Policy brief
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A social protection response to COVID-19 in developing countries

In brief

- At the time of writing, there were over 2.5 million reported cases of COVID-19 worldwide with more than 170,000 deaths. Yet an accurate picture of the impact of the virus in the developing world is missing, particularly in relation to governments' ability to cope with the economic challenges posed.

- This brief evaluates how developing country governments and international donors are responding to COVID-19 in relation to social protection policies aimed at supporting the poorest and most vulnerable.

- The brief also looks at a range of recent literature to understand how policy interventions such as food and cash transfers can effectively support citizens through this period.

- The author makes five recommendations for policymakers on designing and delivering social protection policies to deal with the impacts of COVID-19.

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Background

As of 21st April 2020, there were more than 2.5 million reported cases of COVID-19 worldwide, with more than 170,000 deaths. Much of the US and Europe have either hit their peak rates or are about to. Yet many poor countries are still experiencing rapid, exponential growth of COVID-19 cases, and much uncertainty remains about their ability to cope. All the data suggest that most countries in Latin America and Africa, and some in Asia, are simply at an earlier stage of the growth curve[1], and the relatively low number of reported cases in developing countries is mostly a function of the low rate of testing.

A combination of debt burdens, inadequate health systems, largely informal economies, high population densities, rural-urban migration, and pre-existing medical conditions makes the crisis especially acute. The United Nations estimates that developing countries will need $2.5 trillion in rescue funding to avoid an economic and health catastrophe (UNCTAD 2020). Oxfam reports that a worst-case scenario would see the number of poor people in the world double (Strohecker 2020).

The economic impacts are already playing out. Most of these countries depend on foreign capital through sectors like tourism and commodity exports. Last year, the top 24 emerging markets saw net inflows of $79 billion in investment. Over the last two months, a net $70 billion in investment has already exited these countries (Goodman et al. 2020). Many have imposed full lockdowns, resulting in sudden mass unemployment, the disappearance of markets, food insecurity, and panic. In India, a strict quarantining policy has resulted in hundreds of millions of unemployed migrants stranded in cities, living in makeshift slums that will only accelerate the spread of the virus.

Governments have bet that the impact of the virus tearing through the population outweighs the economic impacts from locking down. In fact, due to reductions in trade and foreign investment, most developing countries will experience a major recession whether they lock down or not. The number of vulnerable people in poorer countries is set to rise dramatically, and how countries cope will depend entirely on how quickly they can deploy adequate social safety nets to a large majority of their populations.

Worryingly, most countries in Africa have safety net programmes that support old people and mothers, but not the jobless. Only 10% of the African population is covered by some form of social protection (Beegle et al. 2018), and Asia and Africa collectively spend only 3% of their Gross Domestic Product (GDP) on transfers, compared to 15% in advanced economies[2]. Somehow, countries will have to quickly expand and increase

1. https://www.worldometers.info/coronavirus/
2. https://ourworldindata.org/government-spending

coverage, which at present seems, administratively and fiscally, hugely challenging. Given the limited resources governments are faced with, they should at least direct cash and food aid to the most vulnerable, by taking the following actions:

- Drop conditionalities on existing cash transfers.
- Redirect other existing social distribution programs to deliver cash to maximise coverage.
- Supplement cash with food, especially in fragile contexts where markets have broken down and banking access is low.
- Design early warning systems for local food prices and availability to inform the balance between cash and food.
- Complement cash and food aid with information to make them more effective.

Cash and food aid in a crisis: What do we know?

Most evidence on cash transfers and food is generated in non-emergency contexts. Humanitarian situations are different – they are characterised by the sheer scale and immediacy of required actions, and the complex set of barriers involved. This makes the mainstream evidence on cash transfers less relevant. However, the evidence on the effectiveness of cash transfers and food aid in humanitarian and emergency settings is rapidly evolving and shows largely positive impacts.

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There is little evidence on either the combination of the two or comparing the two directly, but several studies document increases in consumption, food security, assets, health, and mental well-being if given one or the other. (For a comprehensive review of the evidence on cash transfers in all contexts, see Bastagli and Hagen-Zanker 2016).

Unconditional cash transfers in a crisis

A review of the impact of 54 cash transfer programmes in humanitarian and transitional settings showed that a majority of the programmes improved dietary intake. Beneficiaries spent 45-90% of the cash on food, consumed higher quality food, and increased meal frequency (Bailey and Hedlund 2012). Another systematic review on the role of cash transfers in building resiliency of food systems and markets shows that they improve food availability, access, and utilisation. These impacts are seen for both conditional and unconditional transfers (Holmes and Bhuvanendra 2014). And finally, a World Bank review of the evidence on cash and food transfers in humanitarian contexts shows that cash improves food consumption, caloric intake, and dietary diversity. Cash is also more efficient to deliver and cost-effective compared to food aid (Gentilini 2016).

Cash transfers vs food aid

Food aid may be the preferred choice of delivering social protection in a time of crisis if markets aren't functioning and access to food is sparse. In the rapidly evolving COVID-19 crisis, it is still unclear whether market breakdown or the logistics of food delivery is the greater challenge and may differ by country or province. The evidence comparing food aid to cash in humanitarian contexts is inconclusive and differs across countries. For example, in Bangladesh, cash was more effective in improving food consumption, but in Ecuador, food aid had more impact (Gentilini 2016). In general, both are seen as effective ways to improve food security. Cash should be the preferred choice due to efficiency, cost advantages, and fungibility, but food should ideally complement it in contexts where either markets break down or lack of access to technology or banking risks exclusion.

General equilibrium impacts

A recent IGC study provided large, one-time unconditional transfers to over 10,000 poor households in rural Kenya and observed strong positive impacts on consumption and assets, as well as positive general equilibrium effects: a 15% increase in the local GDP, and a local fiscal multiplier of 2.6, indicating large knock-on effects (Egger et al. 2019). Another study in Zambia also showed large multiplier effects stemming from investment in non-farm activity (Handa et al. 2018). While these were not conducted in emergency settings, they do show that unconditional cash transfers can have positive long term and widespread impacts that go beyond the beneficiaries, which could in theory play out in a crisis as well.

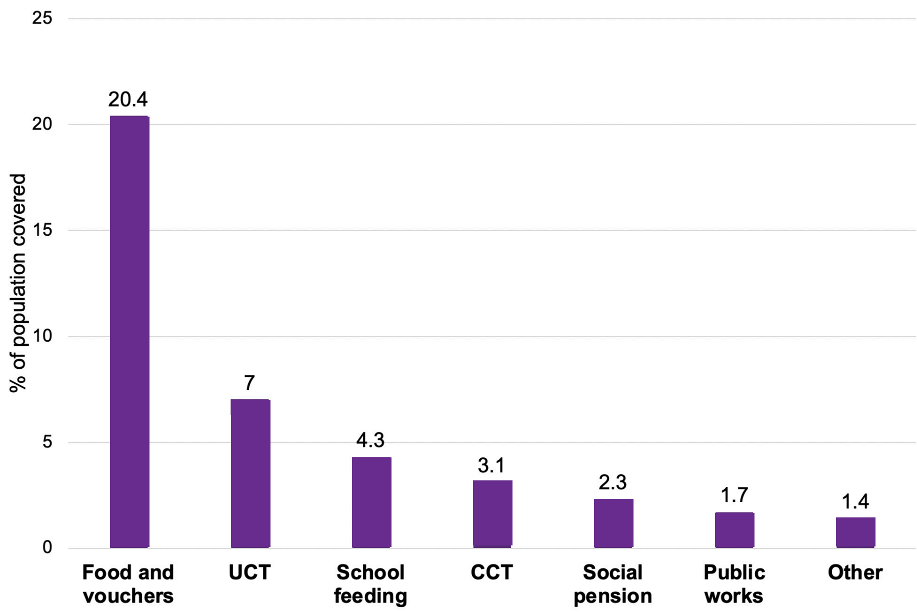
Unconditional vs conditional cash transfers

The urgency with which support is needed, the reasons behind the need for support, and the overwhelming evidence that shows that unconditional transfers are equally effective for the outcomes desired in a crisis, all point to transferring money with no strings attached (Ozler, 2020). A DFID review comparing the two types of transfers concludes that "there is limited evidence that can be attributed to attaching conditionalities to transfers" (DFID, 2011). Attaching conditions also imposes additional costs on the state and requires the institutional capacity to deliver them, which are likely to be under enormous strain in a crisis.

Analysis of risks

Both cash and food aid are viable options to deliver social protection that are context dependent, but they also present serious challenges. The global trends in concentration of people and advances in technology have created an environment that is increasingly conducive to delivering cash. However, cash transfers still only cover less than 10% of the population in developing countries. (Alderman et al. 2018). This is primarily a legacy effect of existing food distribution systems in low income countries, political economy, and the still prevailing stigma around delivering cash unconditionally, despite the evidence. The choice of transfer modality should depend on the objectives, an assessment of the conditions, and a carefully considered response analysis.

Figure 1: Coverage of social assistance programmes in 108 low and middle income countries as of 17th April 2020



Price surges

Fragmented or weakly competitive markets can result in localised price surges due to a heavy inflow of cash. Prices could also rise through general equilibrium effects. Recipients can be left worse off with less choice and purchasing power, and food aid may be the more appropriate choice. The basic functioning of markets is a prerequisite for providing cash transfers, and governments must conduct geographical market analysis for food and other commodities before injecting large volumes of cash.

Implementation capacity

The majority of low and lower-middle income countries have more experience delivering in-kind aid. However, with recent advances in biometric identification, access to bank accounts, and mobile phone penetration, governments have an opportunity here to link unconditional cash transfers to existing social safety net delivery systems and to mobile money. Penetration of technology may vary greatly across countries, but governments should not justify relying solely on food aid because of pre-existing skills and experiences, and push for greater integration of cash delivery with existing technology platforms that increasingly reach the poor. However, governments should be mindful of exclusion and err on the side of including the wrong people versus excluding the right ones.

Exclusion

Despite reforms and improvements in monitoring, leakages in the food delivery systems in low and lower-middle income countries persist. In India, there has been a steady decline in leakage over the past decade, but it still stood at 38% in 2011-12. However, coverage of the programme doubled from 22% to 44%, and coverage among the poorest quintile also doubled. A review of social assistance programmes in 108 low and middle income countries shows that food aid reaches more than double the number of beneficiaries than cash transfers (Alderman et al. 2018). The policy choice of cash transfers, which are far less prone to leakage and are more cost efficient, must be balanced with the need to reach as many vulnerable people as possible.

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Mis-targeting

For a given budget, well targeted transfers will lead to lower poverty rates. For many countries in the world, which have less than 50% of their population living below their own poverty lines, it makes sense to invest in administrative systems that achieve high levels of accuracy in delivering safety nets to intended beneficiaries (Olzen, 2020). However, in times of crisis, governments must weigh the administrative costs of improved targeting with the financial cost of providing near universal coverage. Targeting takes time, and time is in short supply right now. For low income countries with majority poor populations, simply relying on existing systems that target the very poor or destitute will not be enough, as many who are not vulnerable under normal circumstances will become vulnerable now.

Virus transmission through transfer modality

Cash transfers are less likely to cause direct spread of the virus compared to distributing food, which involves more human interaction. However, these risks can be mitigated through various social distancing policies such as door-to-door delivery, adequate spacing in queues, rationing through time slots, and so on. There have been some fears that bank notes carry the virus, but there is no real evidence to suggest that transmission through the exchange of notes is substantial in any way. The majority consensus among experts is that the risks of not providing cash would far outweigh the risk of transmitting the virus through cash (Bauomy 2020). The choice of transfer modality must take into account the risk of virus transmission and depends on the risk mitigation policies and practices governments feel they can successfully enforce.

How have countries responded so far?

As of 17th April 2020, 119 countries have either introduced or modified social transfer programmes in response to COVID-19, including 43 low or lower-middle income countries. The majority of programmes introduced worldwide are cash transfers. Africa has shown encouraging progress in recent weeks, with 26 countries having introduced some form of social protection. As recently as three weeks ago, no African country had any type of programme in place.

However, progress in Africa is largely driven by fee waivers for public utilities and not much else, which is an inadequate and potentially regressive response (Modern Ghana 2020). The share of total household expenditures allocated to electricity is lower than 3% (Kojima, et al 2016). Africa has 54 countries, of which 52 have reported cases of COVID-19. Twenty-two of these countries have introduced fee waivers, seven have introduced food aid, and only five have rolled out cash transfers (Gentilini 2020). Even India, which has numerous large existing social protection programmes, has only committed $22 billion, or less than 1% of its GDP, to its COVID-19 relief fund. In comparison, governments in Britain, Spain, Germany, and the US have offered stimulus plans worth more than 20% of GDP (Krishnan 2020).

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Governments in poorer countries are obviously fiscally constrained, but are also either misled by low numbers, are not planning ahead, or are over-reliant on locking down – likely a combination of all of these. Almost all of the substantive programs are in high income or upper-middle income countries, which incidentally also serve as an example of what can go wrong if you don't act swiftly.

Table 1: Social protection responses to COVID-19: All countries as of 17th April 2020[3]

	Social assistance		Social insurance		Labour markets	
	# countries	# programmes	# countries	# programmes	# countries	# programmes
Low Income	16	32	2	2	2	2
Lower-middle income	27	84	11	19	7	13
Upper-middle income	41	156	26	54	16	21
High income	35	80	35	59	27	42
Total	**119**	**352**	**74**	**134**	**52**	**78**

Ghana, one of the wealthier countries in Africa, has waived utility fees on water, electricity, and gas for three months. Kenya has allocated $100 million to cash transfers for the elderly, orphans, and other vulnerable groups. South Africa is also providing cash, but again only to the elderly and persons with disabilities. Uganda is waiving social security contributions for businesses affected by COVID-19. India is transferring Rs. 1000 – 2000 (£10-£20) to

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the bottom 10% of its population, as well as modestly scaling up its food delivery to poor households (Gentilini, 2020). Hundreds of millions of urban daily wage labourers and the middle-poor will be excluded. These measures are woefully inadequate, and low and lower-middle income countries must do more to ease the economic pain that most of their citizens are going through.

Table 2: Types of social assistance programmes in response to COVID-19 as of 17th April 2020 [4]

Social assistance programmes	# programmes
Cash transfers (UCT and CCT)	161
Universal one-off cash	4
Childcare support	9
Cash for work	7
in-kind food / voucher	54
social pensions	12
School feeding	19
Utility / financial obligation support	86
Total	**352**

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The UN has launched a $2 billion global humanitarian response plan for the world's most fragile countries (UN 2020). The World Bank has pledged to allocate $160 billion over the next 15 months but will deploy only approximately $4 billion during the critical emergency lockdown phase. Combined, that equates to a little more than $8 in total to each of the 700 million people worldwide who live on less than $2 a day – that is four days' worth of expenditures to cover these critical next 3-4 months. This is obviously a very rudimentary calculation, but it somewhat illustrates how insignificant the international response will be. There have also been very few direct commitments from higher income countries, as they scramble to deal with the economic fallout within their own borders.

Policy recommendations

1. Drop conditionalities on existing cash transfers

Governments should eliminate conditions on all their existing cash transfer schemes and deliver unconditional grants to all recipients that are adequate to provide food security and consumption smoothing for at least

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three months. The evidence on the effectiveness of these instruments is overwhelmingly positive in times of crisis. They have shown to improve food security in several studies conducted across the world and have proven to be cost effective as well.

2. Redirect existing programmes and platforms to deliver cash to maximise coverage.

The number of people needing assistance is going to dwarf the number that normally receive benefits from existing programmes. Directing cash to informal workers and the newly vulnerable will be especially challenging. It will prove costly and time intensive, yet some amount of targeting may be necessary given limited resources. Nevertheless, governments should look to expand coverage by providing cash through existing administrative channels that have wide outreach. For example, using databases of people employed in vulnerable industries (tourism and hospitality, transportation, construction, and so on), or those who have accessed public services such as health and schooling. Another way to target informal workers and minimise inclusion error is to have them self-select into the programme by making them expend a certain amount of effort. For example, by filling out a large application form or answering a time intensive survey on the phone (Jerving 2020).

3. Supplement cash with food, especially in fragile contexts where markets have broken down and banking access is low

Most low and lower-middle income countries rely on food distribution as a form of social protection. A range of factors should be considered for appropriate balancing of cash with food. These have been discussed above, and include programme objectives, the level of market functionality, predicted cost-effectiveness, implementation capacity, and the management of key risks such as exclusion and leakages. It is important in this context to also consider whether food can be delivered in a way that does not compromise social distancing. Both cash and food come with risks, and the best way to ensure these are mitigated is to provide some amount of both together.

4. Design an early warning system on local food prices and availability to inform the balance between cash and food

Governments should consider adopting phone-based market surveys to understand how commodity prices and quantities shift across different regions, and how trading has been affected. Surveys should target a mix of households, local community leaders, shopkeepers, traders, and market officials. This will allow identification of price hikes and the general functionality of the trading and market systems, useful for addressing the balance between cash transfers and food aid in a time sensitive way.

5. Improve access to reliable and accurate information

Unconditional grants should be complemented with information campaigns that make them more effective. For example, providing information on how to access them, on financial management practices, on sanitary practices such as handwashing, social distancing, along with guidelines on nutrition and food rationing, and the location of food banks.

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