Emergency Universal Child Benefits: Addressing the Social and Economic Consequences of the COVID-19 Crisis in South Asia

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unicef for every child
Emergency Universal Child Benefits: Addressing the Social and Economic Consequences of the COVID-19 Crisis in South Asia

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This is a working document. It has been prepared to facilitate the exchange of knowledge and to stimulate discussion. It has been prepared for UNICEF by a team from Development Pathways - including Stephen Kidd, Diloá Athias and Sarina Kidd – alongside Abdul Alim of UNICEF.

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Emergency Universal Child Benefits
Addressing the Social and Economic Consequences of the COVID-19 Crisis in South Asia
Summary

The COVID-19 crisis is wreaking havoc on national economies across South Asia, with damaging consequences for the wellbeing of families and children. The crisis is universal, with those on middle and high incomes potentially the hardest hit. As a response to the crisis, it is essential that South Asian countries implement large-scale rescue packages that provide a stimulus for their economies and protect families and businesses, while minimising the risk of widespread social unrest.

Some South Asian countries have recognised the danger of COVID-19 and have responded by either expanding current social security schemes and/or introducing new emergency programmes. Unfortunately, the current level of fiscal responses to the COVID-19 crisis by South Asian countries is inadequate and, in fact, some countries have offered almost nothing. As a result, national economies may suffer deep recessions while families will suffer, with many children bearing the brunt.

South Asian countries should, therefore, consider alternative responses that are relatively simple to implement, offer their economies a more effective stimulus while reaching the vast majority of families in an easily understandable, transparent and fair manner. One of the easiest means for South Asian countries to address the challenges arising from the COVID-19 crisis is to put in place a package of universal income transfers directed at some of the most vulnerable members of the population, in particular children, older people and persons with disabilities.

An emergency Universal Child Benefit (UCB) would be an important component of this broader package and would ensure that the vast majority of households across South Asia access a minimum level of income support. The benefits to child wellbeing, the economy, social cohesion and political stability are likely to be significant while recovery from the crisis will be much quicker. Analysis across five countries in South Asia indicates that a UCB costing 2 per cent of GDP over six months would provide the recipient population with an average of between 18 and 46 per cent of their pre-COVID expenditures, with particularly high benefits for the poorest members of society. More detailed analysis in Sri Lanka demonstrates that the scheme would more than replace the income losses experienced by many families as a result of the COVID-19 crisis, which is a very positive result.

Financing stimulus packages is a challenge that all governments are experiencing, and some countries are in a better financial situation than others. However, South Asian countries need to do as much as they can to minimise the likely impact of the crisis on economic growth. If not, economic collapse beckons while the risk of widespread social unrest will be enhanced. In the long-term, South Asia requires a new social contract in which citizens are willing to pay higher taxes in exchange for good quality public services. This will require trust in government to be strengthened, which will only happen if governments invest in universal public services, including social security. An emergency UCB could be an important first step in building this trust, in particular if it remains in place following the crisis, even if it is somewhat scaled back in size once the crisis ends.
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<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>BISP</td>
<td>Benazir Income Support Programme</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institution</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LKR</td>
<td>Sri Lankan Rupee</td>
</tr>
<tr>
<td>NREGS</td>
<td>Mahatma Gandhi National Rural Employment Guarantee Scheme</td>
</tr>
<tr>
<td>NSAP</td>
<td>National Social Assistance Program</td>
</tr>
<tr>
<td>NSER</td>
<td>National Socio-Economic Register</td>
</tr>
<tr>
<td>PMJDY</td>
<td>Pradhan Mantri Jan Dhan Yojana</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>Rs</td>
<td>Indian/Pakistani Rupee</td>
</tr>
<tr>
<td>SP</td>
<td>Social Protection</td>
</tr>
<tr>
<td>Tk</td>
<td>Bangladeshi Taka</td>
</tr>
<tr>
<td>UCB</td>
<td>Universal Child Benefit</td>
</tr>
<tr>
<td>US$</td>
<td>United States Dollar</td>
</tr>
</tbody>
</table>
1 Introduction

The COVID-19 pandemic is causing unprecedented social and economic damage across South Asia. It brings together a perfect storm of crises: since it is a global crisis, demand for countries’ exports are falling while the tourism industry has collapsed; at the same time, physical distancing and lockdown measures have reduced demand in the economy and inhibited people from working, resulting in many businesses, both large and small, either contracting or closing down. All of this has been exacerbated by a collapse in remittances which, in Nepal, Pakistan and Sri Lanka, in particular, comprise a high proportion of national income\(^1\) across the region, and are expected to fall by 22 per cent across 2020.\(^2\) In addition, some migrant workers who have lost their jobs are returning to South Asian countries and becoming an additional burden on the economy. Consequently, as Figure 1 shows, economic growth in the region is predicted to collapse with the Maldives, Afghanistan, Pakistan and Sri Lanka expected to enter into recession. Indeed, if the crisis continues, the situation may end up being much worse.

![Figure 1: IMF predictions of economic growth rates across South Asia for 2020, comparing their assessments in October 2019 and April 2020](source)

Already, many workers across both formal and informal economies have lost jobs or seen their incomes slashed. For instance, in Sri Lanka, UNICEF (2020b) estimates that, on average, household incomes have fallen by between 14 and 26 per cent while, globally, the ILO (2020) estimates that the earnings of informal economy workers have fallen by 60 per cent.\(^3\) The crisis is universal: for example, Figure 2 shows how incomes in Sri Lanka have fallen across the pre-COVID-19 welfare distribution under both optimistic and pessimistic scenarios, with those on middle and high incomes the hardest hit.

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\(^1\) World Bank (2020).
\(^2\) World Bank (2020).
\(^3\) ILO (2020a)
Introduction

Figure 2: Impacts of the COVID-19 crisis on incomes in Sri Lanka across the welfare distribution, under both optimistic and pessimistic scenarios

Prior to the crisis, the majority of the population across South Asia were already living on low and insecure incomes, which makes them less able to cope with the effects of the COVID-19 crisis. As Figure 3 indicates, in most South Asian countries, few people lived on more than $5.50 (PPP) per day which many consider an appropriate poverty line for middle-income countries. Indeed, those on middle incomes, most of whom work in the informal economy, exhibit the characteristics attributed by Guy Standing (2014) to the global class he calls the ‘precariat,’ including a limited capacity to withstand shocks. Many have been hit hard by COVID-19, with some struggling to even feed their families. In fact, the United Nations predicts that a quarter of a billion people globally are will experience acute hunger in 2020, an increase of more than 130 million. Furthermore, it is estimated that there are 50 million homebased workers in South Asia, with 37.4 million living in India. Homebased workers are predominantly women, and as such, women – whose economic contributions before the crisis were often invisible and unrecognised – will be disproportionately affected by the crisis due to their insecure and unprotected incomes.

Source: UNICEF (2020b)

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4 Anthem (2020)
5 Homenet South Asia (n.d.)
While the COVID-19 crisis will threaten almost everyone, children are particularly at risk. With more and more families experiencing food insecurity and resorting to cheaper and less nutritious foods, child development across the region will be affected. If the consumption of crucial micro-nutrients falls, the cognitive development of children will be setback, implying long-term damage to their wellbeing. Families will find it more difficult to purchase books, toys and games, all of which play a key role in stimulating children. Further, if pre-primary schools remain closed for prolonged periods of time, the brain development of the most vulnerable young children – who benefit the least from alternative modalities of learning – can be negatively impacted. The window of opportunity for early cognitive development is very narrow, and so the danger of lifelong consequences for the poorest and most vulnerable young learners is very real.

In addition, there is global evidence that, as families come under greater financial stress as a result of COVID-19, domestic violence is on the rise, which is a major cause of deteriorations in children’s emotional and mental wellbeing while many may also be victims. Unless urgent action is taken, the gains in human capital made by South Asian countries in recent decades could be severely compromised, with recovery taking many years.

As a response to the COVID-19 crisis, it is essential that South Asian countries implement large-scale fiscal rescue packages that: a) provide an economic stimulus that generates 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 every member of society a minimum level of income security; and, d) minimise the risk of widespread social unrest, which, as highlighted by the IMF (2020a), is a real danger if effective responses to the crisis are not put in place. A fiscal response should, of course, be part of a broader set of measures to protect families, business and the national economy, including strengthening health services.
The logic behind an emergency stimulus packages as a response to the COVID-19 crisis is set out in Figure 4. 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 key social security interventions were maintained following the crisis, albeit somewhat scaled-back, higher economic growth could be generated in the medium to long-term.

This aim of this paper is to examine the social security responses to the COVID-19 pandemic implemented to date by South Asian countries. It will show that they are inadequate, given the scale of the crisis. The paper will, therefore, propose a more effective response, one based on the provision of universal benefits, with a Universal Child Benefit (UCB) as a core component.
2 Current social security responses to the COVID-19 crisis across South Asia

Some South Asian countries have recognised the danger of COVID-19 and responded by either expanding current social security schemes and/or introducing new emergency programmes (in addition to other measures to protect businesses). A summary of regional initiatives is set out in Table 1. Unfortunately, the responses are too small to act as an effective economic stimulus. The largest is India’s, at 0.8 per cent of GDP, while those of Bangladesh, Pakistan and Sri Lanka are less 0.3 per cent of GDP, with other countries doing very little. In contrast, high income countries are spending much more, with the fiscal response across the Group of Seven major economies averaging 5.9 per cent of GDP (and this may increase if the crisis continues).\(^7\) In effect, high-income countries are doing ‘whatever it takes’ to rescue their economies and citizens, an approach endorsed by the IMF.\(^8\) The opinion of Martin Ravallion – a former World Bank Chief Economist – offers some 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.”\(^9\)

Table 1: Summary of tax-financed social security responses to COVID-19 across South Asia

<table>
<thead>
<tr>
<th>Name of scheme</th>
<th>Number of recipients</th>
<th>Increase in transfer per month (local currency and US$)</th>
<th>Transfer value (% GDP per capita)(^{10})</th>
<th>Duration of support</th>
<th>Cost of emergency response (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bangladesh</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment to households who have suffered job loss</td>
<td>Unknown</td>
<td>Tk. 2,000 (US$ 23.50)</td>
<td>3.25%</td>
<td>Unknown</td>
<td>0.03%</td>
</tr>
<tr>
<td><strong>India(^{11})</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Social Assistance Program (NSAP) for elderly, widows and disabled</td>
<td>35 million recipients</td>
<td>Rs. 1,000 (US$ 14.60)</td>
<td>7.1%</td>
<td>Unknown</td>
<td>0.8%</td>
</tr>
<tr>
<td>Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGS)</td>
<td>27.5 million workers</td>
<td>Daily wage rate increased from Rs. 180 (US$ 2.60) to Rs. 202 (US$ 2.90) + direct cash transfer</td>
<td>Unknown</td>
<td>Unknown</td>
<td></td>
</tr>
<tr>
<td>PMJDY (Jan Dhan financial inclusion)</td>
<td>200 million women</td>
<td>Rs. 500 (US$ 6.50)</td>
<td>3.5%</td>
<td>3 months</td>
<td></td>
</tr>
<tr>
<td><strong>Pakistan(^{12})</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ehsaas Emergency Cash Programme</td>
<td>10 million households</td>
<td>Rs. 1,000 (US$ 6.00) to Rs. 3,000 (US$ 18.00) per month</td>
<td>1.4% to 4.2%</td>
<td>4 months</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

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7 IMF (2020a).
8 Fouad et al (2020)
9 Ravallion (2020).
10 The transfer values of household benefits, as a percentage of GDP per capita, have been adjusted to reflect the per capita transfer, based on the fact that they are expected to support all recipients in the household. 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.
11 In India, many states have also introduced their own schemes.
12 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
Current social security responses to the COVID-19 crisis across South Asia

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Recipients</th>
<th>Transfers (LKR, US$)</th>
<th>Percentage</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samurdhi, Senior Citizens’, Disability and Chronic Illness Allowances</td>
<td>3,213,868</td>
<td>LKR 1,500 (US$ 7.90) to LKR 5,000 (US$ 26.30)</td>
<td>0.4% to 1.2%</td>
<td>Unknown</td>
</tr>
<tr>
<td>Farmers’ and Fisherman’s Pension Schemes</td>
<td>160,675</td>
<td>LKR 3,000 (US$ 15.80)</td>
<td>1.6%</td>
<td>Unknown</td>
</tr>
<tr>
<td>Unemployed Graduates</td>
<td>40,000</td>
<td>LKR 20,000 (US$ 105.30)</td>
<td>11.2%</td>
<td>Unknown</td>
</tr>
<tr>
<td>Self-employed workers</td>
<td>1,924,967</td>
<td>LKR 5,000 (US$ 26.30)</td>
<td>5.4%</td>
<td>Unknown</td>
</tr>
<tr>
<td>Pre School Teachers</td>
<td>39,784</td>
<td>LKR 5,000 (US$ 26.30)</td>
<td>5.4%</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

South Asian countries have, of course, provided other support measures, sometimes considerably more than the level of spending on cash benefits for families. For example, India and Pakistan have announced relief packages equivalent to 3.1 per cent of 2019 GDP while Bangladesh and the Maldives are providing the equivalent of 2.8 per cent of GDP. Broader support includes, for example, spending on improving the response of health services to COVID-19, supporting the liquidity of the Central Bank (India), loans and other support to businesses and indirect support to households by, for example, subsidising energy costs. While many of these other measures are welcome, there are questions on whether countries have the balance right between their income support to families – given the scale of income losses that are being experienced – and other measures. It is clear that direct financial support to families, which would also boost the economy, should be higher.

A further challenge with some emergency income support measures taken by South Asian countries is that they have been based on expanding existing poor relief schemes, either by incorporating additional recipients or increasing the value of transfers. For example, in Pakistan, the Ehsaas Emergency Cash Transfer programme is essentially an expansion of the Benazir Income Support Programme (BISP); in India, a higher payment has been given to recipients of the Old Age, Disability and Widows’ Allowances; and, in Sri Lanka, those on the waiting list of the Samurdhi, Senior Citizens’ and Disability Allowances have been incorporated into the schemes and an additional transfer has been provided to recipients. Sri Lanka is also giving a payment to all informal economy workers.

Unfortunately, South Asia’s existing social security systems do not provide a good basis for an effective emergency response in the context of a universal crisis such as COVID-19. Most either provide social insurance and/or civil service pensions to formal economy workers while targeted poor relief – such as Pakistan’s BISP, Sri Lanka’s Samurdhi and the Old Age and Disability Allowances in India, Bangladesh and Sri Lanka – is offered to those living in extreme poverty. The majority of middle-income families – the precariat – are, by design, excluded from accessing social security. There are some universal schemes, such as the old age pensions of Nepal and the Maldives, but they are very much the exception. The reality is that, if a fiscal stimulus is provided through the region’s poor relief schemes, the majority of those affected by the COVID-19 crisis will be excluded.

Furthermore, due to the limited targeting effectiveness of poor relief schemes across the region, it is likely that a high proportion of the poorest families will also be excluded. Figure 5 illustrates the limited accuracy of some of South Asia’s poor relief schemes. Exclusion errors are 58 per cent on Sri Lanka’s Samurdhi programme, 68 per cent on India’s Old Age

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13 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.

14 The duration of Sri Lanka’s support is unknown. It was initially meant to be a one-off transfer, but by the time of the publication of this paper, 2 transfers had been made.

15 IMF (2020c) and Gentilini (2020)
Current social security responses to the COVID-19 crisis across South Asia

Pension and 73 per cent on Pakistan’s BISP. While some countries have developed social registries to support more effective targeting – such as Pakistan’s National Socio-Economic Register (NSER) and India’s Poor List – they are also highly inaccurate. As Figure 5 shows, India’s Poor List has an exclusion error of 54 per cent while Pakistan’s NSER is responsible for the limited targeting effectiveness of the BISP. The information held on social registries is also often very out of date: for example, Pakistan’s Ehsas Emergency Cash Transfer is using NSER data from 2009. Further, social registries do not update information during crises to reflect changes in household wellbeing, making their use even less appropriate.

Figure 5: Targeting effectiveness of a selection of poor relief schemes in South Asia

Sri Lanka has implemented one of the most ambitious responses to COVID-19 in the region, by combining an expansion of poor relief schemes to 47 per cent of households nationally complemented by a one-off transfer to all informal economy workers. Nonetheless, as Figure 6, shows, around 34 per cent of households nationally are likely to still be excluded, including many of those living on precarious low and middle incomes prior to the crisis, as well as many recently unemployed formal economy workers. Further, Sri Lanka’s proposals are likely to exclude 30 per cent of children. Due to the challenges of targeting, 38 per cent of beneficiaries are likely to receive at least two packages of support, despite a policy of one package per household. Following the first payment, many people appealed their exclusion and almost 600,000 additional informal economy workers were added, illustrating the challenges of the identification process.

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10 Analysis in this paragraph is taken from UNICEF (2020a).
Current social security responses to the COVID-19 crisis across South Asia

Figure 6: Recipients of the COVID-19 support measures in Sri Lanka, across the wealth distribution

Further challenges with South Asia’s current responses are the low value of the transfers and the duration of the support. Some transfers are one-off handouts while the longest duration is the Ehsaas programme’s four months. However, if support is to help people throughout the crisis, it will be required for longer, probably at least six months. The monthly value of most of the transfers ranges from less than one per cent to seven per cent of monthly GDP per capita. This can be compared to the value of an average social pension in low- and middle-income countries, which is around 15 per cent of monthly GDP per capita.

In sum, therefore, the current level of fiscal response to the COVID-19 crisis by South Asian countries is inadequate, with some providing almost nothing. As a result, national economies will not receive the level of stimulus required while families will suffer, with many children bearing the brunt. Further, there is a real risk of social unrest, which will threaten political stability and further exacerbate the seriousness of the crisis.
Emergency UCBs across South Asia: costs and impacts

3 Emergency UCBs across South Asia: costs and impacts

Given the inadequacy of current responses to the COVID-19 crisis, South Asian countries should consider alternative responses that, more effectively, offer their economies a higher level of stimulus while reaching the vast majority of families in an easily understandable, transparent and fair manner. The IMF (2020b) has suggested that South Asian countries should consider using universal transfers, such as temporary, emergency, lifecycle social security schemes, which would include a UCB. UCBs provide each child with a transfer of similar value and are, preferably, paid to the female caregiver. They should be considered as part of a broader package of universal lifecycle schemes that include old age pensions and disability benefits. However, if the majority of households – and all children – in a country are to be reached, it will be essential to implement a UCB.

Although lifecycle transfers are directed at specific categories of the population, they are also a relatively easy means of reaching the families of those working in both the formal and informal economies. Although a UCB is directed at children, in reality the cash is received by a caregiver and is likely to support all household members either directly or indirectly. In fact, it should be regarded as a supplement to family income, making it easier for families to invest in their children.

Given the universal nature of the COVID-19 crisis and the fact that it is impossible to identify those most in need, it makes little sense to use poverty targeting within the fiscal response. Indeed, a major advantage of universal schemes is that they are relatively simple to set up and so should be a realistic and practical option for governments to consider.

Potential costs of emergency UCBs and potential transfer values

As indicated earlier, effective stimulus packages will probably require financing equivalent to at least two per cent of GDP. Therefore, the two options considered for emergency UCBs in the South Asia region are set at one and two per cent of GDP, and are referred to as Scenarios 1 and 2. Assuming that the aim is to provide support to all children aged 0-17 years, the value of the transfers that could be provided with these budgets over a period of six months in five South Asian countries are set out in Table 2. Under Scenario 1, the transfers would range between five and seven per cent of monthly GDP per capita while, under Scenario 2, they would be between nine and 14 per cent of monthly GDP per capita. The proposed transfers are higher than would be expected for child benefits during conventional times, which average around 4 per cent of GDP per capita. This is to be expected since the emergency UCBs are intended to support children during a period when families are struggling more than normal.

Table 2: Value of UCB transfers that could be provided across five South Asian countries with budgets equivalent to one and two per cent of GDP, in local currency, United States dollars and as a percentage of GDP per capita

<table>
<thead>
<tr>
<th>Country</th>
<th>Currency</th>
<th>Value of transfers in US$ and local currency</th>
<th>Value of transfers as a percentage of GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Scenario 1</td>
<td>Scenario 2</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>BDT</td>
<td>10/860</td>
<td>20/1,720</td>
</tr>
<tr>
<td>India</td>
<td>INR</td>
<td>11/800</td>
<td>22/1,600</td>
</tr>
<tr>
<td>Nepal</td>
<td>NPR</td>
<td>4.8/560</td>
<td>9.6/1,120</td>
</tr>
<tr>
<td>Pakistan</td>
<td>PKR</td>
<td>4.5/710</td>
<td>9/1,420</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>LKR</td>
<td>24/4,200</td>
<td>48/8,400</td>
</tr>
</tbody>
</table>

17 Kidd and Sibun (2020).
Emergency UCBs across South Asia: costs and impacts

Effectiveness of UCBs in addressing income insecurity during the COVID-19 crisis

To illustrate the potential effectiveness of the UCBs in addressing the COVID-19 crisis, the impacts of the UCBs have been simulated in Bangladesh, India, Nepal, Pakistan and Sri Lanka. The countries present diverse contexts: for example, Pakistan has a relatively young population, with children comprising 41 per cent of the population; in contrast, Sri Lanka is an ageing society with children comprising 28 per cent of the population.

While all families with children would, of course, be reached by an emergency UCB, Figure 7 shows the proportion of the population nationally who would benefit from a UCB in Bangladesh, India, Nepal, Pakistan and Sri Lanka, either directly or indirectly, across the pre-COVID-19 welfare distribution. Overall coverage, across the population, would be 92 per cent in Pakistan, 91 per cent in Nepal, 87 per cent in Bangladesh, 81 per cent in India and 75 per cent in Sri Lanka. This range corresponds to how young or old a population is, with Pakistan, for example, seeing higher coverage due to the high proportion of children within its population.

As Figure 7 indicates, in all of the countries, the majority of the poorest households would be reached by a UCB. For example, among the poorest 30 per cent of households, 99 per cent would be reached in Pakistan, 98 per cent in Nepal, 94 per cent in Bangladesh, 92 per cent in India, and 84 per cent in Sri Lanka. They would all, therefore, be much more effective that the region’s poverty-targeted schemes in reaching the poorest members of society, as indicated by comparing Figure 7 with Figure 5 above. Further, some of the gaps in coverage could be filled if temporary universal old age and disability benefits were put in place alongside a UCB.

Figure 7: Coverage across all households in Bangladesh, India, Nepal, Pakistan and Sri Lanka of a UCB
**Emergency UCBs across South Asia: costs and impacts**

One challenge with South Asia’s poor relief schemes is that they tend to be more focused on rural areas, yet a high proportion of those affected by the economic consequences of COVID-19 are urban dwellers. A UCB would, however, address this issue. For example, in Pakistan, 89 per cent of urban residents would be beneficiaries, alongside 94 per cent of those in rural areas. In Sri Lanka, the respective proportions would be 73 per cent in urban areas and 75 per cent in rural locations.

The UCBs would also have a significant impact on household consumption and family wellbeing. Under Scenario 1, the average share of pre-COVID 19 expenditure, among the recipient population, would be 9 per cent in Pakistan and Nepal, 16 per cent in Sri Lanka, 11 per cent in Bangladesh and 23 per cent in India. Under Scenario 2, it would rise to 18 per cent in Pakistan and Nepal, 23 per cent in Bangladesh, 33 per cent in Sri Lanka, and 46 per cent in India.

Figure 8 shows the share of pre-COVID-19 consumption per capita. Under Scenario 1, those who were in the poorest ten per cent of the population prior to COVID-19 would receive 19 per cent in Pakistan and Nepal, 24 per cent in Bangladesh, 37 per cent in Sri Lanka, and 52 per cent in India. Under Scenario 2, the poorest decile would receive a share of 38 per cent in Pakistan, 48 per cent in Bangladesh, 73 per cent in Sri Lanka, and 104 per cent in India. Consequently, a UCB would be a very significant contribution to family and child wellbeing. Importantly, those who were on middle – but still low and precarious incomes – prior to the crisis would also receive important support. For example, under Scenario 2, in Bangladesh, those in the fifth decile of the welfare distribution would benefit from a 20 per cent share of pre-COVID-19 consumption, while the share for those in Sri Lanka would be 28 per cent. In India, meanwhile, the share is estimated to be a significant 35 per cent.

*Figure 8: The share of pre-COVID-19 per capita expenditure (by household decile level) that could be provided by emergency UCBs in Bangladesh, India, Nepal, Pakistan and Sri Lanka*
Analysis undertaken by UNICEF in Sri Lanka demonstrates that an emergency UCB costing two per cent of GDP over six months could, on average, more than replace the income losses experienced by families as a result of the COVID-19 crisis, a very positive result. Under the optimistic scenario, the median income would be 17 per cent higher and seven per cent higher under the pessimistic scenario. Figure 9 shows the spread of impacts across the welfare distribution. Overall, under both the optimistic and pessimistic scenarios, households with children in the bottom half of the welfare distribution would, on average, have higher incomes than they had prior to COVID-19. Under the optimistic scenario, it would only be those in the richest decile who would, on average, still experience a reduction in income while, under the pessimistic scenario, incomes would be lower across the top half of the welfare distribution (but still significantly higher than if they received no support).

Figure 9: The extent to which an emergency UCB in Sri Lanka, at an annual cost of two per cent of GDP, would impact on the incomes of households with children when compared to their pre-COVID-19 incomes across the welfare distribution, under both optimistic and pessimistic scenarios

By providing families with a minimum income during the COVID-19 crisis, children should enjoy further significant benefits. The likelihood of children suffering hunger will fall, with families providing them with more nutritious food, thereby protecting them from setbacks in their cognitive and physical development. Some families will be able to offer a better learning environment for their children by, for example, ensuring that houses are well-lit or by paying for access to educational resource on the internet. Parents are likely to feel more able to spend productive and stimulating time with their children. A UCB may also help reduce
Emergency UCBs across South Asia: costs and impacts

Emotional stress in households, thereby limiting outbreaks of domestic violence which could otherwise harm children.

In addition, the provision of significant income support reduces the likelihood of households employing negative coping mechanisms. These mechanisms include a reduction in health expenditure, which can mean that children may not receive critical life-saving interventions such as immunisations or other early-life health interventions. A UCB can also limit how likely families are to pull children out of school – or not send them back – and can delay girls being married off at an early age due to their perceived financial burden on the household.

A UCB – especially if it is paid to the female carer – can also positively impact on gender dynamics by empowering women and giving them greater decision-making power both within their household and their communities. Indeed, many countries opt to pay the female carer, as it is expected that she is more likely to spend the benefit on the wellbeing of the household and the child. Child benefits can also support women if the funds contribute towards the cost of childcare or housework, as it frees up the female carer’s time to engage in other activities. In addition, in cases of separation, women are more likely than fathers to be the child’s caregiver and so are more likely to be assisted by a UCB. Finally, as the majority of home-based workers (as well as those in the wider informal economy) are women, a UCB can be an excellent means of reaching women who are normally unable to access social security programmes that are provided to those who work in the formal sector.

More broadly, emergency UCBs would comprise a key component of a wider stimulus package that would limit damage to economic growth. By maintaining markets, they will enhance the chances of businesses surviving, including among the self-employed in the informal economy. In turn, this means more people in employment, further contributing to higher family incomes and child wellbeing.

Importantly, UCBs will help countries avoid widespread social unrest and political instability. By reaching the majority of the population in a fair and transparent means they should generate greater trust in government, clearly demonstrating that political leaders care about them. People, in particular those on middle incomes, will be less likely to take to the streets in protest and more amenable to following instructions from governments, if lockdowns and physical distancing are imposed for long periods.
4 Fiscal space for stimulus packages

Financing stimulus packages is a challenge that all governments are experiencing, and some countries are in a better financial situation than others. However, the traditional refrain of those opposed to investing in universal benefits ‘there is no fiscal space’ is already being repeated in the context of the COVID-19 crisis. Yet, it is important to recognise that this question is not being asked in high income countries: instead, they are doing ‘whatever it takes’ to save their economies and protect their populations. Of course, while many high-income countries are potentially in a better position to finance stimulus, a similar attitude should be adopted across South Asia given the significant economic, human and social damage that will be caused by COVID-19. South Asian countries need to do as much as they can to reduce the loss of economic growth that they are facing. If not, economic collapse beckons while the risk of widespread social unrest will be enhanced.

A challenge facing South Asian countries is that government revenues as a percentage of GDP were, as shown by Figure 10 already low prior to the COVID-19 crisis and particularly low in Bangladesh, Pakistan and Sri Lanka. Consequently, fiscal space is going to be more limited than in high-income countries which tend to have government revenues above 35 per cent of GDP. Nonetheless, funding must be found urgently to avoid an already bad fiscal situation becoming worse as the result of deep recessions.

Figure 10: Government revenues and expenditure in 2019 across South Asia, as a percentage of GDP

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 since, in some it could trigger falls in the value of national currencies on the international exchange markets and provoke inflation that 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.

Source: IMF’s World Economic Outlook database
Fiscal space for stimulus packages

- There may be options for re-allocating other government spending from inefficient areas – such as unprofitable 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. Currently, income tax rates on the highest level of earnings are relatively low across South Asia: 30 per cent in Bangladesh, 36 per cent in India, 36 per cent in Nepal, 35 per cent in Pakistan and 18 per cent in Sri Lanka. Indeed, in Sri Lanka, income tax rates were slashed in December 2019 and it would make sense to, at a minimum, move back to the previous rates. While increases in income tax may provoke a negative reaction, this can be mitigated if, at the same time, governments offer a range of universal benefits, including a UCB.
- 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.

As Figure 11 illustrates, even if countries take on higher debt in the short-term to finance stimulus packages, if this results in less economic damage, losses in tax revenues may be minimised so that, in the medium to long-term, countries will probably end up in a stronger fiscal position, with lower levels of gross national debt, than if they had taken no action. However, this depends 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.
Further, governments need to bear in mind that, if social unrest flares up because citizens do not receive an adequate level of income support, the cost of maintaining public order – as well as the loss to livelihoods and assets – could end up being 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 long-term, of course, South Asia requires a new social contract in which citizens are willing to pay higher taxes in exchange for good quality public services. This will require trust in government to be strengthened, which will only happen if governments invest in universal public services, including social security. A universal UCB could be an important first step in building this trust, in particular if it remains in place following the crisis, even if it is somewhat scaled back in size once the crisis ends.
5 Conclusion

The COVID-19 crisis is wreaking havoc to national economies across South Asia, with damaging consequences for family and child wellbeing. The fiscal measures introduced by countries, to date, are inadequate and will offer neither a sufficient stimulus to the economy or protection to families. Unless governments in the region are much more ambitious in addressing the crisis, their economies and human capital will suffer losses that will require many years of recovery, while the likelihood of widespread social unrest and political instability will increase.

In line with suggestions from the IMF (2020b), one of the easiest means for South Asian countries to address the challenges arising from the COVID-19 crisis is to put in place a package of universal income transfers directed at the most vulnerable members of the population, in particular children, older people and persons with disabilities. A UCB would be an important component of this broader package and would ensure that the vast majority of households across South Asia access a minimum level of income support. The benefits to child wellbeing, the economy, social cohesion and political stability are likely to be significant while recovery from the crisis will be much quicker.

As a core component of a broader universal social security system that engenders greater trust in government, a UCB could contribute to the phoenix of a more equitable society rising from the ashes of COVID-19. Just as the Second World War was the shock that Europe needed to build fairer and more just societies, the COVID-19 crisis could be the trigger for similar change in South Asia. It is desperately needed.


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