

# Social Protection Response to COVID-19

Note

## Background

The policy reaction to COVID-19 now follows a predictable pattern: governments initially downplay the disease and undertake limited testing until sustained community transmission takes hold. Governments then impose severe social distancing measures (the first such measures were imposed in Nepal on March 22), and these necessarily lead to substantial economic contraction. While, to date, reported cases in Nepal are very low, this reflects limited testing capacity. The actual spread of COVID-19 is likely worse because of the importance of migration and tourism to the economy. There is broad consensus among economists that the wage earner households will be particularly badly affected, and in poor countries like Nepal, where daily earnings are critical for fulfilling basic needs, the correct policy response is to get cash to the neediest as fast as possible. Doing so provides immediate protection to those who have lost their livelihoods, and helps vital economic relationships persist through periods of social distancing. There should be no ambiguity: Nepal's economy will suffer tremendous damage from COVID-19, and urgent action is required to protect the economy and the most vulnerable.

This document reviews the viability of distributing additional assistance through existing programs. However, as policy makers are considering response strategies, it is important to point out that urban wage workers are likely to be particularly vulnerable. These groups are typically not covered in social protection schemes. However, they are likely to be the first to see major reductions in wages from measures to reduce disease transmission. Rapid responses to provide relief to these groups seem essential to mitigate the economic damage from COVID-19.

## Literature

The literature consistently shows that cash transfers have positive effects on income, assets, food expenditure and dietary diversity, school attendance and performance, health, labor force participation, and domestic violence (see Bastagli et al. 2016 for a review<sup>1</sup>). The evidence is also clear that cash transfers to poor households in low-income countries stimulate the broader economy through a multiplier effect (see evidence by Handa et al. 2018 in Zambia<sup>2</sup> and Egger et al. 2019 in Kenya<sup>3</sup>).

Resource limitations necessitate targeting the most vulnerable.<sup>4</sup> Geographical targeting is simpler but likely less precise, than social group targeting, which is challenging even in the best of circumstances. Using existing group-targeted programs provides a solution. We advocate specifically for targeting child grant beneficiaries. In addition, because this is a crisis response, we believe strongly that grants should not have any conditions attached to them. Time is of the essence and the potential benefits of any conditions are likely to be overwhelmed by the costly delays and additional human interaction (creating opportunities for disease transmission) required for verification. For example, the onerous conditions placed on earthquake reconstruction grants in 2015 resulted in a substantial number of households waiting years to receive government assistance. Along these lines, Baird et

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<sup>1</sup> Bastagli, Francesca, et al. "Cash transfers: what does the evidence say?" *ODI*, 2016. Link: <https://www.odi.org/>

<sup>2</sup> Handa, Sudhanshu, et al. "Can unconditional cash transfers raise long-term living standards? Evidence from Zambia." *Journal of Development Economics* 133 (2018): 42-65. Link: <https://www.sciencedirect.com/>

<sup>3</sup> Egger, Dennis, et al. "General equilibrium effects of cash transfers: experimental evidence from Kenya." *National Bureau of Economic Research*, 2019. Link: <http://emiguel.econ.berkeley.edu/>

<sup>4</sup> Hanna, Rema, and Benjamin A. Olken. "Universal basic incomes versus targeted transfers: Anti-poverty programs in developing countries." *Journal of Economic Perspectives* 32.4 (2018): 201-26. Link: <https://economics.mit.edu/>

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al. 2011 show that conditional transfers can lead to worse unconditioned outcomes, especially for the poorest households, compared to unconditional cash transfers.<sup>5</sup> Also supporting this, recent evidence from Yemen suggests that cash transfers during a period of violence provided households with the liquidity necessary to retain investments in capital-intensive agricultural production (livestock)<sup>6</sup>. More generally, cash transfers can be effective so long as local markets continue to function (i.e. households can still use the cash to purchase the goods they require). See Bailey & Harvey (2015) for a review<sup>7</sup>.

While we advocate against conditions, cash transfers accompanied by information campaigns could make them more effective, provided the campaigns do not impose delays or increase the potential for community disease transmission (see Levere et al. 2016 in Nepal<sup>8</sup> and Carneiro et al. 2019 in Nigeria<sup>9</sup>).

### What Other Countries Do

As of March 20, 45 countries in the world introduced social protection measures to mitigate the economic consequences of COVID-19. The most widely used measures include cash transfers (30 programs), followed by wage subsidies (11), subsidized sick leave (10), and various forms of subsidized social security contributions and unemployment insurance.

Among these 45 countries, 21 are upper- and lower-middle-income countries, 17 of which use cash transfers in response to COVID-19. These cash transfer adjustments include rescheduling existing payments sooner (Colombia and Indonesia), additional payments (Argentina, Armenia, and Turkey), increasing existing payment rates (China), and substituting school feeding programs with cash (Jamaica and Bolivia). High-income countries use more advanced tools, such as sickness benefits (France, Ireland), subsidized social insurance contributions (Germany, Hungary), and temporary unemployment benefits (Bosnia and Herzegovina, Netherlands, Romania).

### Child Grant as a Policy Tool

In Nepal, daily wage earners and remittance-dependent households are likely to be the two groups most affected by COVID-19. The child grant presents the most viable option among existing social security programs to reach the most vulnerable households in remote rural areas. The grant is being delivered in the 14 most economically insecure districts of Nepal in Province 2, 6, and 7. These districts were selected due to having the lowest human poverty indices (HPI), which measure average deprivation in three basic dimensions of human development – a long and healthy life (life expectancy below 40 years), knowledge (adult literacy rate), and standard of living (access to safe water and under 5 malnutrition).

Based on the Oxford Policy Management (OPM) survey in 3 districts with the universal child grant in Provinces 2 and 6, the child grant can reach 48% of all households. Moreover, the child grant will be able to reach 54% of

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<sup>5</sup> Baird, Sarah, Craig McIntosh, and Berk Özler. “Cash or condition? Evidence from a cash transfer experiment.” *The Quarterly Journal of Economics* 126.4 (2011): 1709-1753. Link: <https://academic.oup.com/>

<sup>6</sup> Schwab, B. (2019). Comparing the productive effects of cash and food transfers in a crisis setting: Evidence from a randomised experiment in Yemen. *The Journal of Development Studies*, 55(sup1), 29-54. Link: <https://www.tandfonline.com>

<sup>7</sup> Bailey, S., & Harvey, P. (2015). State of evidence on humanitarian cash transfers. Overseas Development Institute Background Note. Link: <https://www.odi.org/>

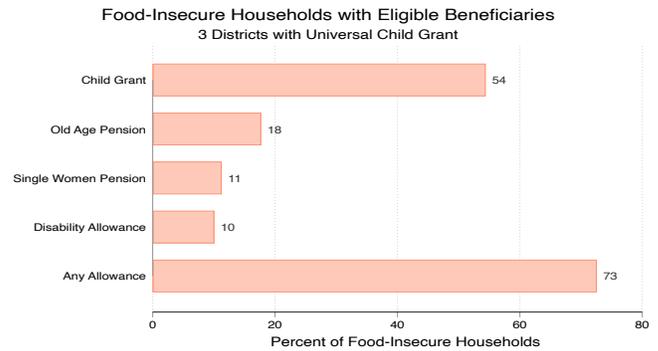
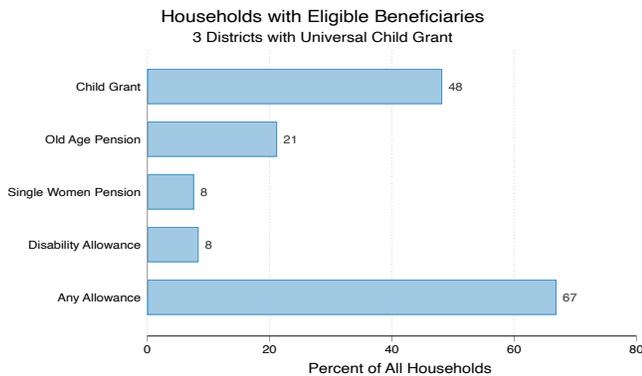
<sup>8</sup> Acharya, Gayatri, Prashant Bharadwaj, and Michael Levere. “The Role of Information and Cash Transfers on Early Childhood Development: Evidence from Nepal.” 2016. Link: <https://www.dropbox.com/>

<sup>9</sup> Carneiro, Pedro, et al. “The Impacts of a Multifaceted Pre-natal Intervention on Human Capital Accumulation in Early Life.” 2019. Link: <http://www.homepages.ucl.ac.uk/>

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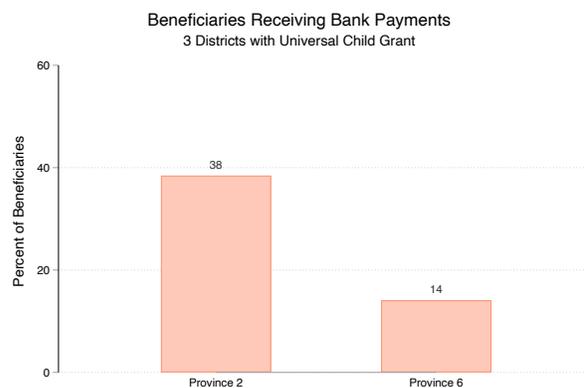
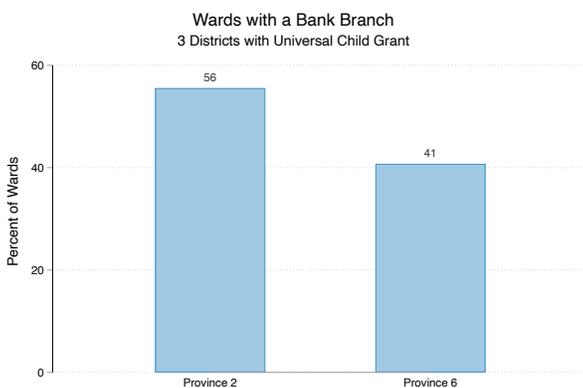
food-insecure households.<sup>10</sup> This is in contrast to all other social security allowances, which can only cover fewer than 20% of food-insecure households in the surveyed areas.

However, the child grant will not reach urban daily wage earners who might be most immediately affected by COVID-19 and imposed social distancing measures. Reaching these individuals with emergency support might require going beyond existing social security programs.



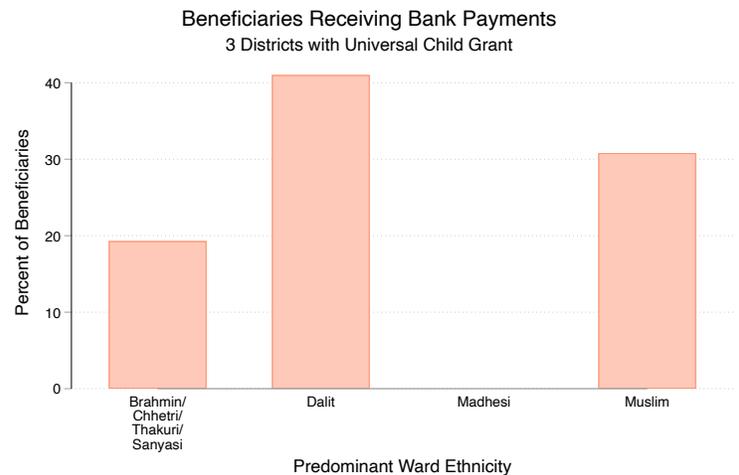
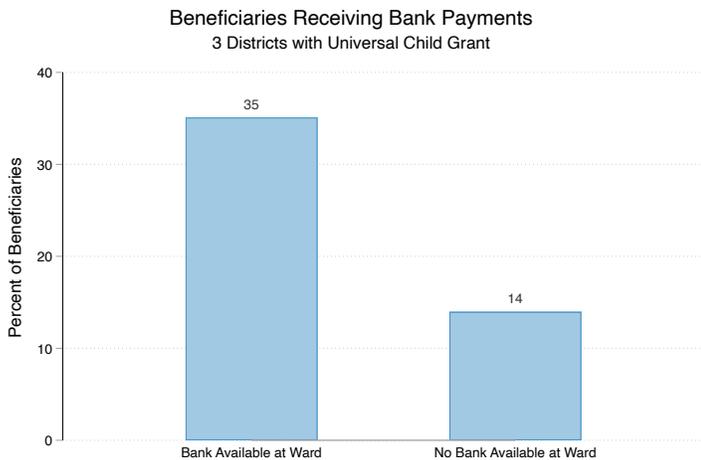
## Viability of Bank Payments

While banks provide benefits for tracking and auditing, they simply do not reach enough of the vulnerable (due to a paucity of bank branches) to be a sensible emergency response mechanism. In province 2, 56% of wards have a bank branch, while in poorer province 6, only 41% of wards have one. Correspondingly, 38% of beneficiaries receive child grants via banks in province 2, while only 14% of beneficiaries do so in province 6.



A similar pattern emerges when beneficiaries are split by ward level bank access: while 35% of beneficiaries receive bank payments when there is a bank branch in their ward, only 14% do so absent a bank branch at their ward. As a consequence, a substantial share of beneficiaries from all social groups is excluded from receiving social security payments via banks.

<sup>10</sup> Households are defined as food-insecure if members experienced a shortage of food in the last four weeks at the time of the survey.

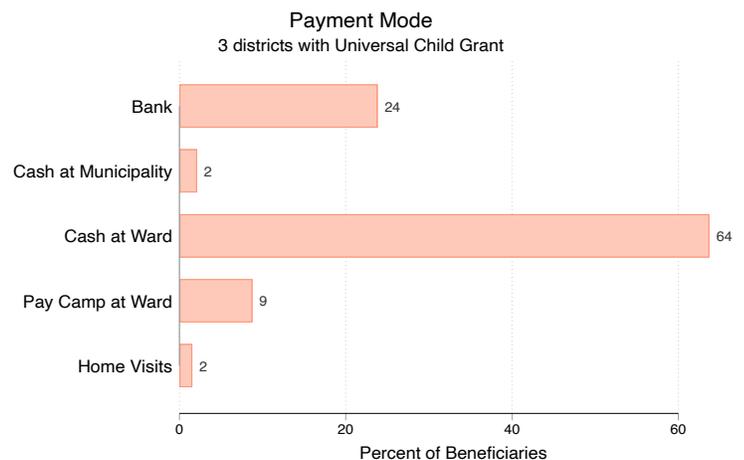


Overall, the delivery of payments via banks does not seem to be feasible for the majority of the most vulnerable population that currently receives the child grant.

### Using the Federal Structure for Information Dissemination and Cash Transfer

The majority of beneficiaries (64%) in the OPM survey districts with universal child grants receive their benefits in cash at the ward level. Only 24% of beneficiaries receive their benefits via bank accounts in the surveyed wards. 9% of beneficiaries receive their benefits during pay camps at wards, and even fewer do so in cash at the municipality or during home visits.

We propose building on the federal structure to distribute the cash grant supplements and also use elected representatives (possibly supplemented by community health workers or ward user committees) to provide information on handwashing and social distancing. This can be built on the emerging experience of local governments launching the information awareness campaigns about COVID-19.<sup>11</sup>



<sup>11</sup> “Awareness campaigns launched in Saptari”, The Himalayan Times. March 19, 2020. Link: <https://thehimalayantimes.com/>