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Published on **Development Impact (/impactevaluations)**

What can low-income countries do to provide relief for the poor and the vulnerable during the COVID-19 pandemic?

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As countries like the United States pass temporary legislation to cushion the massive blow that is on the horizon that is about to hit many of their citizens – poor and not poor – it is important to think about the tools available to governments of low-income countries, what kind of preparations they might consider, and what type of fiscal burden they face for social protection programs that can be financed through their own budgets and grants from international development institutions like the World Bank.

***[Important caveat:** our colleagues in the Bank and across the street at the IMF have both written blogs on this topic, so this is certainly not the first piece on the topic. Ugo Gentilini, who is the global lead for social safety nets in the Social Protection and Jobs Directorate of the World Bank, wrote a nice blog here (<https://www.brookings.edu/blog/future-development/2020/03/13/5-lessons-for-using-universal-basic-income-during-a-pandemic/>), which draws on their recent book, titled “Exploring Universal Basic Income” (<http://documents.worldbank.org/curated/en/993911574784667955/pdf/Exploring-Universal-Basic-Income-A-Guide-to-Navigating-Concepts-Evidence-and-Practices.pdf>)” with Grosh, Rogolini, and Yemtsov (editors). Colleagues at the IMF called for large targeted transfers here (<https://blogs.imf.org/2020/03/09/limiting-the-economic-fallout-of-the-coronavirus-with-large-targeted-policies/>), with a related blog post specifically on cash transfers here (https://blogs.imf.org/2020/03/05/fiscal-policies-to-protect-people-during-the-coronavirus-outbreak/?utm_medium=email&utm_source=govdelivery). Our aim here is to start a more specific discussion for low-income countries and nitty gritty choices they*

will likely have to make over the upcoming days, weeks, and months. This blog has been written quickly as only a first step in that discussion – to provide some framework for considerations that are likely to come up, but it is far from comprehensive. In addition Ugo will be devoting his weekly Friday links to country-specific policy responses to COVID-19 in more than 30 countries over the upcoming weeks and you can follow it here (<http://www.ugogentilini.net/>).]

Premise: These are not normal times and the main point of any support for citizens is not stimulus: while evidence does suggest that cash transfers to (poor) households in low-income countries can have multiplier effects and stimulate the economy (see, e.g. Handa et al. 2018 (<https://www.sciencedirect.com/science/article/pii/S0304387818300105>) or Egger et al. 2019 (http://emiguel.econ.berkeley.edu/assets/miguel_research/88/GE-Paper_2019-12-18.pdf)), the point of support during the pandemic is to get people through an inevitable recession and NOT to avoid one. Countries with health systems that are less equipped than middle- and high-income countries (whose own systems are currently not equipped to deal with even moderate scenarios of the spread of COVID-19) to deal with increased demand for ventilators and ICU beds will be facing the risk of a large number of deaths directly from the disease. As their health systems are overwhelmed with COVID-19 patients, this will further cause huge negative externalities on people with other serious conditions that need to use the same health facilities, leading to indirect deaths during the pandemic. Therefore, poor countries face the same dilemma, but more acutely, confronting the rest of the world: shut things down and practice extreme social distancing or be prepared for an overwhelmed health system and very high mortality. So, what we want is not stimulus for the markets to function as usual, but to support people to be able to meet their basic needs while they shelter in place and have the economy ready to bounce back when this is over. That's the premise...

What to do: In an economy, where many people are wage or salaried workers, a package of temporary (modest or generous) cash relief to poor citizens, combined with support to small and medium-sized businesses to maintain their payrolls makes sense. A number of proposals have been raised in the United States and in other high-income countries, see this one (<https://static1.squarespace.com/static/59b0bb01f9a61e09f11924fa/t/5e7143b9c531>) from Steven Hamilton and Stan Veuger for supporting small- and medium-sized businesses through private loans facilitated by the Federal Reserve, paired with tax credits on the condition that these businesses maintain their full-time equivalent payroll through the crises; and this one (<https://www.theguardian.com/commentisfree/2020/mar/17/governments-crisis-coronavirus-business>) from Saez and Zucman on the state as payer of last resort for businesses facing shutdown as a result of the pandemic. The Hamilton and Veuger plan is not unlike one of the proposals that is currently being considered by Congress in the United States. Such plans are then paired with proposals of cash support for individual citizens (targeted or universal) and schemes like unemployment insurance, relief from mortgage payments and utilities, etc.

The problem is that rates of informality are very high in low-income countries: most people are self-employed or practice subsistence farming. Even in the formal sector of the economy, the systems are likely to be lacking in many settings to provide liquidity to employers (through loans or grants) so that they can pay their employees through the crises. So, low-income countries have no choice but to rely on their social protection systems and their safety nets to provide relief during the pandemic.

What type of social protection? Many low-income countries have workfare programs that guarantee employment to anyone who is willing to work during lean seasons of the year. I am assuming that such programs will be particularly unattractive during a pandemic: they require people to gather to create public goods for their communities (fix roads, maintain irrigation canals, etc.), which would increase interaction between people rather than decrease it.

Cash transfers are the obvious choice. In-kind (mainly food) transfers could be considered, but then again, the logistics of cash are much more suitable during a pandemic than organizing the movement of food across space. But, to whom should low-income countries provide cash?

Targeting: For many countries in the world, where the majority of the citizens are neither poor (by each country's own standards rather than the international, say, \$1.90/day poverty line) nor beneficiaries of regular social protection schemes, targeting is superior to providing funds universally to every citizen or household (Elbers et al. 2007 (<https://drive.google.com/file/d/0B274-JLBCKcdN2kteVZreVJQS3c/view>), Hanna and Olken 2018 (<https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.32.4.201>), etc.). While it is true that proxy-means tests (PMTs), or other targeting criteria used around the world, are noisy and there are contexts in which a universal transfer can do as well as targeted transfers (see, for example this paper by Brown et al. 2018 (<https://www.sciencedirect.com/science/article/pii/S0304387818305819>), which I discussed in a blog here (<https://blogs.worldbank.org/impactevaluations/fact-checking-universal-basic-income-can-we-transfer-our-way-out-poverty>)), targeted transfers will lead to lower poverty rates for a given budget and achieve higher levels of utility. Even when the differences in poverty reduction seem small in absolute terms, they are large in relative terms, as discussed in my blog referenced above and analyzed and discussed in detail in Chapter 4 of Gentilini et al. (2020) (<http://documents.worldbank.org/curated/en/993911574784667955/pdf/Exploring-Universal-Basic-Income-A-Guide-to-Navigating-Concepts-Evidence-and-Practices.pdf>).

However, these are not normal times: incomes of many people above the poverty line, people who are normally not beneficiaries of SP programs will be hit hard if low-income countries soon have to adopt similar measures of extreme social distancing – practically pausing their economies. In that case, countries in which a large number of people are near poor, i.e. living within a narrow band above the national poverty line, are also likely to face destitution, which can have long-term effects

on the economy if such a shock leads to malnutrition among pregnant women and young children; increased child marriages and teen pregnancies; and so on (see, for example, this blog post (<https://www.cgdev.org/blog/how-will-covid-19-affect-women-and-girls-low-and-middle-income-countries>) by Evans on COVID-19 and gender in LMICs, as well as this one (<https://www.cgdev.org/blog/economic-impact-covid-19-low-and-middle-income-countries>) by Evans and Over on COVID-19's overall impact in LMICs). For example, looking at the data for Sub-Saharan Africa in PovcalNet (<http://povertydata.worldbank.org/poverty/home/>), the percentage of individuals living below \$3.20/day (less than twice the international poverty line of \$1.90 used for the MDGs) is approximately two thirds, while almost everyone but the top decile in most countries live below \$5.50/day (Chen et al. 2018 (<http://documents.worldbank.org/curated/en/800661537207486157/pdf/129962-WP-REVISED-PUBLIC-Disclosed-3-21-2019.pdf>)). These figures are similar for South Asia, but substantially smaller for all other regions – although naturally with some heterogeneity across countries within regions. Assuming that incomes of most people in these countries will decline drastically – even in temporarily – and that they have little savings/assets to cope with such a large shock, universal transfers may be much more practical in such settings. This is because the gains from targeting are reduced dramatically when so many people are in danger of falling into poverty during the pandemic.

[As an aside, we'd argue that we don't have to worry about disincentives to work or invest as a result of providing transfers to a large segment of the population or everyone. First, the amounts we're talking about (see below) will still be small and clearly temporary enough that such effects should be negligible – especially in low-income countries. But, second, and more importantly, if they do depress economic activity, that is welcome! It is in fact the whole point of the relief provided by the government so that people don't have to work in close proximity of each other.]

So, perhaps, we can start by suggesting some general rules of thumb for targeting:

Countries where the percentage of poor and near-poor are low (say, less than 50%), targeting would increase social welfare significantly compared with universal transfers. Or, equivalently, the fiscal burden to reach the same level of poverty reduction would be lower with targeting. However, this is only true IF those countries have systems in place to target people quickly and cheaply, even if they are using a targeting mechanism that is noisy (i.e. has non-negligible inclusion and exclusion errors).

- o For such countries, if they have beneficiary rolls for their regular safety net programs that can be expanded easily (say, many current non-beneficiaries in the country are registered, but are simply above the current eligibility cutoff), increasing the numbers of beneficiaries temporarily to provide targeted transfers to the poor and vulnerable and contracting the beneficiary rolls after the pandemic would be efficient.

- o A similar approach could apply to refugee populations receiving cash transfers. For example, in Turkey, all refugees might be registered, at least initially, with the government's ESN cash transfer program, but only a subset are current beneficiaries of the program – due to the eligibility criteria set by the government. The benefits could be extended to a much larger number of refugees, if not all of them, as necessary information may already be available to the program administrators (from the time they applied to the program but were deemed ineligible) and smart cards can be issued quickly.

Countries where the majority of the population is poor or near-poor OR countries that lack the capacity to target people quickly and with manageable administrative costs, universal transfers are likely to be more effective to prevent large numbers of people from falling into destitution.

How to target?

Even countries that will forego targeting and provide cash to everyone, the logistics of such an endeavor can be very complex. Many such countries will not have all citizens registered into a database to manage temporary monthly transfers. Holding registration drives that require people to visit government offices, is exactly the kind of activity governments will want to avoid conducting. Even transferring money to everyone using mobile money (in countries where the necessary infrastructure exists) will require having people register their numbers with the government (or with the private providers working on behalf of the government), which will not be easy.

One option is to rely on geographic targeting and use small administrative units/communities to register everyone in poor and near-poor areas to receive benefits. Many countries that have regular CCT programs have the infrastructure to reach to these lowest level administrative units and to either have them provide information to the central government for the transfers or transfer the funds to these units directly for equal distribution within those communities. To avoid overwhelming the system, the government could start this exercise in the poorest regions, districts, etc. (using poverty maps as available) and expand quickly as the pandemic approaches/progresses. It is also important to think about the logistics of the transfers for public health: if transfers could be done by phone to everyone, this would be the most ideal circumstance from a public health perspective – requiring zero contact between anyone. However, as is likely in many settings, this will not be possible in most low-income countries. If people will receive transfers via cash cards at post offices, banks, etc. it will be important to assign people (say, based on their birthdays or their last names or some other clever and convenient mechanism) to days of the month and times of the day to safely queue to receive their payments. Same, if actual cash is being delivered...

While most countries in Sub-Saharan Africa and South Asia may opt for universal transfers, the majority of countries in the rest of the world will likely be doing some sort of targeting, meaning that they have the means to do so. Things are a bit easier for these countries, as they are more likely to

have beneficiary lists that can receive benefits by phone or smart cards and more likely to have the capacity to safely register more people into that system. But, the principles and logistical concerns discussed above for poorer countries that are providing universal transfers still apply here as well.

How much to give? Take a country like Malawi, whose GDP per capita is PPP \$1,163 (<https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=MW>) (constant 2011 international \$). Devoting, completely arbitrarily, 10% of the monthly per capita GDP to cash transfers to everyone would yield approximately \$10 per person per month. Using nominal exchange rates (current US\$), this is slightly less than \$5 per person per month, or about \$25-30 per household, constituting a generous government transfer for Malawian households, particularly the poor. For a country of 18 million people, that would be \$90 million in current US dollars per month. Hence, the cost of one small low-income country providing universal transfers to its citizens for, say, six months over the course of the next 18 months could easily be more than half a billion dollars. Policymakers can scale these numbers up (more likely down) based on local context, whether transfers are being targeted or universal, etc.

Should there be any conditions attached to transfers? The short answer is no – the urgency with which the support is needed, the reasons behind the need for the support, and what people would do with the money on their own anyway all point to providing the funds with no strings attached. However, this does not mean that some messaging, especially public health, nutrition, and gender-related ones, may not be helpful. The massive mobilization for the social safety net program can be used to provide messages about the epidemic, how to keep oneself and their communities safe from the disease. Evidence suggests that cash support to mothers combined with information about practices related to pregnancy and infant feeding can lead to large improvements in health outcomes for mothers and their children (Ahmed, Hoddinott, and Roy 2019 (<https://www.ifpri.org/publication/food-transfers-cash-transfers-behavior-change-communication-and-child-nutrition-evidence>); Carneiro et al. 2019 (<https://www.ucl.ac.uk/~uctppca/CDGP.pdf>)). Finally, messaging around child marriages, keeping the girl child safe, etc. combined with unconditional transfers could reduce teen pregnancies and child marriages that might be expected to increase among households experiencing large negative shocks (Roy et al. 2019 (https://www.mitpressjournals.org/doi/full/10.1162/rest_a_00791)).

The next 12 to 18 months will be difficult for almost everyone in the world. But, governments and international development organizations can help ease the burden that will be caused by the pandemic among the poorest of the poor. While the logistics can be complex and the fiscal burden large, fortunately policymakers are preparing to expand their safety net programs now. We hope that the ideas and the literature reviewed in this blog is helpful – at least as a starting point.

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Berk Özler (/team/berk-ozler)

MARCH 19, 2020

I just found this column by Claudio Ferraz of the Vancouver School of Economics in Nexo (in Portuguese) on how Brazil should deal with the pandemic chock that is approaching it. Very consistent with some of the ideas above:

<https://www.nexojornal.com.br/colunistas/2020/Coronav%C3%ADrus-como-ali...>
(<https://www.nexojornal.com.br/colunistas/2020/Coronav%C3%ADrus-como-aliviar-o-grande-choque-econ%C3%B4mico-que-se-aproxima>)

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Barry Wright

MARCH 19, 2020

Great story

REPLY (/COMMENT/REPLY/NODE/39691/FIELD_COMMENTS/189256)

Martin Ravallion

MARCH 19, 2020

Berk's post stimulated further thoughts. 1. I would not make a sharp distinction between helping those hurt and macro stabilization; the two are intertwined, with overlapping policies. However, there are some important differences; we need to adapt Keynes to a global pandemic. 2. Targeting transfers may play a useful role in some settings (as Berk notes), but I would not put much emphasis on...

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Michael Kevane

MARCH 19, 2020

I am far from an anti-regulation right-winger, but it also seems appropriate for governments to consider temporarily suspending many of the most onerous labor protection measures, for example permitting firms to hire at-will temporary workers without enrolling them in social security systems. Especially in economies with large informal sectors, might be very significant to enable and encourage formal SME to...

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Dan Stein

MARCH 25, 2020

Hi Berk, thanks a lot for this article- tons of great ideas. We at IDinsight have been fielding requests from our government partners all over the world on how to deal with both the health and economic costs of COVID-19, and our conclusions closely mirror yours. Having this article (and similar ones) is helping us make the case that there...

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