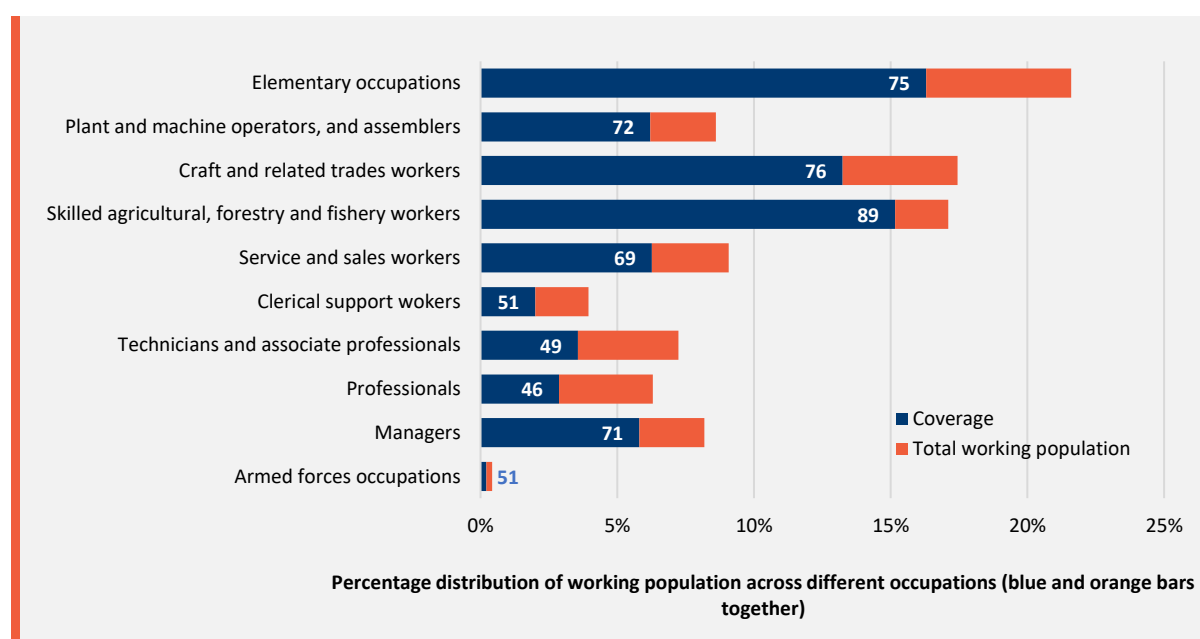
<sup>23</sup> Kidd et al (2020b).

<sup>24</sup> The analysis assumes that the current Government measures are provided for only 2 months but should last for 3 months, since the crisis will last for much longer than 2 months. To date, there is no public communication from the Government of Sri Lanka that the measures will be provided for more than 2 months.

families who are economically affected by the crisis will receive no assistance at all, with significant negative consequences for their well-being. Further, if new programmes are introduced that are poverty-targeted, the exclusion errors will probably be very high also, in particular because mechanisms for means testing are being developed very rapidly, in a context when many households have only recently experienced catastrophic falls in income.

Some countries are attempting to offer transfers to informal economy workers: Thailand, for example, is providing transfers to 9 million people while Sri Lanka is attempting to give a transfer to everyone working in the informal economy. However, it is difficult to see how countries can accurately and fairly identify those in need, when a sub-set of informal economy workers is to be selected. In Thailand, the 9 million recipients have to be selected from the 21.7 million who applied, which probably implies a form of poverty targeting, which will certainly fail to be accurate, based on the international evidence of targeting during normal, and less challenging times. By providing the transfer to all informal economy workers, Sri Lanka is trying to overcome this through a form of universality. However, it is using community leaders to put together lists of workers, which is likely to be fraught with fiduciary risk. Indeed, after the first wave of transfers was provided, almost 600,000 individuals were added as a result of appeals, indicating the challenges with the targeting. Analysis by Development Pathways for UNICEF Sri Lanka has indicated that, even when the informal economy scheme is combined with the expansion of existing poor relief schemes, there are still significant gaps across different types of occupation, many of which are characterised, predominantly, by informality (see Figure 12).<sup>25</sup> Further, Sri Lanka is only providing the support as a small one-off payment.

**Figure 12: Proportion of people receiving income support in Sri Lanka to protect them against COVID-19, across different types of occupation<sup>26</sup>**



Source: Kidd et al (2020a)

In conclusion, therefore, the provision of support to national populations through existing tax-financed schemes or social registries/poor lists as well as new poverty-targeted schemes is not an

<sup>25</sup> Kidd et al (2020a). The analysis is based on the proposed recipients of the first transfer that was provided in April 2020.

<sup>26</sup> Each occupation is weighted to represent the proportion it represents across the labour force. The number within the bar refers to the percentage of people in that occupation who are covered by the measures.

effective response to the economic threat presented by COVID-19. To date, the packages of support provided are not large enough to be an effective economic stimulus, given the depth of the recession that many countries will face; the majority of those affected by the crisis, including those working in the formal and informal economies, will be excluded; and, the value of the transfers is too limited to offer effective livelihoods support to people across a period of six months, which is likely to be the minimum period during which assistance will be required. As a result, the economic downturns experienced by countries will be much larger and longer than they need be, with corresponding damage to government revenues; many families will continue to be threatened by food insecurity, with children experiencing significant set-backs to their development while older people and those with underlying health conditions will be more susceptible to the COVID-19 virus; and, of particular concern, is the threat of widespread social unrest in particular if support is perceived not only as inadequate, but also arbitrary and unfair due to the ineffectiveness of targeting methodologies.<sup>27</sup> It is urban dwellers on middle incomes who are most likely to be at the heart of any social unrest and, therefore, it is essential that they are reached by support.

### 3.2 Social insurance schemes

As Figure 12 indicates for Sri Lanka, the families of a high proportion of formal economy workers – many of whom have lost their jobs across Asia – are not being reached by the current support packages. In many countries, the pre-COVID-19 paradigm of supporting those who have traditionally been regarded as ‘the poor and vulnerable’ is dominating policy responses, with insufficient recognition that the COVID-19 crisis is universal and that many employees in the formal economy have lost their jobs and are newly ‘poor and vulnerable.’ It is, therefore, also urgent to provide the families of the formal economy workforce with support.

A small number of countries have attempted to respond to the challenges faced by formal economy workforce. For example, in India, for three months the government will pay Employee Provident Fund contributions for employees and employers in firms with up to 100 workers and where 90 per cent of workers earn less than Rs15,000 (US\$200.0) per month.<sup>28</sup> This is expected to cover 1.8 million employees and 400,000 firms; and, in Mongolia, government will exempt businesses, other employers and the self-employed who are insured in a voluntary social insurance scheme from paying social insurances fees between April 1<sup>st</sup> and October 1<sup>st</sup> 2020. Further, the Mongolian government has decided to waive personal income taxes for 526,000 entities and individuals for six months, with the exception of public servants, employees of state and local state-owned enterprises, and companies that have received government tenders.

Eliminating the contributions paid by employers for a number of months is a positive move, given that many businesses are under stress, in particular in countries such as Mongolia where contribution rates are very high. This should reduce costs which will help businesses survive, thereby enhancing the chances of countries recovering quickly from the COVID-19 crisis. Eliminating the contributions from employees or waiving personal income taxes is more questionable since those who are benefitting will still be in employment and less in need of support than those who have lost jobs and are no longer paying contributions or taxes. Further, if income taxes are reduced, government revenues will be further reduced, which will inhibit their capacity to finance schemes for the majority of the population.

If countries had unemployment insurance schemes in place, support could automatically be provided to members losing their jobs, but few countries benefit from such schemes. It is also

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<sup>27</sup> IMF (2020a; 2020b).

<sup>28</sup> Strictly speaking, India’s Provident Fund should not be considered as a social insurance scheme, since Provident Funds do not incorporate an element of solidarity and sharing between members.

unclear whether severance packages are being respected when people lose their jobs, since in some countries the burden on firms is high and could drive them out of business. Therefore, the challenge of incorporating formal economy workers into an effective COVID-19 response has not yet been addressed effectively across much of the Asia-Pacific region. However, there are innovative experiences in high-income countries of alternative forms of support to formal economy workers who are in danger of losing their jobs which could be adapted to the region and which will be discussed further in Section 4.

## **4 Alternative social security responses to the COVID-19 crisis**

Overall, therefore, the social security measures taken by Asia-Pacific countries to respond to the COVID-19 crisis so far are inadequate. As discussed earlier, a major challenge faced by most countries in the region is that, prior to the COVID-19 crisis, they had not yet established modern, comprehensive and effective social security systems, of the type found in many high-income countries. The exclusion of the majority of the population – in particular the missing middle with insecure and precarious incomes – means that current social security systems cannot provide an effective response. As noted above, the absence of unemployment benefits – which act as automatic stabilisers in high-income countries – is particularly problematic.

If Asian countries are to respond effectively to the COVID-19 crisis, they will need to adopt innovative approaches. One option is to set up simple, universal lifecycle social security schemes on a temporary basis, similar to the design of social security systems in high-income countries. The IMF (2020a) has recognised this and has suggested that countries characterised by low coverage and low adequacy social security systems, as found in much of Asia, consider implementing universal transfers. A major advantage of universal schemes is that, when compared to more complex poverty-targeted programmes, they are relatively simple to set up and, therefore, could be contemplated as a realistic and practical option during the crisis.

As discussed earlier, it is difficult to know the appropriate size of the economic stimulus that countries require, which should be a key determining factor in the design of schemes. Indeed, the size will vary according to the context of each country. However, for the basis of the analysis in this paper, the minimum of 2 per cent of GDP suggested by Martin Ravallion will be used as a benchmark.

This section discusses three options: rapidly establishing core universal lifecycle emergency schemes; a universal basic income; and, making better use of social insurance and income tax systems to support those who are losing their jobs. Unemployment benefits are not proposed as an immediate measure since they will be difficult to establish during the crisis. However, they should be a priority for countries to establish once the crisis passes.

### **4.1 Establishing lifecycle emergency social security schemes**

One option for countries to consider is to target their income support at categories that are simple to identify and which the general population will find easy to understand and, therefore, will likely support. The simplest schemes to develop rapidly are universal tax-financed old age social pensions, disability benefits and child benefits (although identifying disability may be more challenging if countries do not have disability assessment mechanisms already in place).

A key advantage of using simple lifecycle categories is that it is also an easy way of providing cash to households that include workers employed in both the formal and informal economies. Further, by the nature of its design, it naturally directs support to the most vulnerable households, in other words those with higher numbers of children, older people and people with disabilities. Indeed, assuming that the schemes are well-implemented, the households to miss out would be those comprising only working age and non-disabled adults.

As discussed above, the overall value of a stimulus provided by countries in the Asia-Pacific region should vary on a case-by-case basis. And, within the broad package of support, decisions would need to be made on the coverage of different lifecycle categories

and the value of the transfer. However, to give an illustration of what could be done, a potential example in Sri Lanka is simulated below, at a cost of 2 per cent of GDP but provided over six months.<sup>29</sup>

The option assessed – of the many available – for Sri Lanka is set out in Table 2. It would reach all children aged 0-17 years, everyone aged 60 years and over and all people with disabilities aged 0-59 years.<sup>30</sup> The recipients of the disability benefit are assumed to be those who, in the 2016 national household survey, were identified as disabled, which is around 4 per cent of the population within the age group.

#### Box 1: Child benefits and fertility

Occasionally, concerns are raised that child benefits that could promote greater fertility. However, international evidence has shown that this is not the case. When South Africa introduced its child benefit, there were worries expressed that it would lead to an increase in pregnancies. A number of studies have shown that this was not the case and, in contrast, fertility fell (Makiwane 2010; Roberts 2011). Fiszbein and Schady (2009) reviewed other countries and also found little evidence of a boosting effect for fertility.

**Table 2: One option for a lifecycle system of social security support to address the COVID-19 crisis in Sri Lanka**

Scheme	Age of eligibility	Transfer value (LKR and US\$) per month	Transfer value (% of 2019 GDP per capita)	Cost (% of 2019 GDP)
Child benefit	0-17 years	LKR,3,500 US\$18.4	6.0%	1.02%
Disability benefit	0-59 years	LKR7,500 US\$39.5	12.8%	0.16%
Old age pension	60+ years	LKR7,500 US\$39.5	12.8%	0.82%
<b>Total</b>				<b>2%</b>

The proposed set of tax-financed lifecycle transfers would reach 90 per cent of the population either as direct or indirect recipients, which is more than the likely coverage of 66 per cent of households, and 69 per cent of the population that would be achieved by the Government of Sri Lanka's current initiatives.<sup>31</sup> Figure 13 shows the proportion of different categories of the Sri Lankan population who would benefit from the support either directly or indirectly as household members. There would be higher coverage among those who were living on the lowest incomes prior to COVID-19, reaching 96 per cent of those in the poorest wealth decile. Among different age groups, the lowest coverage would be among those in their twenties and fifties, while the type of households that would miss

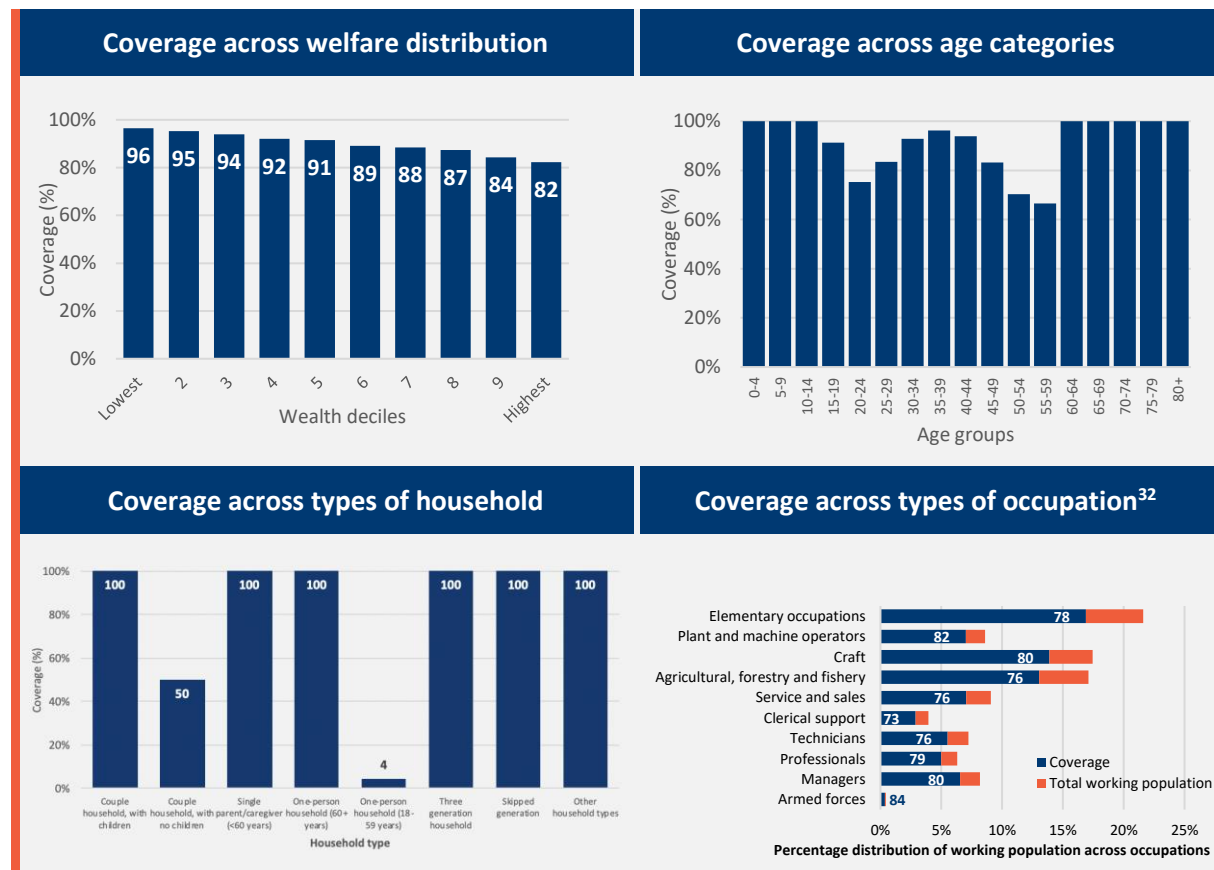
<sup>29</sup> The analysis is based on work undertaken for UNICEF Sri Lanka, and has been used with permission.

<sup>30</sup> In the household survey, there is an indicator for disability. It has been assumed that those aged 0-59 years who are indicated in the household survey as having a disability would be recipients of a disability benefit. It is around 4 per cent of the population aged 0-59 years.

<sup>31</sup> Indirect recipient means that a person not directly eligible lives in a household that is in receipt of a transfer.

out are one person households and couples aged under 60 years without children. The rate of coverage across different types of occupations would be relatively consistent.

**Figure 13: Coverage of the proposed lifecycle benefits across different categories of the population in Sri Lanka**

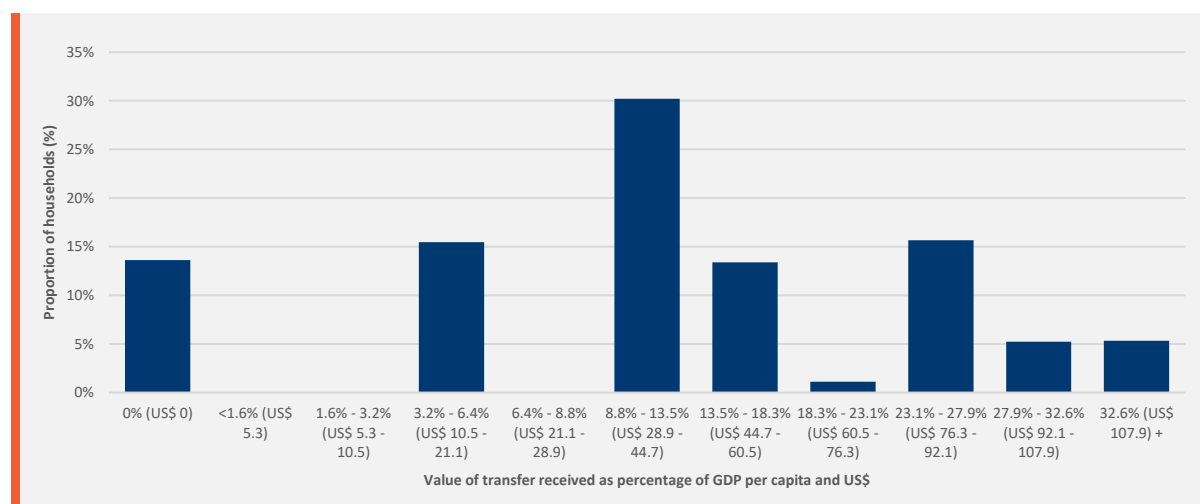


Source: Kidd et al (2020a)

The average value of transfers received by households would be LKR8,856 (US\$46.60) per month, which is the equivalent of 14.2 per cent of GDP per capita. As Figure 14 shows, the majority would receive between LKR5,500 (US\$28.90) and LKR17,500 (US\$92.10) per month. This compares with the transfer provided by the government which, if it is expected to last for 3 months – it has, to date, been provided for 2 months and no decision on whether there will be a further extension has been communicated publicly – would give households an average of LKR 2,386 (US\$12.60) per month. And, of course, as indicated earlier, many more households would receive support via the lifecycle transfer options.

<sup>32</sup> Each occupation is weighted to represent the proportion it represents across the labour force. The number within the bar refers to the percentage of people in that occupation who are covered by the measures.

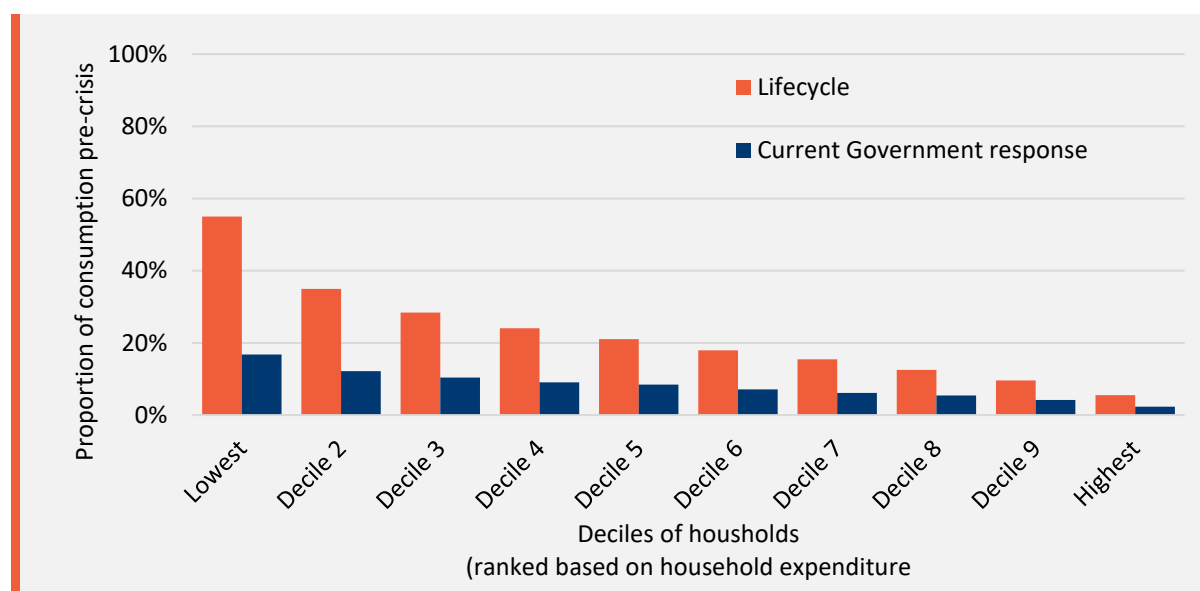
**Figure 14: Proportion of households in Sri Lanka receiving different values of transfers deriving from lifecycle benefits, compared to those received by the government’s proposed support through poor relief schemes and transfers to the informal economy workforce**



Source: Kidd et al (2020b)

Another means of assessing the efficacy of the benefits is to examine the share of pre-COVID-19 household consumption received by beneficiaries. As Figure 15 shows, on average, if spread across three months, the Government’s current measures would, among recipients, comprise 10 per cent of pre-crisis household consumption, while the lifecycle option would deliver much more, at 25 per cent. Further, among the poorest recipients, the lifecycle option would provide, on average over half of pre-crisis expenditure, a significant level of support to some of the most vulnerable members of society.

**Figure 15: The proportion of pre-crisis household consumption that would be delivered by the lifecycle option and the government proposal among recipients, in Sri Lanka<sup>33</sup>**



Source: Analysis undertaken by Development Pathways on behalf of UNICEF Sri Lanka

<sup>33</sup> The figures for the current Government measures assume that it will be provided for only 2 months but will have to last for 3 months. There has been no public communication from Government that the measures will last more than 2 months.

If countries in the Asia-Pacific region were to provide a set of universal lifecycle transfers similar to those simulated for Sri Lanka, they would have significant advantages over the support measures that have been announced so far. If the budget for the lifecycle schemes is sufficiently large to offer an adequate stimulus, they would provide a reasonable level of support to the majority of households, including both those in the formal and informal economies. Importantly, because the schemes are universal, easy to understand and likely to be perceived as fair and transparent, they are likely to be popular and supported across the majority of the population. Therefore, they may well reduce the risk of social unrest and, indeed, strengthen social cohesion.

If countries wish to provide a system of emergency lifecycle benefits at lower cost, they could either change the age of eligibility or reduce the transfer value. So, for example, rather than providing a transfer to all children aged below 18 years, they could choose a lower age category. Similarly, an old age social pension could use a higher age of eligibility. Of course, the disadvantage of a lower cost is that the effectiveness of the economic stimulus will be less while fewer families would be supported or the value of the support they receive would be reduced (or both). Consequently, the impacts on household wellbeing would also be more limited, while popular support for the measures may be more fragile.

There are some countries in the Asia-Pacific region that, as discussed earlier, already have universal lifecycle schemes in place, mainly universal pension coverage or universal disability benefits. These countries could immediately provide extra support to households by increasing the value of the transfers – as has happened in Vietnam – or, in the case of countries with universal old age social pensions, by reducing the age of eligibility. Given that some Asian countries have ageing populations, if countries were to reduce the age of eligibility of their social pensions to 60 years – or even lower – for the duration of the crisis, they could reach a relatively high proportion of households. For example, a social pension for all older persons aged 60 years and above would reach 29 per cent of households in the Philippines, 35 per cent in Pakistan and 44 per cent in Sri Lanka. Further, countries with poverty-targeted old age social pensions – such as India, Bangladesh, the Philippines and Sri Lanka – could expand coverage by making them universal.

Some countries have quasi-universal schemes that support children, which could also be expanded. Indeed, Mongolia has already increased the value of its Child Money programme by 50 per cent, although it would be a further positive move if it were to restore the universality of the scheme, to ensure that no children miss out. Other countries, such as Bangladesh and Pakistan, have universal school stipends, at least for children in state schools, and the value of these transfers could be increased for the duration of the crisis.

If countries were to introduce lifecycle schemes during COVID-19 pandemic, once the crisis ends the schemes could continue, but scaled back either in terms of transfer values or ages of eligibility. Nonetheless, they would comprise the backbone of a comprehensive, lifecycle social security system which could be further strengthened over time. And, once in place it would mean that, if another major crisis were to hit countries, they would be much better prepared to respond.

## 4.2 Universal basic income

One option that is gaining increasing traction internationally as a means of addressing the COVID-19 crisis is to provide all legal residents within countries with a basic income.<sup>34</sup> The logic behind such schemes is similar to that of universal lifecycle transfers, the main difference being that the working age population would also receive a transfer. As with a child benefit, the transfers for children would be paid to a designated caregiver (preferably the female caregiver). In contrast to household

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<sup>34</sup> For example, see Wignaraja and Horvath (2020).



transfers, the total size of the transfer received by a household would be adapted to the size of the household. Further, by ensuring that each adult receives a transfer, they would retain autonomy over their income, in contrast to household transfers which are paid only to one member of the household and which may not be shared equally.

The closest regional example of a universal basic income paid during normal times is in Iran. As a compensation measure for removing fuel subsidies in 2011 – as well as a mechanism to reduce likely social unrest – it introduced a cash transfer for each household in the country. The scheme differed from a UBI because the payment was calculated on the basis of a maximum of six people per household and only one person in the household received the payment. The scheme, however, was popular and, as a result, the social unrest that may have been provoked by the fuel subsidy reform was avoided. Over time, the value of the transfer has fallen and it currently provides only LKR455,000 (US\$10.80) per person per month, equivalent to 1.5 per cent of GDP per capita. Research has shown that the scheme has not reduced participation in the labour force.<sup>35</sup>

If countries were to introduce a UBI as an emergency measure, the value of the transfers could be the same for each person or distinct categories of the population could receive a different value: for example, children could receive a lower or higher transfer than an adult.

Given that the number of direct recipients of a universal basic income would be higher than that of the lifecycle transfers suggested in Section 4.1, it is likely that the overall budget would also be higher. Taking Sri Lanka, again, as an example, two options have been assessed, each of which would be provided for 6 months and would cost the equivalent of around 4 per cent of annual GDP.<sup>36</sup>

- **Option 1** would provide each child with LKR3,000 (US\$16.10) per month and each adult with LKR5,500 (US\$28.9); and,
- **Option 2** would provide each person with LKR4,800 (US\$25.30).

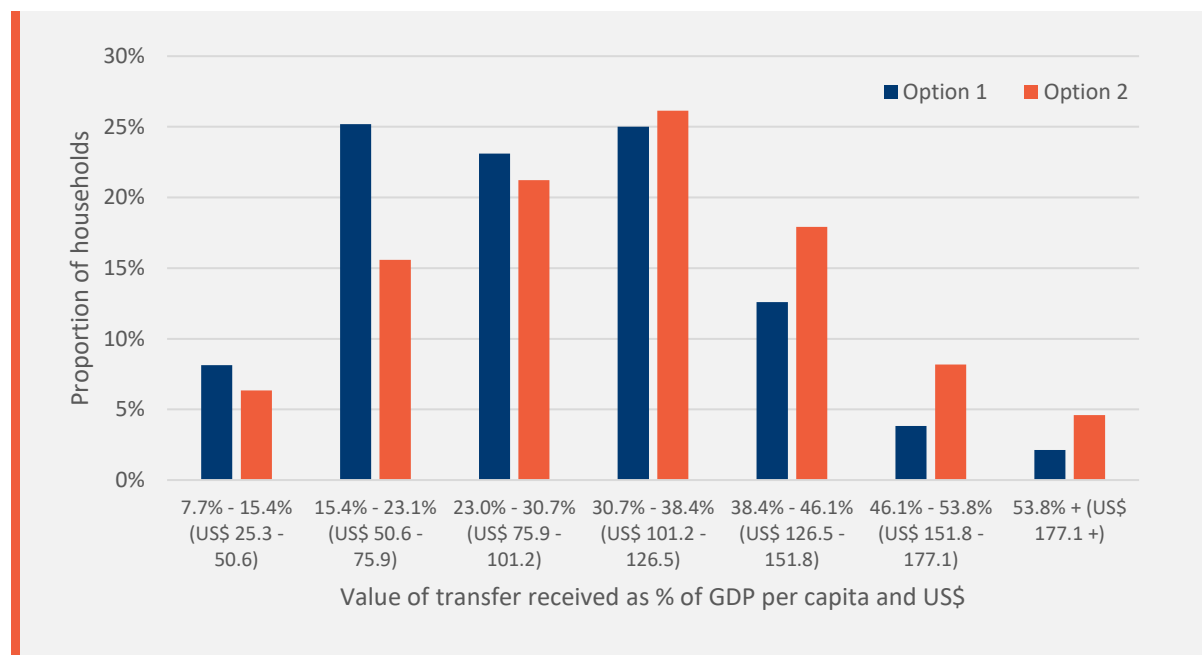
Since the two options would cost almost the same, the average value of transfer received by a household each month under each option would be similar at around LKR18,000 (US\$95.00) or the equivalent of 29 per cent of 2019 GDP per capita. The distribution of transfers would vary slightly, as shown by Figure 16, with Option 1 providing more transfers in the range of US\$50.00 to US\$126.50 while Option 2 would provide more households with higher value transfers.

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<sup>35</sup> Salehi-Isfahani & Mostafavi-Dehzoeei (2017); Orton et al. (2019)

<sup>36</sup> While the two options use a budget of more or less 4 per cent of annual GDP, please note that there are very slight differences between the two, which can explain some of the discrepancies in the results.

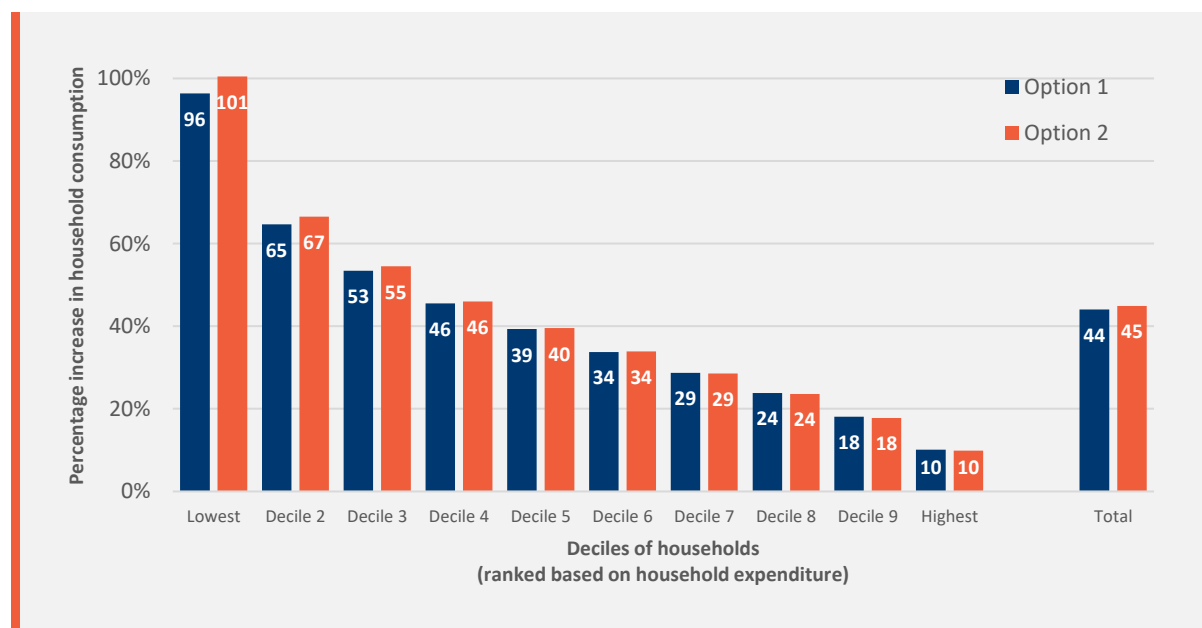
**Figure 16: Proportion of households in Sri Lanka receiving different values of transfers under a universal basic income (Options 1 and 2)**



Source: Analysis undertaken by Development Pathways for UNICEF Sri Lanka

Figure 17 shows the proportion of the pre-COVID-19 household consumption that would be covered by the two universal basic income options, looking across the welfare distribution. Option 1, which offers a small transfer to children and a higher transfer to adults, would provide 44 per cent of pre-COVID-19 household expenditure, while Option 2 would provide marginally more at 45 per cent. A similar pattern prevails across the welfare distribution with the poorest quintile of the population receiving 96 per cent of pre-crisis consumption under Option 1 and 101 per cent under Option 2.

**Figure 17: Increase in household consumption across the pre-COVID-19 welfare distribution**



Source: Analysis undertaken by Development Pathways for UNICEF Sri Lanka.

A UBI could, therefore, be adopted by countries across the Asia-Pacific region as an emergency response to COVID-19. It would offer an important economic stimulus, income support to families to protect their food security, child development and health, and would likely be very popular while building social cohesion. Two countries in Asia have moved towards providing a form of short-term universal basic income. Japan will provide each citizen with a one-off payment of JPY100,000 (US\$928) while Singapore will provide a one-off transfer of SGD600 (US\$418) to all adults.<sup>37</sup> Timor Leste has also announced a universal transfer of US\$100 per month for each household although, as this will be flat rate transfer, as indicated earlier, the effective transfer for each individual will vary, with larger – and more likely poorer – households receiving less per person. There will also be challenges in determining the identity of the person receiving the transfer – a man or a woman – which will influence gender dynamics and there is no guarantee that each member of the household will benefit equally. A better option would have been a UBI, with each adult receiving their own transfer and, preferably, the female caregiver of children receiving the transfer for children (or a male caregiver, if there is no female).

If universal basic incomes are introduced, countries could consider keeping them in place in an adopted form compatible with long-term fiscal sustainability following the crisis as tools to reduce inequality and build social cohesion. Alternatively, schemes could be converted into lifecycle social security systems.

### **4.3 Using social insurance schemes and income tax systems to provide cash support**

A final innovative option for countries without unemployment benefit systems would be to use the social insurance or income tax systems to identify workers who lose their jobs. However, this would be restricted mainly to employees in the formal economy since few informal economy workers are members of social insurance schemes. Employers could use the social insurance or income tax systems to inform the government of employees who have lost their jobs. The government could use the information it holds on these individuals to pay them an unemployment benefit for a specific period of time. The payment could be made through businesses or directly to the employee. Alternatively, as has happened in a number of European countries, governments could establish schemes to cover a proportion of the salaries of employees at risk of losing their jobs, as long as employers commit to retaining the jobs. Such an approach would enable businesses to bounce back more quickly, once the crisis ends.

However, since these schemes would only benefit those in the formal economy, they should only be used in combination with other broad-based schemes which reach the majority of the population. This approach would, therefore, not be the main element of the crisis response in Asia, where the majority of workers are in the informal economy or in the formal sector without eligibility for social benefits, such as workers in the gig economy who pay taxes. But it does hold significant promise if countries, post-pandemic, can make significant inroads toward increasing the share of the labour force in the formal economy so that a higher proportion are integrated within social insurance schemes.

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<sup>37</sup> Lee (2020).

## 5 Fiscal space for a stimulus package

As is common when discussing social protection expenditures, the question of the fiscal space for stimulus packages is being raised during the COVID-19 crisis, although not in high-income countries, which are prioritising protecting their economies and, as indicated earlier, ‘doing whatever it takes.’ As high-income countries quickly realised, concerns about fiscal space—while remaining a constraint in the medium- to long-term—should not dominate policy thinking during the crisis since countries cannot afford not to invest in large-scale stimulus packages.

It is, of course, a challenging context for those low- and middle-income countries with low government revenues. Indeed, as economies contract, tax revenues will necessarily fall. Nonetheless, if a stimulus package enables economies to recover more quickly, tax revenues will also recover faster, which should make it easier for governments to pay back any financial liabilities that they take on now. Innovative solutions are, therefore, required by countries to put in place the necessary stimulus package, since many already have large public debts. In 2019, the average public debt in Asia was the equivalent of 55.1 per cent of GDP and the IMF (2020b) expects that this will rise to 64.1 per cent of GDP by the end of 2020. The good news, though, is that, on average, this is much lower than in many high-income countries: for example, the average debt across the Euro Zone was 84.1 per cent of GDP in 2019 and the IMF expects it to rise to 97.4 per cent of GDP by the end of 2020; and, of course, Japan has a public debt of 237.4 per cent of GDP, which is expected to rise to 251.9 per cent of GDP by the end of 2020. Nonetheless, despite very high public debts, high income countries are putting in place large stimulus packages although, compared to many Asia-Pacific countries, they have the advantage of higher relative government revenues.

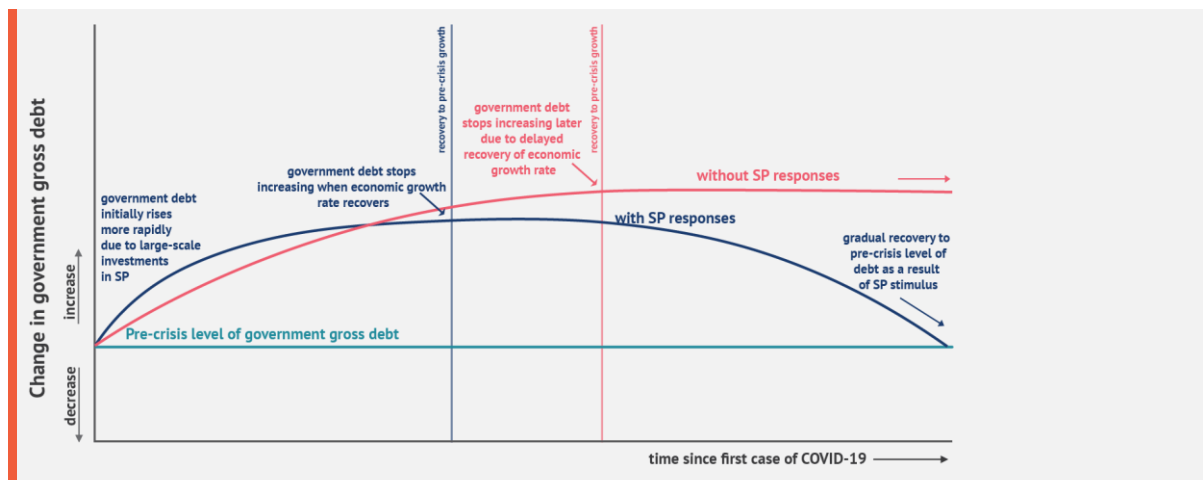
The options for finding fiscal space vary country by country, depending on their specific context, and each have their pros and cons. They include, among others:

- Countries could put in place quantitative easing or, in other words, printing money over a short period of time. The extent to which countries can do this varies, with many Asian countries less likely to have room for this, since it could trigger falls in the value of national currencies on the international exchange markets and provoke inflation that it is too high.
- There have been significant falls in the price of oils so, if this leads to countries making savings from energy import bills and subsidies – which tend to benefit the wealthy – funding could be re-allocated to transfers.
- There may be options for re-allocating other government spending from inefficient areas – such as white elephant investment projects – to stimulus packages.
- While politically challenging to implement, countries could consider increasing taxes on those who are less affected by the crisis, including one-off wealth taxes and income taxes on high earners, while measures to address capital flight should be considered.
- Some countries may be able to use a proportion of their reserves but should be prudent on the extent to which they are reduced.
- Low-income countries have already had debts from the IMF deferred. However, full debt relief should also be considered for countries that commit to investing the savings in supporting their populations through emergency income support programmes and improved health delivery.
- The options for further loans from international financial agencies such as the IMF, Asian Development Bank and bilateral donors vary, but they should be explored and the IFIs should show the required flexibility. The availability of grants from bilateral donors is likely to be limited.
- Countries may be able to access other loans on the international markets although, for many with low credit ratings, interest rates may be high given that external lenders may assess them as high risk.

- There may also be options for countries to sell bonds and gilts at competitive rates. The global downturn has meant that investing in stock markets is risky and investors may be attracted by secure but lower interest rates from governments. However, a number of countries may be regarded as a high risk for investors and the interest rates offered by governments may, therefore, have to also be high.

Although governments may be reluctant to spend on stimulus packages, they need to recognise that, if they do not, they may end up in a much worse fiscal position. As discussed earlier, the IMF predicts that public gross debt levels are going to increase anyway and it is in the interests of governments to ensure that economic recovery happens more quickly, so that tax revenues also recover. As Figure 18 illustrates, with a stimulus package financed, at least in part, through loans, a government's gross debt is likely to increase more initially than without the stimulus, which may make government's wary of taking on more debt. However, over time, due to the higher revenues resulting from the effects of the stimulus package, one possible outcome is that the level of government debt could end up being lower with the stimulus package. Indeed, if there is increased social security investment after the crisis, the level of debt could fall even more quickly. Therefore, over time, by spending on a stimulus package during the crisis, countries may well find themselves in stronger financial position in the medium to long-term. However, this does depend on whether countries manage their future budgets and tax systems sensibly, including by establishing more progressive tax regimes to facilitate greater redistribution and, over time, reduce inequality.

**Figure 18: Potential impacts of COVID-19 on government gross debt, with and without a stimulus package**



Source: Authors' illustration.

Further, it needs to be borne in mind that, if social unrest flares up, the cost of maintaining public order, as well as the cost to livelihoods and assets, could end up costing more than the cost of the transfers themselves, never mind the political costs to governments. Therefore, by spending now on an effective and fair stimulus package, governments may further reduce their overall costs.

In the medium to long term, Asia-Pacific countries need to transform their social and economic models towards building a stronger social contract, characterised by higher quality universal public services and more progressive taxation. By investing in more comprehensive universal social security systems, trust by citizens in government should strengthen and, over time, deliver a stronger social contract, in which citizens are more willing to pay taxes. By seeing direct evidence – through the cash that they receive in their hands – that government is delivering on its promises, government revenues may rise in the long-term. However, it is important that the social security system is regarded as fair and perceived as accessible to all citizens. The social security systems currently

found across much of Asia, with their arbitrary selection mechanisms, poor quality delivery and low transfer values are, in contrast, likely to be undermining trust in government.

Universal social security helped build the post-Second World War social democratic consensus in Western Europe and underpinned decades of stability and prosperity of their economies and societies, in which higher taxes, greater redistribution and lower levels of inequality became the norm. COVID-19 should, hopefully, act as a similar wake-up call to Asia since, without higher government revenues and more redistribution, the region will remain highly susceptible to social, economic, political, environmental and health shocks.

## 6 Conclusion

The COVID-19 pandemic has created an unprecedented global crisis, which is exacerbating an already precarious situation for the majority of families and individuals across the Asia-Pacific region as the result of workers, across both informal and formal economies, experiencing widespread job losses and cuts in wages. Many countries in Asia-Pacific have responded to the crisis by adopting economic stimulus packages. However, many of the emergency measures taken by countries in the region are inadequate, since the majority of current social security systems are unable to reach all those affected by COVID-19, and in many cases, the level of support is too low to bring about meaningful impacts on the welfare of citizens and economies. In order to minimise the negative impacts of the crisis and stimulate a more effective economic recovery after the crisis, effective emergency responses need to be put in place that can be accessed on an equitable basis, engender popular support and provide a minimum level of income security. A well-designed response could minimise threats faced by economies and, importantly, reduce the risk of social unrest. While dealing more effectively with the crisis, an effective response can form the building blocks for a sustainable system that will benefit future generations.

The easiest means of providing effective emergency support that reaches most of those in need is through universal transfers. Options examined in this paper include either a system of universal transfers for key lifecycle categories that are easily identified, such as children – and, therefore, their parents – and older people, or a universal basic income. Compared to more complex targeted responses, these universal transfers would be much easier to establish and are likely to be popular with the majority of the population. Even if elites may be resentful of the higher tax burden that would be placed on them, they should remember that they will benefit from stronger economies and a much lower likelihood of social unrest.

While the paper argues for emergency schemes, once the crisis ends, they could remain in place, but be scaled back, thereby forming the basis of more modern and effective national social security systems. When a further crisis hits, the social security system would be in a much better position to provide an effective response. If countries establish a short-term UBI, it could also be scaled back following the crisis to be converted into a more conventional lifecycle social security system. In the long term, all countries across the Asia-Pacific region have the potential to build inclusive social security systems, similar to the design of systems in high-income countries, delivering more equitable societies that are better equipped to respond to future crises. The COVID-19 crisis could be the opportunity to begin building these systems.

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