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**Addressing the economic impacts of  
the COVID-19 crisis in South Asia  
through universal lifecycle transfers**

**Working Paper  
Special Series: Responding to COVID-19 crisis in South Asia  
August 2020**

# Addressing the economic impacts of the COVID-19 crisis in South Asia through universal lifecycle transfers

## Working Paper

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**Addressing the economic impacts of the  
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# Summary

## Introduction

The COVID-19 pandemic has triggered a truly global shock: the necessary measures taken to control the spread of the virus have resulted in a major economic and human crisis. The IMF predicts that the global economy will shrink by 4.9 per cent in 2020 and national economies have been severely hit across the South Asia region, with Afghanistan, the Maldives, Pakistan and Sri Lanka predicted to experience severe recessions. The economic challenges experienced by countries are likely to enhance the risk of widespread social unrest.

The crisis is unprecedented and requires unprecedented measures including a massive countercyclical fiscal response across almost all countries globally. By giving families cash so that national consumption is increased, a fiscal stimulus should enable countries to lower the depth of any recession and, importantly, strengthen the speed of their economic recovery with the potential for higher economic growth.

## Vulnerability in South Asia before COVID-19

Prior to the crisis, most people in the region lived on low and insecure incomes. The majority could be classified as members of the ‘precariat’, working in the insecure informal economy with few savings or assets upon which they could depend during a crisis. High levels of stunting indicate the challenges experienced by children while half of the region’s women of child-bearing age suffer from anaemia, reflecting widespread poor quality diets. Once the COVID-19 crisis hit, most of the region’s population did not have the resilience to protect themselves against its impact.

## Impacts of the COVID-19 economic crisis on families across the South Asia region

The COVID-19 crisis is universal, affecting families across the welfare distribution, including those with breadwinners in both the formal and informal economies. Remittances have fallen significantly, there have been widespread job losses and incomes have been slashed. Many families have been pushed into extreme poverty. While those living on middle – but still low – incomes could be hardest hit, even a small loss of income among the poorest members of society is disastrous.

The large falls in income are forcing many families to adopt potentially damaging coping strategies. Many are already using their savings or taking out loans and there is a danger that children may be sent out to work. Food consumption has fallen among those hardest hit, which could cause widespread harm to health, in particular among children, women, older people and people with disabilities. The strain of low income is already reducing the quality of home environments and, in some cases, has resulted in greater violence against women and children.

## South Asia’s social protection systems

Unfortunately, when the COVID-19 crisis hit, most South Asian countries had very weak social protection systems which, by design, excluded the vast majority of the population, in particular those on insecure and low middle incomes. Indeed, most social protection systems in the region are similar in design to those of 19<sup>th</sup> Century Europe, with their reliance on poor quality poor relief. Only Nepal and the Maldives have begun to build more modern, universal lifecycle social protection systems, although they still have much to do to provide comprehensive coverage, in particular among children and those of working age.

## Summary

The prevailing poor relief systems in the region are not fit-for-purpose to respond to a crisis on the scale of COVID-19.

### The health and fiscal responses of South Asian governments to the COVID-19 crisis

Nonetheless, the South Asian region has done well in limiting the spread of the COVID-19 virus, despite relatively weak health systems, at least in the initial stages of the virus. Most governments have taken effective public health and physical distancing measures, with the most stringent measures implemented, initially, in India, Nepal, Pakistan and Sri Lanka. However, the risk that the number of cases of COVID-19 will increase exponentially persists, which means that health measures and physical distancing will need to continue. In fact, after measures had been eased, the number of cases has continued to rise exponentially in India, Bangladesh and Pakistan.

Most South Asian governments have also put in place fiscal responses to protect both their economies and people. However, the responses have been too small to act as effective economic stimuli while the level of income support provided to families has been well below what is required. Many of those affected by the crisis have been excluded and the duration of support has been too limited since the effects of the crisis will last for a long time to come. It is essential that South Asian countries implement much larger scale social protection responses if they are to minimise the losses to their economies, support their populations and promote economic recovery.

### Alternative emergency, lifecycle universal social protection measures to protect economies and families

In line with recommendations from the United Nations, IMF and World Bank, countries should consider an alternative fiscal response based on universal transfers. One option is to provide all children, people with disabilities and older people with a decent transfer for six months, at a cost of around two per cent of GDP, which should be considered a minimum level of response. Simulations indicate that such a programme of support would reach over 90 per cent of national populations, either directly or indirectly, across most countries. Coverage in each country would be highest among those who were the poorest members of society while those on middle incomes, who tend to be in the informal economy, would also enjoy high coverage.

The lifecycle transfers will have a significant impact on household wellbeing. They will, on average, provide recipient households with 35 per cent of pre-COVID-19 expenditures in India, 28 per cent in Sri Lanka, 19 per cent in Bangladesh, 15 per cent in Nepal and 14 per cent in Pakistan. Those who would benefit most would be the poorest members of society to whom the share of pre-COVID-19 expenditure provided would range between 28 per cent in Pakistan and 85 per cent in India. Overall, the emergency lifecycle transfers would guarantee the vast majority of families across South Asia a minimum level of monthly income. Indeed, more detailed analysis in Bangladesh and Sri Lanka indicates that many people would be better-off than they would have been if COVID-19 had not happened. The amount received per household would vary, but the most vulnerable households with greater numbers of children, older people and persons with disabilities would receive higher transfers. Higher incomes would translate into further benefits, such as improved nutrition and less strained home environments.

Given that the eligibility criteria of the emergency lifecycle schemes would be easy to understand while the vast majority of families would benefit, they are also likely to be very popular. Since they would be a clear signal to citizens that their governments care for their them, they should reduce the risk of social unrest and political instability.

## Summary

The transfers will help stimulate economic growth by generating greater consumption, thereby fulfilling their role as a fiscal stimulus. For example, analysis undertaken in Sri Lanka suggests that, if an additional two per cent of GDP were invested in lifecycle transfers over six months, the loss in economic growth would fall from eight per cent to two per cent.

### Enabling the long-term recovery of South Asian economies through universal social protection

In addition to protecting economies and livelihoods now, it will be important for countries to ensure their medium- and long-term recovery. To be in a position to increase spending on social protection, governments will need to invest in popular schemes, so that a broad consensus for higher taxation is built. The lack of popularity of poor relief schemes is a key reason why governments across the globe invest so little in them. Therefore, one option for South Asian governments would be to continue with the same lifecycle schemes used in the emergency response, although somewhat scaled back. For example, analysis in Sri Lanka indicates that if, on top of the initial two per cent in emergency transfers, the Government were to spend a further 1.5 per cent per year on universal lifecycle transfers – which is similar to Nepal’s current level of investment – the economy may recover to where it would have been without the COVID-19 crisis by 2021. By 2030, it would be around four per cent larger compared to a situation in which no further fiscal stimulus is implemented by the Government.

### Financing emergency, lifecycle social protection transfers

It is important to consider how such an expansion could be financed and not fall into the trap of thinking that ‘there is no fiscal space.’ Innovative thinking on how to fund an effective fiscal response is required, given the low tax to GDP ratios found in South Asia and their current challenging financial circumstances. Potential options for financing a fiscal response will vary between countries but could include: quantitative easing; re-allocating government spending; tax increases on those with the broadest shoulders and who are least affected by the crisis; tackling illicit financial flows overseas; debt moratoriums followed by medium to long term debt restructuring/re-scheduling; loans from international financial institutions, such as the IMF; and, loans on the international markets or selling bonds and gilts.

However, in the medium- to long-term, government revenues need to increase substantially across the region. This will only happen if the social contract is strengthened through people receiving higher quality public services which build trust in government and encourage people to pay higher taxes. Universal social protection can play a key role in building trust. It may be no coincidence that Nepal is the only country in the Indian sub-continent to offer universal social protection and the only one to have enjoyed a significant increase in government revenues, which have doubled in the past 20 years. If other South Asian countries were to enjoy higher government revenues as a result of investing in universal social protection and strengthening the social contract, this would make it even easier to pay off their gross national debts and, over time, further enhance the quality of all public services. Countries could create their own virtuous circles of higher quality services and higher government revenues. A similar process happened in Europe after the crisis of the Second World War: perhaps the COVID-19 crisis could be the spark for a much-needed shift in paradigm in South Asia.

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## Acronyms

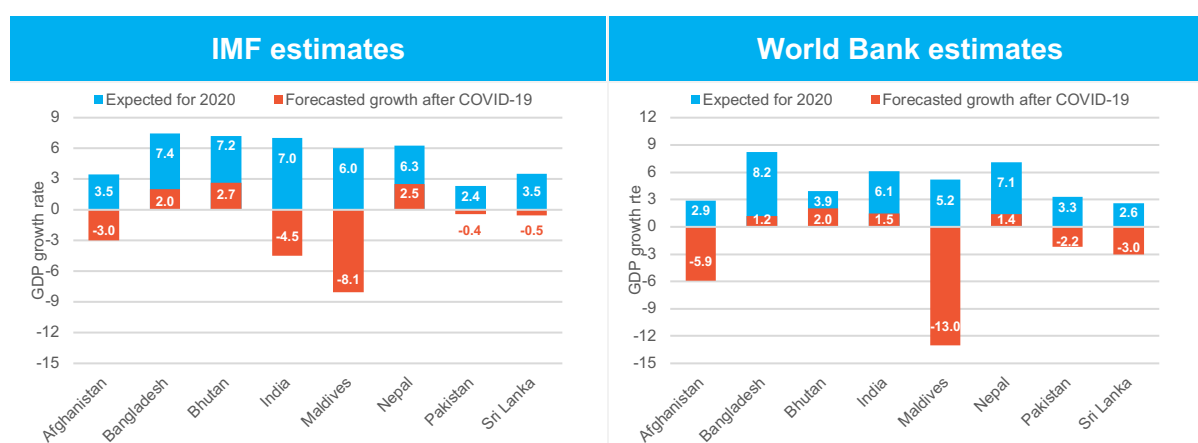
ADB	Asian Development Bank
BISP	Benazir Income Support Programme
CGE	Computable general equilibrium
COVID-19	2019 Novel Coronavirus Disease
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
IFAD	International Fund for Agricultural Development
IHDS	India Human Development Survey
IPC-IG	International Policy Centre for Inclusive Growth
ILO	International Labour Organization
IMF	International Monetary Fund
KNOMAD	Global Knowledge Partnership on Migration and Development
LCU	Local Currency Unit
LKR	Sri Lankan Rupee
MVR	Maldivian Rufiyaa
NLSS	Nepal Living Standards Survey
NREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme (India)
NSAP	National Social Assistance Program (India)
NSER	National Socio-Economic Register (Pakistan)
Nu.	Bhutanese Ngultrum
OECD	Organisation for Economic Co-operation and Development
PMJDY	Pradhan Mantri Jan Dhan Yojana (India)
PPP	Purchasing Power Parity
PPRC- BIDG	Power and Participation Research Centre – Bangladesh Rural Advancement Committee (BRAC) Institute of Governance and Development
Rs.	Indian/Pakistani Rupee
SDG	Sustainable Development Goal
SIPRI	Stockholm International Peace Research Institute
TBS	The Business Standard
Tk.	Bangladeshi Taka
UDHR	Universal Declaration of Human Rights
UNICEF	United Nations International Children's Fund
US\$	United States Dollar
WEO	IMF World Economic Outlook (database)
WFP	World Food Program
WHO	World Health Organization

# 1 Introduction

The COVID-19 pandemic has triggered a truly global crisis. Not only has a dangerous virus been unleashed which has already claimed a large number of lives worldwide and will continue to claim many more, the necessary measures taken to control its spread have resulted in a major economic and human crisis, certainly the largest since the Second World War (and, in some countries, for much longer). Countries in the South Asia region have been affected by a major downturn in demand for the region’s exports while tourism – a particularly important sector in the Maldives, Nepal and Sri Lanka – has almost ceased. Further, lockdown measures have meant that many businesses have had to close temporarily – with many unlikely to open again – while, across the region, many people have lost their jobs or have experienced reduced incomes. In addition, remittance flows to South Asian countries have fallen dramatically.

The IMF predicts that the global economy will fall by 4.9 per cent in 2020 and national economies have been severely hit across the South Asia region.<sup>1</sup> Figure 1-1 compares predictions by the IMF and World Bank on GDP growth in the region in 2020, comparing what was expected in 2019 and their expectations soon after the COVID-19 crisis started. In most cases, both institutions predict significant falls in the rate of economic growth, with Afghanistan, the Maldives, Pakistan and Sri Lanka expected to experience a recession. It is possible that these predictions are optimistic, in particular if the crisis continues for longer than initially expected. In fact, analysis by UNICEF in Bangladesh and Sri Lanka suggests that the economic situation could be much worse than that predicted by the World Bank and IMF in both countries: in Bangladesh, under an optimistic scenario, the economic growth rate could be four per cent per year but, under pessimistic scenario, the country could fall into recession, with the economy contracting by 3.4 per cent;<sup>2</sup> and, in Sri Lanka, while an optimistic scenario predicts a shrinking of the economy of 3.6 per cent, it may contract by up to 8.3 per cent.

**Figure 1-1: IMF and World Bank projections of economic growth rates across South Asia for 2020, comparing their predictions made in 2019 for 2020<sup>3</sup>**



Source: IMF World Economic Outlook, April and June 2020; World Bank (2020)

<sup>1</sup> IMF (2020). World Economic Outlook Update, June 2020. Retrieved from: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

<sup>2</sup> Khondker and Gelders (2020).

<sup>3</sup> Forecasts are presented on a fiscal year basis. Therefore, in World Bank forecasts, the short-term economic impacts of COVID-19 are reflected in 2020 accounts for Afghanistan, Maldives, Pakistan and Sri Lanka, and 2021 accounts in Bangladesh, Bhutan, India and Nepal. IMF forecasts for India and Pakistan have been updated in June 2020, whereas other projections are based on April 2020 forecasts.

## 1 Introduction

The economic crisis has resulted in significant challenges for households across the region. Large numbers of workers in both the formal and informal economies have either lost their jobs or are experiencing falls in income. Globally, the ILO (2020b) estimates that the earnings of informal economy workers have fallen by 60 per cent. In reality, the crisis is universal with families affected across the welfare distribution. Many families who, prior to the crisis, felt secure are now struggling while many of those who were living precarious lives are now facing an even more challenging situation. There is a real danger that the widespread loss of income will result in more hunger and poor nutrition across South Asia, with the United Nations predicting that a quarter of a billion people globally will experience acute hunger in 2020, an increase of more than 130 million.<sup>4</sup> Children will be among the most affected and many could suffer from irreversible physical and cognitive damage. However, poor nutrition could also be harmful to other vulnerable categories of the population, including older people, people with disabilities and those suffering from chronic illness.

As highlighted by the IMF (2020a), there is a real danger that the COVID-19 crisis might generate social unrest and political instability in some countries if policy actions to mitigate the effects of the crisis are perceived as insufficient or as unfair and favouring larger business interests over the protection of people. During recent years, protests have been triggered in various countries – including Chile, Ecuador, Iran, Haiti and Lebanon – when the public has become discontent with government policy measures that have been deemed inadequate to address cuts in wages and/or price inflation. During the COVID-19 crisis, it is unlikely that desperate households, in particular those in urban areas, will remain quiet if they are no longer able to feed their families. Indeed, the credibility of governments in the South Asia region, in terms of their ability to protect and care for its citizens, is on the line and they will be judged by their responses to the crisis. If widespread social unrest occurs, further economic damage is likely to be the result, which will once again feed into a more difficult situation for families.

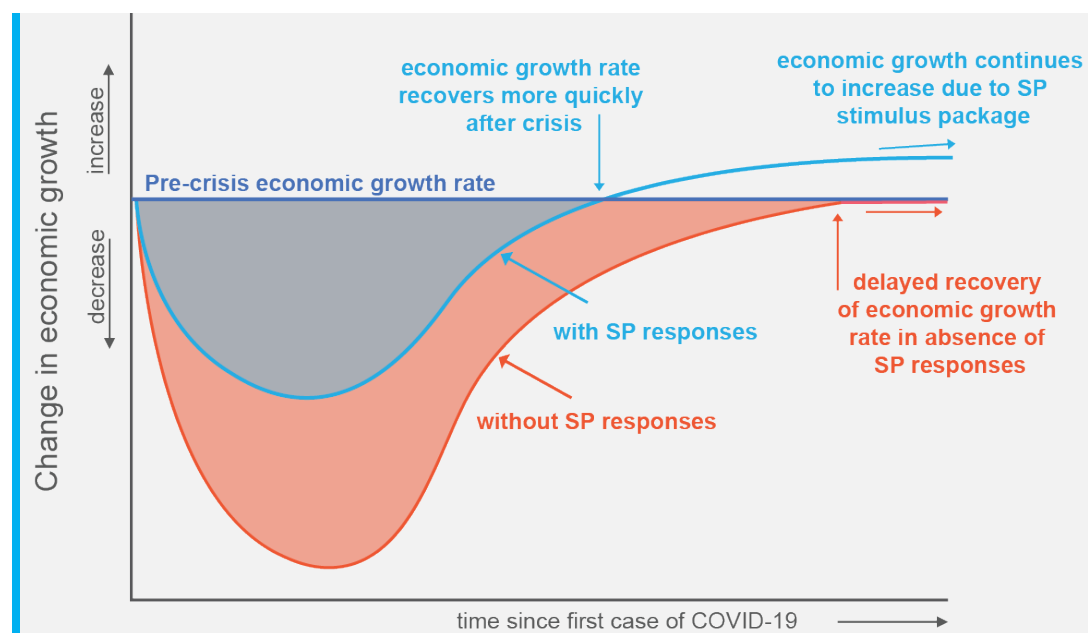
The COVID-19 crisis is unprecedented and requires unprecedented measures: a massive countercyclical fiscal and financial effort is urgently needed in almost all countries globally. As the United Nations, World Bank and IMF have recommended, it is essential that governments inject cash into their economies through social protection transfers so that people continue to spend and keep markets functioning.<sup>5</sup> The logic behind a fiscal stimulus is explained in Figure 1-2. By giving families cash so that national consumption is increased, a fiscal stimulus should enable countries to lower the depth of any recession and, importantly, strengthen the speed of their economic recovery. Indeed, if the fiscal stimulus through additional social protection transfers were to continue beyond the crisis, economic growth may end up being higher than it would have been if the crisis had not happened.

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<sup>4</sup> Anthem (2020)

<sup>5</sup> IMF (2020a); World Bank (2020).

**Figure 1-2: Diagram outlining how a fiscal stimulus should reduce the depth of a recession and enable a quicker recovery**



Source: Authors' adaptation of a graph that appeared in World Bank (2020).

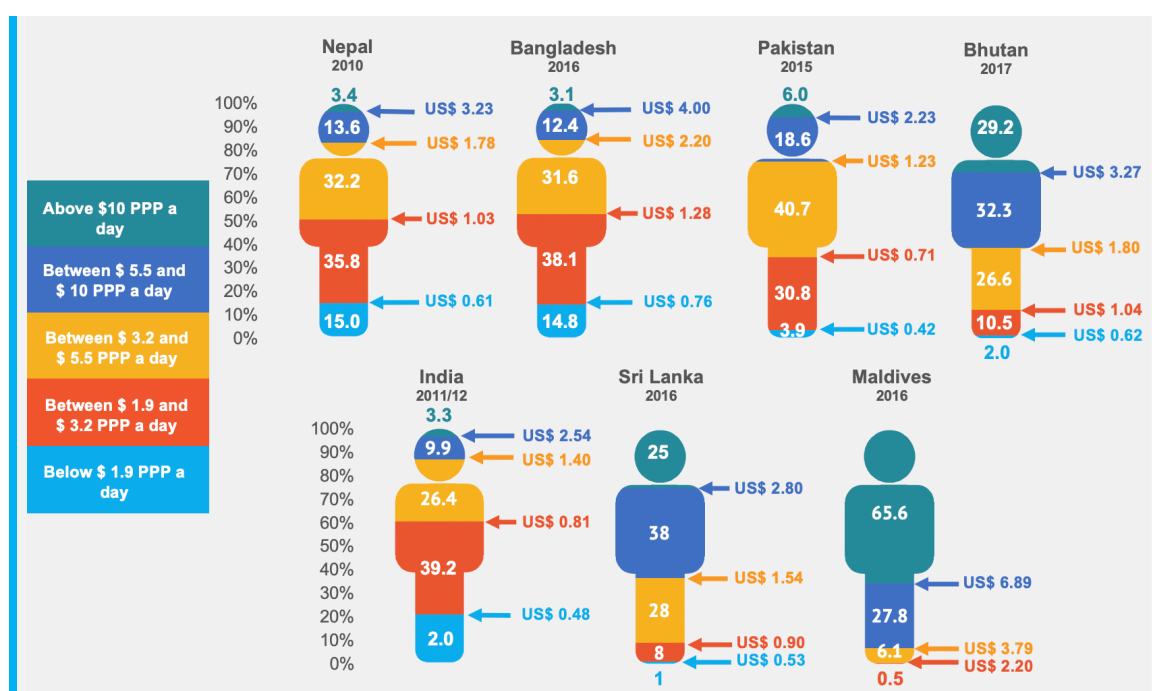
High-income countries are doing 'whatever it takes' to rescue their economies and families by injecting cash into their economies through high cost fiscal stimulus packages: for example, the Group of Seven major economies are investing an average of 5.9 per cent of GDP, mainly on existing or innovative social protection schemes. In many cases, countries are taking on substantially more debt to finance their stimulus packages. These countries understand that, although levels of national debt will rise in the short-term, since the fiscal stimulus will result in stronger economies, they will maintain higher government revenues and be in a better position to reduce debt in the future.

The aim of this paper is to examine the impact of the COVID-19 crisis on families across South Asia and discuss how countries can best respond. It will begin by setting out the context of vulnerability prior to the COVID-19 crisis in Section 2. Section 3 presents an overview of the impacts of COVID-19 on families and the extent to which the crisis has exacerbated existing vulnerabilities and reduced living standards. Section 4 assesses South Asian countries' social protection systems and their existing capacity to respond to the COVID-19 crisis, and Section 5 presents an overview of the responses that have been taken by countries to contain the virus and protect their economies and families. In Section 6, alternative packages of emergency social protection measures to protect the economy and families through inclusive lifecycle schemes are presented while Section 7 offers the rationale for continuing to invest in universal social protection to promote the long-term recovery of South Asian economies. Finally, Section 8 discusses options to finance lifecycle social protection transfers and Section 9 provides concluding remarks.

## 2 Vulnerability in South Asia before COVID-19

Despite significant progress across the South Asia region in reducing national poverty rates, the reality is that, prior to the COVID-19 crisis, most people lived on low and insecure incomes. Figure 2-1 shows the proportion of people who were living under different levels of per capita daily consumption in each country across South Asia. In most countries, the vast majority were living on less than \$5.50 PPP per day which, of course, in nominal (actual) terms is much less. For example, in India, it is US\$1.40 per person per day and in Pakistan it is US\$1.23. Indeed, very few people in Bangladesh, India, Nepal and Pakistan would be able to buy a cappuccino each day, even if they spent all of their per capita income on it each day. Therefore, the real middle class in these countries is tiny.

**Figure 2-1: Proportion of the population living under different levels of consumption across South Asia, using dollars in both purchasing power parity (PPP) and nominal terms (which are provided alongside the graphs)<sup>6</sup>**



Sources: Secondary analysis of Sri Lanka HIES 2016; World Bank povcalnet data, retrieved from <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>.

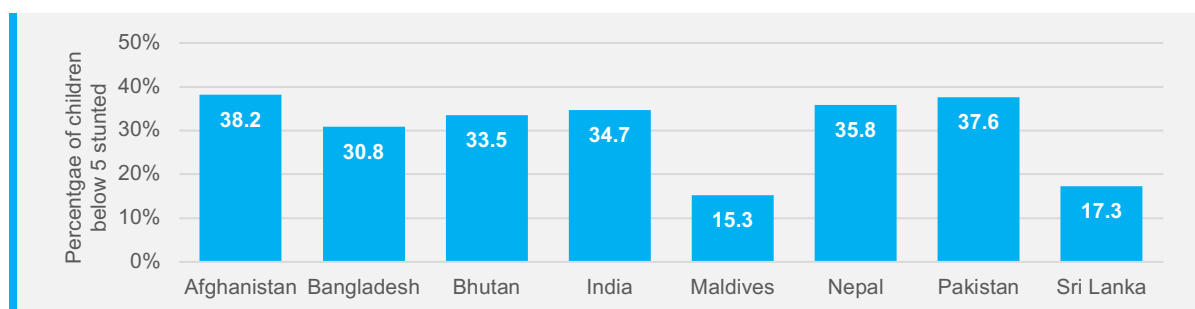
The widespread low incomes across the region are reflected in a further range of indicators. For example, Figure 2-2 shows how, in most countries of the region, over 30 per cent of children under five are stunted, which will have significant impacts on their cognitive development and set them back for the rest of their lives. In fact, children in South Asia account for 40 per cent of all children in the world experiencing stunting.<sup>7</sup> And, even though the situation appears somewhat better in Sri Lanka, it should be borne in mind that 15 per cent of young children experience wasting, placing the country as the ninth worst in the world on this indicator.<sup>8</sup>

<sup>6</sup> Using a range of international poverty line thresholds (\$1.90, \$3.20, \$5.50 and \$10.00 PPP), this graph illustrates the welfare distribution based on per capita daily consumption. Using PPP conversion factors and average exchange rates from the World Bank during the years of the surveys, this graph shows the corresponding values in nominal US\$. Data underlying the World Bank's PPP conversion factor is based on the 2011 round of PPP estimates from the International Comparison Program (ICP).

<sup>7</sup> Fruman & Zhang (May 5, 2020).

<sup>8</sup> FAO, IFAD, UNICEF, WFP & WHO (2018).

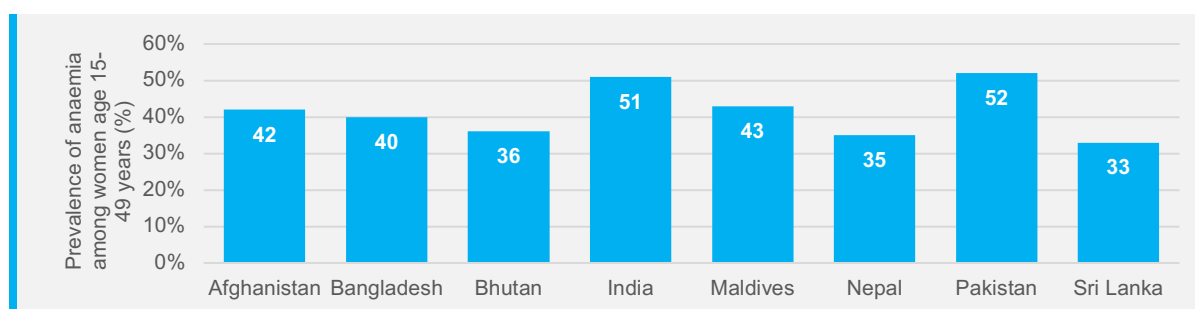
Figure 2-2: Proportion of children under 5 who are stunted, by country



Source: UNICEF Multiple Indicator Cluster Survey (Afghanistan, Bangladesh, Bhutan, India, Sri Lanka) and Demographic and Health Survey (Maldives, Nepal, Pakistan).

Further, women in South Asia have one of the highest rates of iron deficiency anaemia, which reaches across the welfare distribution. As shown in Figure 2-3, on average, 50 per cent of women between 15 and 49 years of age suffer from anaemia – which is caused by insufficient iron rich foods – compared to the global average of 33 per cent. Anaemia enhances the risk of unsafe childbirth while new-born children may experience a lower birth-weight or suffer from infections, weakened immunities, impaired learning capabilities and setbacks in their physical development.

Figure 2-3: Proportion of women age 15 to 49 years who suffer from iron deficiency anaemia, by country



Source: UNICEF Multiple Indicator Cluster Survey.

In reality, the majority of people across South Asia could be classified, in the words of Guy Standing (2014), as members of the precariat. They live highly insecure lives, working in the informal economy, with few savings or assets upon which they can depend during a crisis. Even a small shock can create a significant challenge for a family, never mind a crisis on the scale of COVID-19. Yet, even if someone works in the formal economy, they do not necessarily have much greater resilience to shocks. For example, in Bangladesh, the minimum wage for garment workers is Tk.8,000 (US\$96) per month:<sup>9</sup> for a single mother with two children, that would mean a per capita daily income of US\$1.06 per day and even less for a larger family. Further, many have to work between 14 and 16 hours per day, with limited opportunities to care for their families.<sup>10</sup>

Therefore, when the COVID-19 crisis hit, a high proportion of the population – including those who had been doing relatively well – had very little to fall back on and were pushed into extreme poverty. The following section describes in more detail the effects of the crisis on families.

<sup>9</sup> Trading Economics (2020).

<sup>10</sup> War on Want (2020).

### 3 Impacts of the COVID-19 economic crisis on families across the South Asia region

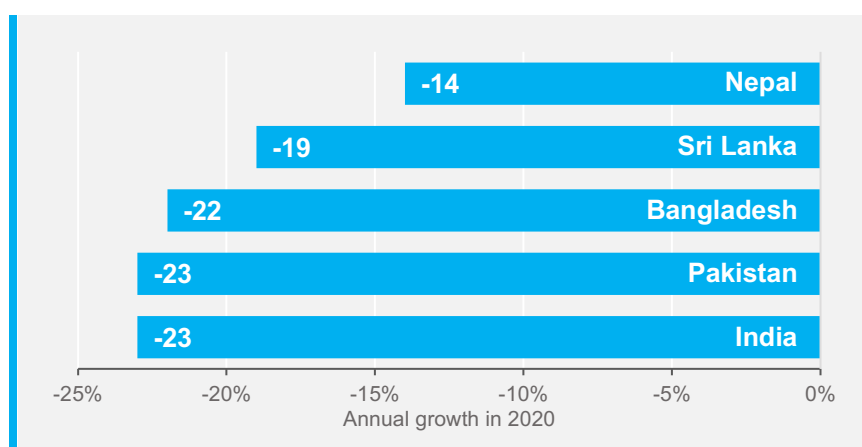
The full extent of the crisis and its impact on the economies in South Asia is, as yet, unknown. However, the economic crisis resulting from COVID-19 has resulted in significant human costs and placed significant strains on families across the region. Since economic activities have contracted significantly, the impacts on incomes and livelihoods have been, in many cases, catastrophic. As a result of lockdown measures and border closures, tourism industries have collapsed, remittances have fallen and countries are experiencing inflation in food prices due to the effect of the crisis on logistical transportation, imports and exports. The crisis is universal, affecting families across the welfare distribution, including those with breadwinners in both the formal and informal economies. The following sections will discuss the impacts of the COVID-19 economic crisis on families, in the areas of migration and remittances, employment, incomes, food security and physical and mental wellbeing.

#### 3.1 Impacts on migration and remittances

The COVID-19 economic crisis has created challenges in those economic sectors that depend on migrant labour. Due to border closures, a decline in transportation services and restrictions on domestic movement, remittance flows – an important lifeline for many families – have declined, while many migrant workers have had no choice but to return home or remain trapped in dire conditions.

Remittances, which normally increase during a crisis have fallen significantly, as Figure 3-1 shows. Since the pandemic affects all countries, remittance flows have declined due to losses in wages and employment of international migrant workers in host countries, as well as internal migrant workers in urban centres. On average, remittances to South Asia are projected to decline by 22 per cent in 2020. This is a potentially disastrous for Nepal, where remittances comprise the equivalent of 30 per cent of GDP, but is also causing significant harm in other countries relying on remittances, in particular Afghanistan, Bangladesh, Pakistan and Sri Lanka.<sup>11</sup>

Figure 3-1: Potential falls in the value of remittances across South Asia



Source: KNOMAD (2020).

<sup>11</sup> World Bank (2020).

### 3 Impacts of the COVID-19 economic crisis on families across the South Asia region

The outbreak of COVID-19 has increased the vulnerability of many internal migrant workers. Globally, the number of internal migrants is about 2.5 times that of international migrants, with a large proportion found in South Asia.<sup>12</sup> For example, India has over 100 million internal migrants and, at the onset of the lockdown, many were forced to return to their home regions, resulting in large scale urban-to-rural migration. In the span of a few days, for example, between 50-60,000 internal migrants in India moved from urban centres to their home regions, risking a dangerous spread of the virus across the country.<sup>13</sup> However, the majority of migrants have been unable to return home, predominantly find themselves in precarious living conditions, such as overcrowded slums where physical distancing is almost impossible. Without adequate access to housing, basic water and sanitation, health facilities and social protection, migrants have become even more vulnerable to the risk of contagion.

## 3.2 Impacts on employment

Reductions in global trade and supply chains have significantly affected South Asia's largest export markets. In India, Bangladesh and Pakistan, the manufacturing sector represents over half of exports and, in Sri Lanka, it is 40 per cent. The decline in exports of the largest economies, in particular India, is likely to have spillover effects on smaller countries in the region. In Bhutan, where 37 per cent of exports consist of hydroelectricity sold to India, export markets are likely to be disrupted, indirectly, as a result of a decline in economic activities in India. While manufacturing exports are more diversified in India, Pakistan, and Sri Lanka, ranging from textiles to food and tobacco industries, in Bangladesh, the garment industry accounts for 80 per cent of Bangladesh's exports and employs over four million people, most of them women, while many others in the supply chains are dependent on the sector. As a result of severe disruptions to global supply chains, the majority of these workers are likely to have experienced job losses, or furlough without pay, as a result of a deep recession in the garment and textile industry (see Box 3-1).<sup>14</sup>

While the availability of information on labour markets in the Maldives and Bhutan is more limited, these economies, alongside Nepal, India and Sri Lanka, rely heavily on tourism, which has entirely shut down due to border closures and movement restrictions. Figure 3-2 shows that tourism and travel represent a significant proportion of the economic contributions to national GDP in many South Asian countries. Maldives is the most affected, with tourism directly and indirectly contributing two-thirds of GDP, 80 per cent of exports and 40 per cent of revenues.<sup>15</sup> Further, across those countries reliant on tourism, a large segment of the labour force is indirectly engaged in the sector, indicating that many more workers are affected beyond those directly employed in tourism.

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<sup>12</sup> KNOMAD (2020).

<sup>13</sup> KNOMAD (2020).

<sup>14</sup> Wright & Saeed. (2020).

<sup>15</sup> World Bank (2020).

### 3 Impacts of the COVID-19 economic crisis on families across the South Asia region

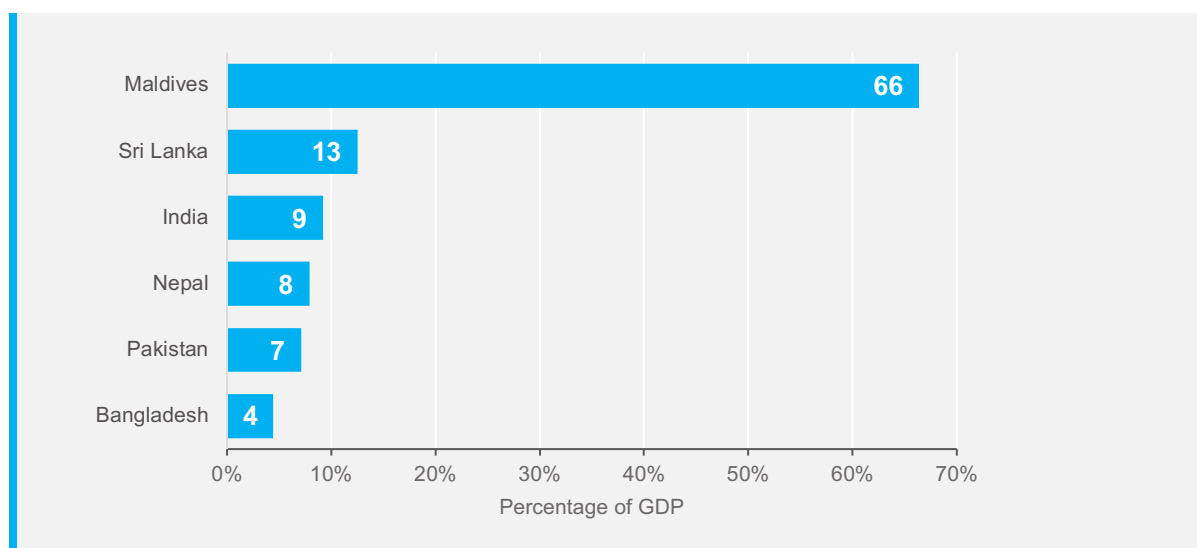
#### Box 3-1: Impacts of the COVID-19 crisis on the textile and garment industry in Bangladesh

When the initial cases of COVID-19 were detected and lockdown measures were implemented in China, severe disruptions to global garment supply chains began, as the halt in production and exports of raw materials from China affected exporters of garments elsewhere. Subsequently, the closure of businesses and physical distancing measures across the globe affected many buyers from Europe and North America, leading to a downward spiral of delays in payments and the subsequent loss in wages of garment workers in Latin America, South- and South-East Asia, with particularly severe consequences for Bangladesh.

In Bangladesh, by mid-March 2020, a deep crisis had hit the textile and garment industry as buyers abruptly cancelled orders, including both future orders and those already underway. According to a survey conducted between March 21<sup>st</sup> and March 25<sup>th</sup> 2020, in the majority of cases (72 per cent) buyers refused to pay for the cost of raw materials that had already been purchased by suppliers. In addition, the same survey reported that 98 per cent of buyers refused to contribute to the cost of paying partial wages to furloughed workers while 97 per cent would not contribute to the severance pay of those who had been dismissed.<sup>16</sup> By March 27<sup>th</sup>, a quarter of workers in the textile industry had already lost their jobs, while the unemployment rate has likely increased as the country 'officially' announced a temporary closure of most of its factories from April 7<sup>th</sup>.<sup>17</sup> Indeed, a survey by Human Rights Watch found that, by the end of April, 58 per cent of factories surveyed had shut down most or all of their operations, while hundreds of factories reportedly did not pay any wages during April and May.<sup>18</sup> By the end of April, the Bangladesh Garment Manufacturers and Exporters Association reported that over US\$3.18 billion worth of orders had been cancelled or suspended, affecting 2.28 million workers.<sup>19</sup>

The loss of work or pay having a particular impact on young women such as Nadmin Nahar, a 26 year-old garment worker and mother of two in Dhaka, who reported not having been paid any wages and struggled to afford food or rent for over two months: *"Our house rent is due. We are buying all our groceries on credit but they won't give us any more food until we pay our bill. So our landlord managed to get a sack of rice for us and we're surviving on that."*<sup>20</sup>

Figure 3-2: Economic contribution of tourism and travel in South Asia



Source: World Bank (2020).

<sup>16</sup> Anner (2020).

<sup>17</sup> World Bank (2020).

<sup>18</sup> Hossain et al. (2020); TBS (2020).

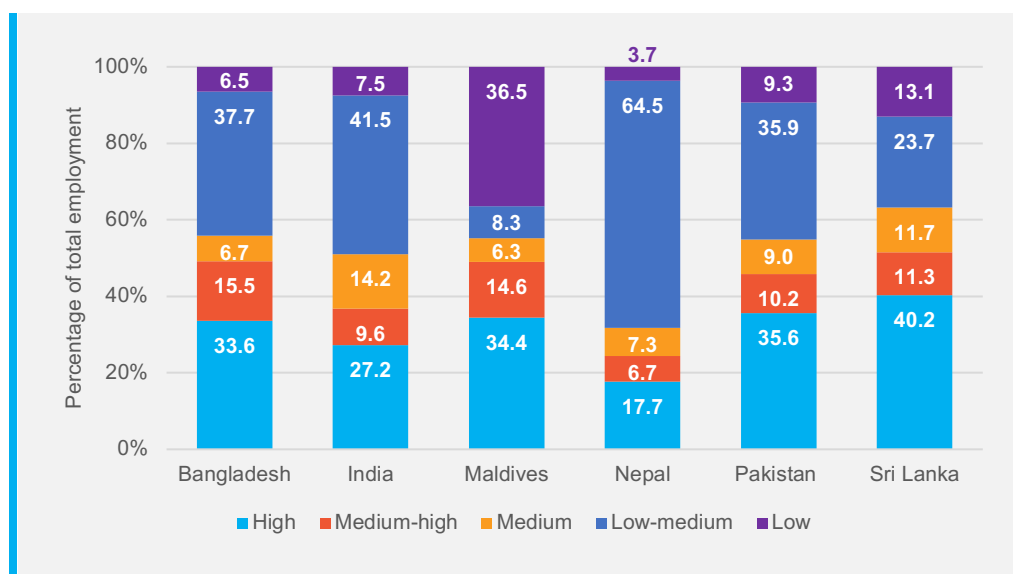
<sup>19</sup> Bangladesh Garment Manufacturers and Exporters Association (29 April, 2020).

<sup>20</sup> Kelly and Ahmed (2020).

### 3 Impacts of the COVID-19 economic crisis on families across the South Asia region

Due to the significant contraction of South Asia's economies, a large number of workers in both the formal and informal sectors have lost jobs or experienced reduced incomes. Globally, the ILO estimates that working hours globally have declined by 10.5 per cent, the equivalent of 305 million full-time jobs.<sup>21</sup> The crisis will generate significant losses in employment among South Asia's largest industries, as it has disproportionately affected food and hospitality services, retail and wholesale, tourism, transport and manufacturing, all sectors that have been assessed as experiencing 'medium-high' to 'high' impacts of the COVID-19 crisis. As shown by Figure 3-3, these sectors comprise a large proportion of total employment across South Asia.

**Figure 3-3: Impact of COVID-19 crisis on economic output in employment sectors, as a proportion of total employment across six countries in South Asia**



Source: ILO (2020a) in IPC-IG (2020).

While many formal economy workers have been affected by the COVID-19 crisis, the reality is that the majority of people in South Asia work in precarious employment, mostly in low-paid informal jobs. In fact, nearly 54 per cent of the global workforce active in vulnerable forms of employment, including own account work or contributing family work, is found in South Asia.<sup>22</sup> These workers have been at significant risk of job losses and wage cuts due to the COVID-19 crisis. In fact, in every country in South Asia, the ILO projects that over 90 per cent of informal workers will be significantly affected by the COVID-19 economic crisis.<sup>23</sup> As indicated by Figure 3-4, this means that the majority of the workforce will be at risk, since the most workers in South Asia are in the informal economy. While the services sector accounts for a large proportion of those in formal employment, many informal workers in South Asia are in the hospitality and transport sectors.<sup>24</sup> Further, a significant proportion of workers in Bangladesh (27 per cent), were home-based workers. Across Pakistan, India and Bangladesh, many informal economy workers are engaged in non-agricultural work including street vendors, waste pickers, domestic workers and homebased workers who were subcontracted by both formal and informal enterprises. Many others work in the care and subsistence economies.

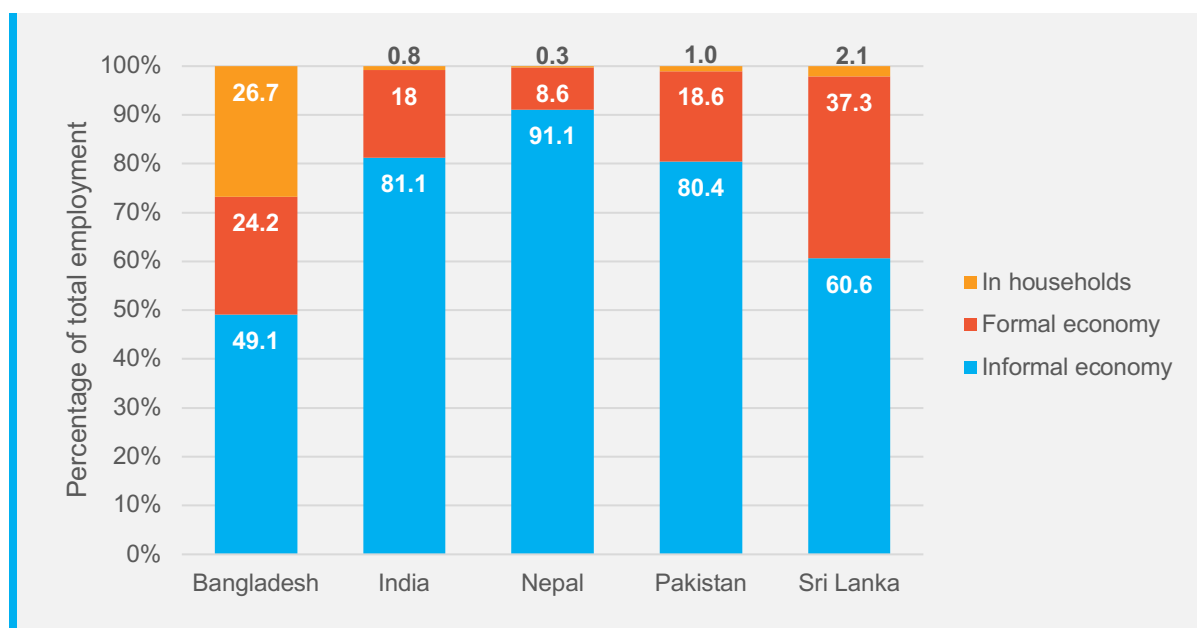
<sup>21</sup> ILO (2020c).

<sup>22</sup> ILO (2017).

<sup>23</sup> ILO (2020a) in IPC-IG (2020).

<sup>24</sup> World Bank (2020).

**Figure 3-4: Share of total employment in the informal economy, formal economy and in homeworking across five countries in South Asia**



Source: ILO (2018).

Job losses across the South Asia region are likely to be high. In an online survey conducted across Bangladesh, India, Nepal, Pakistan and Sri Lanka between April 18<sup>th</sup> and May 4<sup>th</sup> 2020, around 37 per cent of households reported that at least one person in the household had either experienced job loss or a significant reduction in working hours during the past month.<sup>25</sup> Analysis by UNICEF using a Computable General Equilibrium (CGE) model indicates that between 1.6 and 4.8 million people in Bangladesh may become unemployed in 2020 as a consequence of the economic recession triggered by the COVID-19 pandemic, depending on the duration and severity of the crisis.<sup>26</sup> In fact, a survey conducted in Bangladesh between 4<sup>th</sup> and 12<sup>th</sup> of April 2020 indicated that workers have experienced widespread job losses, as 71 per cent of workers in urban slums and 51 per cent of rural workers reported that they were rendered economically inactive during the previous week.<sup>27</sup> Similarly, in Sri Lanka, CGE analysis by UNICEF has suggested that employment may fall by almost 13 per cent across 2020. A large proportion of workers will be affected by the widespread closure of businesses in highly vulnerable sectors. The occupations most likely to be affected by the crisis are those in services, sales and factories, with workers potentially losing, on average, over 40 per cent of their income.<sup>28</sup> Further, a telephone survey conducted by UNICEF and UNDP indicates that impacts appear to be highest among those in the informal economy, who are disproportionately paid on a daily, or potentially, weekly basis.<sup>29</sup>

<sup>25</sup> Maredia (2020) and Freed et al (2020). The survey recorded 1,400 responses across all five countries. It was not wholly representative for the region, or any of the countries sampled.

<sup>26</sup> Khonder and Gelders (2020).

<sup>27</sup> Hossain et al. (2020).

<sup>28</sup> Kidd, Moreira Daniels et al (2020a).

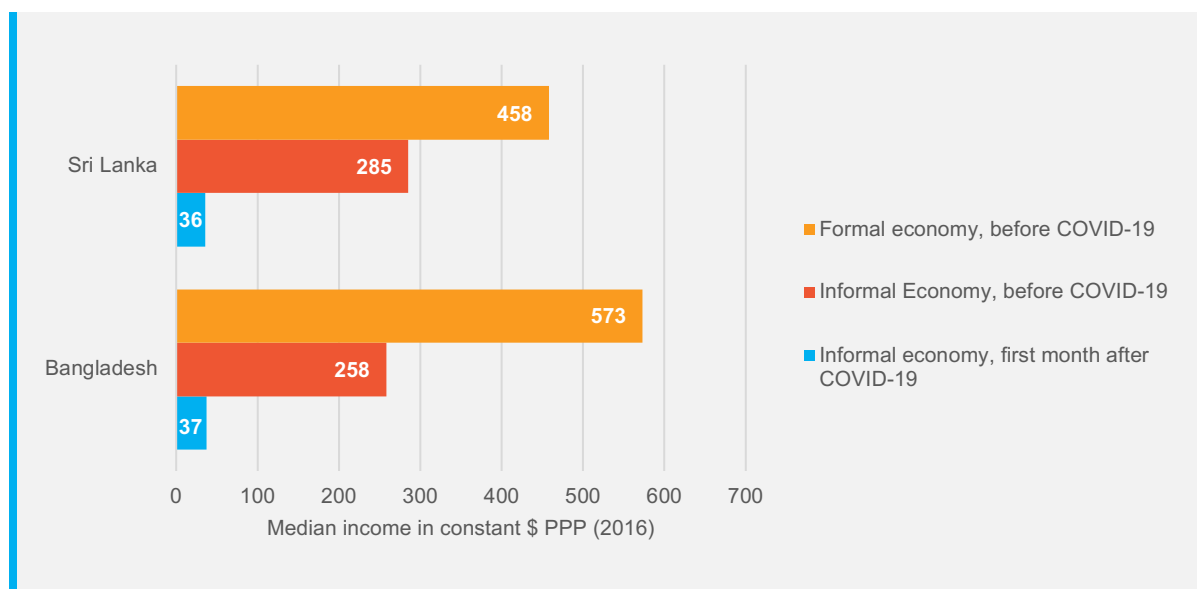
<sup>29</sup> Kidd, Moreira Daniels et al (2020a).

### 3.3 Impacts on poverty, incomes and wages

Since many workers across both formal and informal economies have been affected by job losses or reductions in hours worked, a high proportion of households are experiencing reductions in incomes. In addition, other sources of income are affected as a result of the contraction in economic activities, as not only income from labour and capital, but, as discussed earlier, also remittances, will decline significantly, affecting the wellbeing and livelihoods of households across South Asia. Across the wider Asian region, the ADB has estimated that, assuming a decline in wage incomes within households of 10 per cent of GDP per capita, at least 89 million people will be pushed below the international poverty line of \$3.20 PPP per day, which could rise to 400 million people if incomes fall by 30 per cent of GDP per capita.<sup>30</sup> Projections by IFPRI (2020) for South Asia, based on the international extreme poverty line of \$1.90 PPP per day, suggest that 316 million people – equivalent to 17 per cent of the South Asian population – could fall below the extreme poverty line.<sup>31</sup>

While the crisis is universal, the hardest hit by the crisis are potentially those living on middle – but still insecure – incomes. As Section 3.2 highlighted, the majority of workers in all South Asian countries are active in the informal economy and almost all are estimated to be significantly affected by job losses or cuts in wages. As shown in Figure 3-5, which indicates the median incomes of workers before and after COVID-19 in Sri Lanka and Bangladesh, expressed in constant US\$ PPP (2016), workers in the informal economies had suffered a dramatic loss in income one month after the COVID-19 crisis hit. Even before the crisis, their incomes were significantly lower than workers in the formal economy. In May 2020, a telephone survey by UNICEF showed that 65 per cent of respondents living on daily wages in Sri Lanka had lost all of their income while 31 per cent had experienced a fall.<sup>32</sup>

**Figure 3-5: Change in median income of informal economy workers one month after COVID-19 crisis hit, compared to incomes of formal and informal economy workers before COVID-19 (in constant US\$ PPP, 2016)**



Source: ILO (2020) in IPC (2020).

<sup>30</sup> ADB (2020).

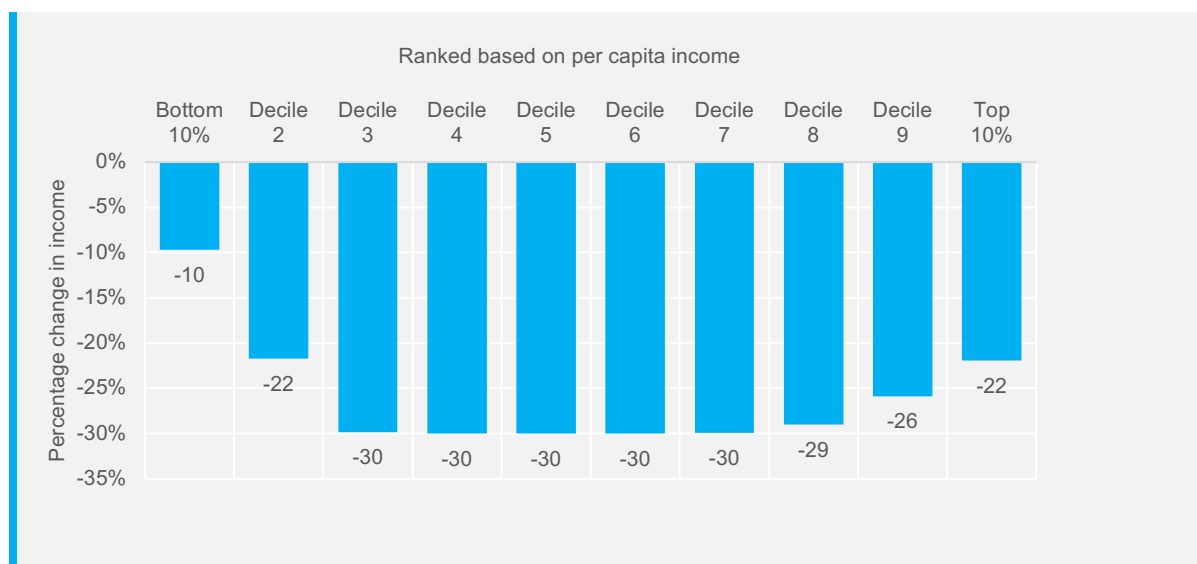
<sup>31</sup> As cited in IPC-IG (2020).

<sup>32</sup> Kidd, Moreira Daniels et al (2020a). In the survey sample, 52 per cent have monthly incomes, 9 per cent have weekly incomes and 39 per cent have daily incomes.

### 3 Impacts of the COVID-19 economic crisis on families across the South Asia region

Analysis undertaken in Sri Lanka by UNICEF suggests that, on average, households could face a reduction in incomes of up to 27 per cent.<sup>33</sup> As shown in Figure 3-6, which examines the potential impacts on households across the welfare distribution, households between the 3<sup>rd</sup> to 8<sup>th</sup> income deciles will experience the largest relative income losses. Although the poorest members of society could face a smaller average income loss of 10 per cent, given their low initial incomes, this will place them in a very difficult situation. The UNICEF telephone survey at the beginning of May 2020 confirms the severity of the crisis on families.<sup>34</sup> Overall, 39.4 per cent of respondents reported that they had lost all income while a further 31.6 per cent had lost some (although the amount is not known). Similar results were found in a survey by World Vision Sri Lanka in April 2020 among families within their programme areas. They found that 93 per cent had been affected by the crisis, with 78 per cent either fully or severely affected. In addition, 44 per cent of respondents had lost their jobs, with average salaries falling dramatically from LKR24,400 (US\$128) per month to LKR6,800 (US\$36).<sup>35</sup>

**Figure 3-6: Potential reductions in households incomes in Sri Lanka over six months, across the welfare distribution**



Source: Kidd, Moreira-Daniels et al. (2020a).

However, the crisis is even affecting many of those who, prior to the crisis, felt themselves to be in a secure financial position. Box 3-2 sets out the story of one family in Sri Lanka who quickly fell from a secure middle class existence to insecurity and an inability to provide for their children.

<sup>33</sup> Kidd, Moreira Daniels et al (2020a).

<sup>34</sup> Kidd, Moreira Daniels et al (2020a). The purpose of this survey was to gather relevant information on the impact of the COVID-19 crisis on households in Sri Lanka. Data was collected from a nationally representative sample of households, using the proportionate to population size sampling approach. Stratification was done by district household population, based on the Department of Census and Statistics 2012 Census of Population Housing. Random selection was used to contact households from each district. The first round of data collection happened from May 1-6, 2020 and reached 2,067 households from across the country. The margin of error was +/- 2.25 at a 95% confidence interval.

<sup>35</sup> *Impact of COVID-19: Health Emergency Rapid Assessment*, World Vision Sri Lanka; telephone survey conducted between April 17-20, 2020 (2,190 families surveyed in 15 districts).

**Box 3-2: A story from one of Sri Lanka's many 'new poor'<sup>36</sup>**

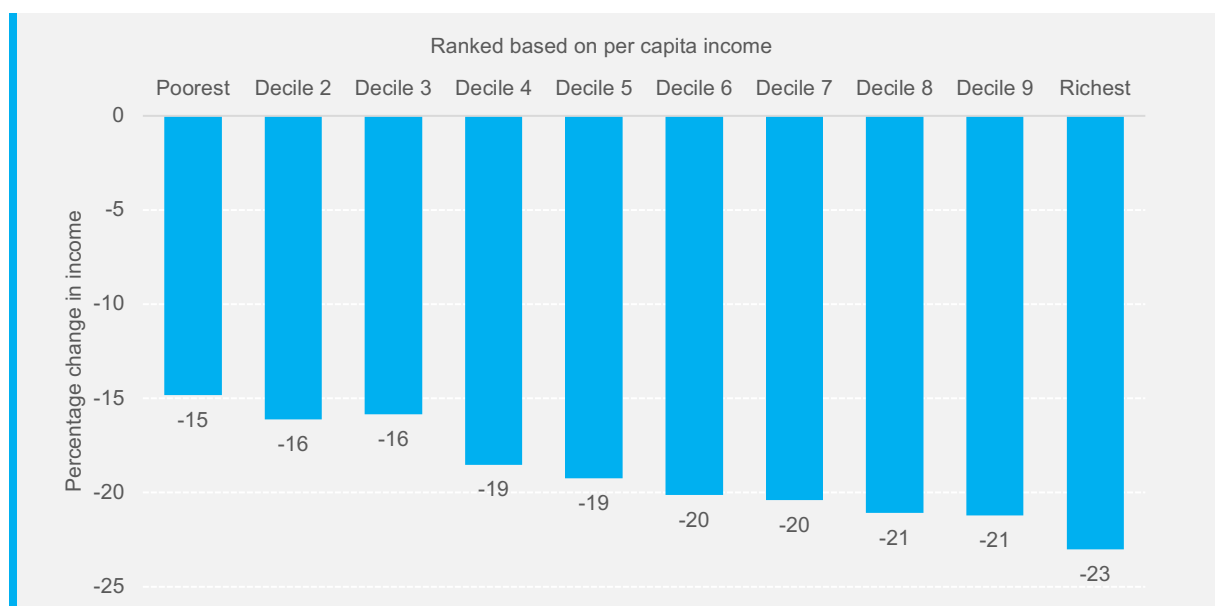
Wasana is 39 years of age, married, with three children. She lives in Colombo and, with her husband Ramesh, runs a small import business. Prior to the COVID-19 crisis, she lived what she regarded as a relatively comfortable and secure life. To the outside world, she was a middle-class woman with a decent house, a car and a profitable family business. However, when curfew was imposed in March 2020, her life was dramatically changed. Their business could no longer operate as there was no air or sea freight and their income disappeared. On the 19<sup>th</sup> of April, Wasana withdrew her last LKR4,100 (US\$21.60) from her bank account. While she was helped by the Government giving some support on leases and loans, the family had to make cuts and, on many days, the family have had only two meals.

Wasana is now desperate. She has asked her bank for a loan of LKR10,000 (US\$52.60), but received no response. She turned to social media and, as a result, a friend luckily heard about her situation and offered to provide a loan, giving her LKR10,000 (US\$52.60) almost immediately. She rushed to purchase essential goods for her family. Fortunately, her mother-in-law, who lives in the same house, received LKR5,000 (US\$26.30) from the government but they found it was too little for a household of six people to survive on for a month. Wasana and her family continue to face an uncertain future and is desperately in need of further Government support. Her family is just one example of the many people in Sri Lanka who have suddenly fallen from security to absolute insecurity. They are the new poor.

*This is a real story, but the names have been changed.*

Similar simulations undertaken by UNICEF in Bangladesh estimate that, on average, households could face an average reduction in incomes of 19 per cent (see Figure 3-7). While richer households may face the largest income losses, the crisis will affect all households across the welfare distribution. Households between the 3<sup>rd</sup> and 8<sup>th</sup> deciles, who are among the least protected by social security schemes, will face a reduction in incomes of 16 to 21 per cent. Furthermore, those in the poorest 20 per cent will experience an average reduction in incomes of 15 per cent, which represents a dramatic fall since these households are even less equipped to deal with income shocks.

**Figure 3-7: Potential reductions in households incomes in Bangladesh, across the welfare distribution**



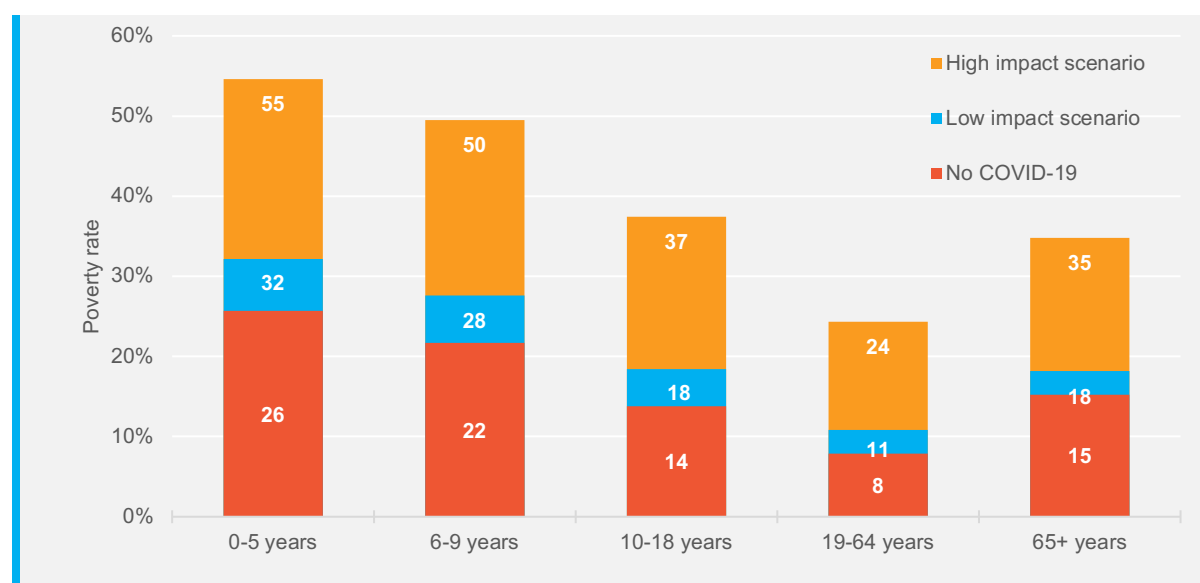
Source: Kidd, Sibun et al (2020).

<sup>36</sup> Kidd, Moreira Daniels et al. (2020a).

### 3 Impacts of the COVID-19 economic crisis on families across the South Asia region

According to simulations by UNICEF in Bangladesh, consumption across 2020 could be up to 24 per cent lower as a result of the recession.<sup>37</sup> This would mean that the number of people living below the national poverty line could increase by between 8.8 million and 39.6 million, representing a growth in the national poverty headcount rate to 42 per cent in the worst case scenario, whereas the poverty rate would have been 19 per cent in the absence of COVID-19. The crisis will significantly affect children. Figure 3-8 shows the estimated poverty headcount among children in Bangladesh, comparing a situation without COVID-19 to low and high impact scenarios, with the high impact the most realistic. Among young children below the age of six years, monetary poverty could be twice as high as it would have been without COVID-19, increasing from 26 per cent to 55 per cent under the more likely high impact scenario.

**Figure 3-8: Percentage of the population living below the national poverty line in Bangladesh in the three scenarios, by age group, 2020<sup>38</sup>**



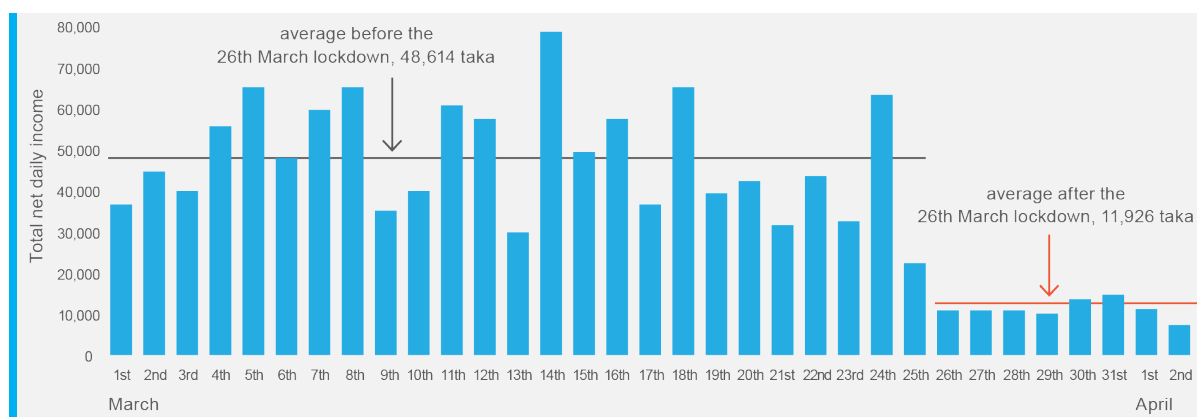
Source: Khondker and Gelders (2020).

Evidence from daily financial diaries recorded by 60 households in Bangladesh illustrates the sharp decline in incomes as a result of the lockdown measures implemented at the end of March 2020 and suggests that UNICEF's simulations using pessimistic assumptions may well reflect reality. Figure 3-9 shows that incomes among low-income households fell sharply when lockdown measures were introduced on March 26<sup>th</sup>.

<sup>37</sup> Khondker and Gelders (2020).

<sup>38</sup> These calculations are based on a CGE model for Bangladesh which uses the Upper National Poverty Line, set per Division, constructed by the Bangladesh Bureau of Statistics using the Cost of Basic Needs Method for estimating the incidence of poverty, which is a method recommended by the World Bank. The national weighted average of the Upper National Poverty Line amounts to Tk. 2221 per month. The assumptions underpinning the low-impact scenario are broadly aligned with the government of Bangladesh' revised macro-economic framework for the 8FYP and the Budget 2021 from May 2020 that take into account the anticipated macro-effects of COVID-19. The high-impact scenario uses more pessimistic assumptions, in which foreign demand for ready-made garments and international remittances fall by 30 and 18 per cent, respectively, on an annualised basis.

**Figure 3-9: Combined total net daily income for 60 low-income households in Bangladesh during the period when lockdown was introduced in March 2020, in Taka**



Source: UNICEF (2020a).

### 3.4 Coping mechanisms and risk of food insecurities

The large reductions in incomes may force many families to adopt potentially damaging coping strategies. The online survey conducted across Bangladesh, India, Nepal, Pakistan and Sri Lanka between April 18<sup>th</sup> and May 4<sup>th</sup> 2020 found that, as a result of job losses, a significant proportion of households resorted to negative coping mechanisms, including 50 per cent of households in rural areas and 23 per cent in urban areas using almost all their savings.<sup>39</sup> Further, nearly 40 per cent of households in rural areas and 35 per cent in urban areas reduced their non-food expenses. In Sri Lanka, the UNICEF telephone survey indicated that, by early May 2020, 37 per cent of respondents had begun to draw down on their savings, 35 per cent had taken out loans or borrowed from others while 21 per cent had pawned some of their possessions.<sup>40</sup> In a survey conducted in Bangladesh between 4<sup>th</sup> and 12<sup>th</sup> April, the proportion of those affected by the crisis who resorted to loans or borrowing was 52 per cent in urban slums and 36 per cent in rural areas.<sup>41</sup> By reducing their assets and taking on debt, families will find it more challenging to recover from the crisis.

As a result of lower incomes with which to purchase food, as well as disruptions to food supply chains and markets, the COVID-19 crisis is worsening the already alarming state of food security and nutrition. Before the crisis hit, all of South Asia's countries ranked between 'low' and 'serious' on the Global Hunger Index, ranging from Sri Lanka being the lowest at 66<sup>th</sup> and Afghanistan the highest at 108<sup>th</sup> out of 117 countries. Food insecurities and poor nutrition were already causing nearly 45 per cent of deaths of children below the age of five years throughout the region. According to the FAO, agri-food supply chains were likely to be severely disrupted during April and May 2020, due to measures that restricted the production and transportation of food.<sup>42</sup> Indeed, due to the effect of the crisis on logistical transportation, imports and exports, countries are experiencing inflation in food prices which is likely to worsen household consumption further. For example, in Afghanistan, the prices of wheat and cooking oil rose by almost 15 per cent and nine per cent respectively and, in Pakistan, the price of wheat flour increased by nearly 13 per cent between mid-March and the end of March.<sup>43</sup> In Bangladesh, food prices reportedly surged during the initial days after the lockdown measures were announced while, in Bhutan, an import ban on meat, fruits and

<sup>39</sup> Maredia (2020) and Freed et al (2020).

<sup>40</sup> Kidd, Moreira Daniels et al (2020a).

<sup>41</sup> Hossain et al. (2020).

<sup>42</sup> HLPE (2020).

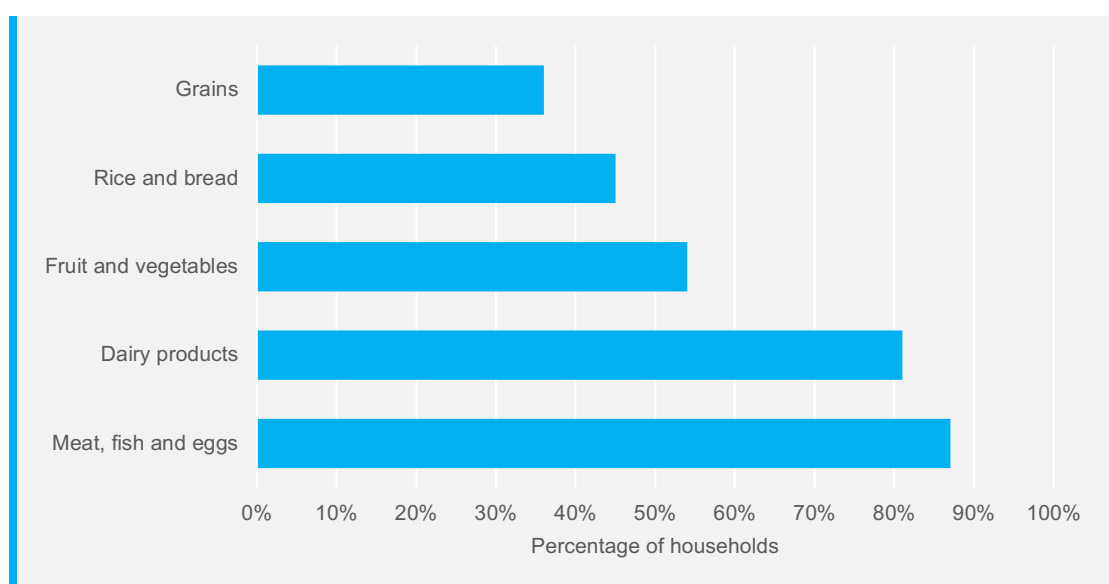
<sup>43</sup> World Bank (2020).

### 3 Impacts of the COVID-19 economic crisis on families across the South Asia region

vegetables that mainly came from India caused an immediate surge of market activity resulting in rapid inflation.<sup>44</sup>

There are indications that many families are reducing their food consumption. In Afghanistan, 35 per cent of the population could face acute food insecurity in the second half of 2020.<sup>45</sup> According to the survey conducted in Bangladesh during April, 47 per cent of respondents in urban slum areas and 32 per cent in rural areas reported that they had reduced their food consumption.<sup>46</sup> The UNICEF telephone survey in Sri Lanka found that 30 per cent of respondents had, by early May, already reduced their food consumption.<sup>47</sup> As shown by Figure 3-10, the largest reductions in consumption were in more nutritious foods, such as dairy products, meat, fish and eggs, and, to a lesser extent, fruit and vegetables.

**Figure 3-10: Type of food products for which households had reduced their food consumption in Sri Lanka, among respondents who had reduced overall food consumption**



Source: Telephone survey undertaken by UNICEF, Sri Lanka (May 1<sup>st</sup> -6<sup>th</sup>, 2020), in Kidd, Moreira Daniels et al (2020a).

The reduced consumption of nutritious foods will have further impacts on health, which will be exacerbated by disruptions to health systems. John Hopkins Bloomberg School of Public Health predict that, in a worst case scenario 886,000 additional children could die across South Asia over a period of 12 months.<sup>48</sup> Similarly, Robertson et al (2020) predict that food insecurity – combined with disruptions to health systems – could result in between 5,400 and 28,100 additional deaths of children under six years of age in Bangladesh over a period of six months, which is the equivalent of a rise in the national infant mortality rate of between 12 and 63 per cent. Stunting and iron deficiency among children could increase, impacting potentially on their cognitive development. The already high anaemia levels among women – including expectant and lactating mothers – could increase, with further negative impacts on children. Among older people and those with underlying health conditions, poor nutrition can enhance the risk of developing comorbidities that reduce their resistance to the COVID-19 virus and other illnesses.

<sup>44</sup> World Bank (2020).

<sup>45</sup> UNICEF (2020b).

<sup>46</sup> Hossain et al. (2020).

<sup>47</sup> Kidd, Moreira Daniels et al (2020a).

<sup>48</sup> Kidd, Moreira Daniels et al (2020a).

### 3.5 Educational and protection issues resulting from the COVID-19 crisis

As families are required to cut down on normal expenditures, the COVID-19 crisis is affecting children's home environments, which could impact significantly on children's educational performance. International evidence indicates that up to 86 per cent of the variation in educational achievement among children is explained by out-of-school factors so, even if children are able to attend school, their progress could be stymied.<sup>49</sup> Families will face difficulties in purchasing books, toys and games, which play an important role in stimulating children, while electricity usage may be reduced making it more difficult to study. It is possible that many children will have to enter the labour market, to provide their families with desperately needed income.

As families face greater financial stress, this increases the risk of violence against women and children, which is exacerbated during lockdowns when families cannot leave the house. Indeed, in a digital hangout session among young people organised by Save the Children in Nepal, one participant described how: *'Parents are frustrated during the lockdown, and children are also restless. I have witnessed parents getting irritated with their children and hitting them – but they don't realize children need attention, they need to know what's happening, as they feel caged inside the house.'*<sup>50</sup> In India, a Government helpline has experienced a surge in reports on child abuse and domestic violence against women during the first 11 days of lockdown, as calls had increased by 50 per cent and over 92,000 calls were made during this time period.<sup>51</sup> In Sri Lanka, there has also been an increase in children calling a helpline to report abuse.<sup>52</sup>

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<sup>49</sup> Goldhaber, Brewer, & Anderson (1999); Hirsch (2007).

<sup>50</sup> Save the Children (29 April, 2020).

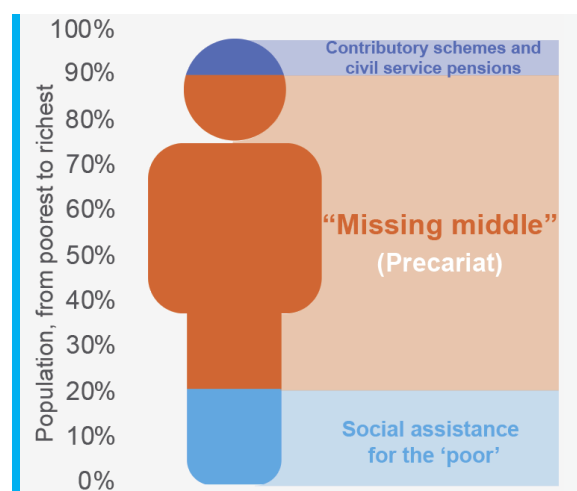
<sup>51</sup> The Hindu (8 April, 2020).

<sup>52</sup> UNICEF (2020b).

## 4 South Asia's social protection systems

A key reason for building national social protection systems is to provide families with income support during a crisis, so that the negative impacts described in the previous section could be mitigated. Unfortunately, when the COVID-19 crisis hit South Asia, most of the region's social protection systems were too under-developed to respond effectively. At best, countries have bifurcated social protection systems that offer contributory schemes and civil service pensions to those in the formal economy alongside social assistance programmes targeted at the poorest members of society. Conceptually, these programmes are very similar to the poor relief schemes that some high-income countries used as the basis of the social security systems in the 18<sup>th</sup> and 19<sup>th</sup> Centuries. As Figure 4-1 shows, by design, those living on middle incomes – in other words, the precariat – are excluded from the social protection system. In fact, in some countries, the situation is even worse. Bangladesh, for example, has not yet developed a social insurance system for those in the formal economy outside the civil service while, in Sri Lanka, the main contributory schemes are provident funds and act more like savings schemes than social protection programmes, offering members lump sum payments when they retire, but no pensions.

**Figure 4-1: Illustrative depiction of the type of social protection system found in South Asia**



Source: Authors' creation.

In contrast, most high-income countries have, many decades ago, moved away from social protection systems based on poor relief to build inclusive systems that offer everyone access to social protection across the lifecycle. Such systems are based on the right of everyone to access social security whenever they experience risks or challenges across the lifecycle, as set out in a range of international human rights conventions (see Box 4-1). Consequently, many high-income countries have built social security systems based on universal access to benefits for children, people with disabilities, those who are sick, older people and the unemployed, with schemes often financed from both contributions and general taxation. While they still provide some additional poor relief, such schemes are small in size.

The two countries that have begun to move away from the dominant 'poor relief' paradigm of South Asia towards the type of modern, social security system found in high income countries are Nepal and the Maldives. Nepal has implemented a generous, universal old age social pension for everyone over 70 years of age alongside universal benefits for widows and people with disabilities (although the latter is still small), while a child benefit for young

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children is gradually being rolled out on a universal basis. The Maldives offers universal old age and disability benefits.

The limited commitment to building effective social protection systems in South Asia is reflected in low budgets. When programmes providing regular and predictable cash transfers financed from general taxation are considered, all countries in the region – with the exception of Nepal and the Maldives – spend less than 0.5 per cent of GDP. Nepal and the Maldives, in contrast, both invest just under two per cent of GDP. With such limited funding – which is reflected in low transfer values and low coverage – it is unsurprising that social protection systems in South Asia are not that effective in achieving their core objective of tackling poverty.

Further, implementation is weak across the region's poor relief schemes, as indicated by their targeting errors. Figure 4-2 shows the targeting effectiveness of four of the main poor relief programmes in Bangladesh, India, Pakistan and Sri Lanka, all of which exclude more than half of their intended recipients. If the schemes were accurately targeted, all of the recipients would be to the left of the vertical red line. In reality, the recipients in each percentile of the population from poorest to richest are below the black line, indicating high levels of inaccuracy. Exclusion errors are 59 per cent on Bangladesh's Old Age Allowance, 68 per cent on India's Old Age Pension, 58 per cent on Sri Lanka's Samurdhi programme, and 73 per cent on Pakistan's Benazir Income Support Programme (BISP).

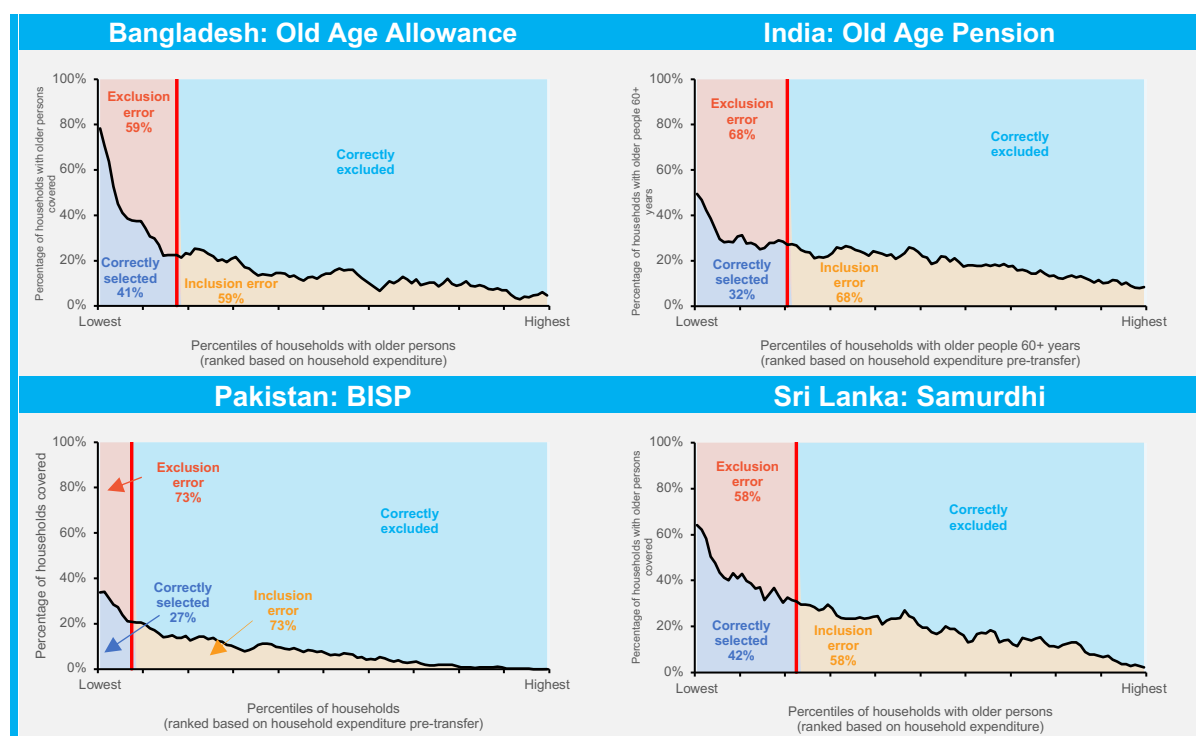
### Box 4-1: The right to social security in international human rights conventions

Many international human rights conventions set out the right to social security and an adequate standard of living for everyone, based on the rights set out in the Universal Declaration of Human Rights (UDHR). The UDHR states that everyone has the right to security to address a range of contingencies that they may face across the lifecycle:

**Article 22:** "Everyone, as a member of society, has the right to social security"

**Article 25:** "(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. (2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection."

Figure 4-2: Targeting effectiveness of a selection of poor relief schemes in South Asia

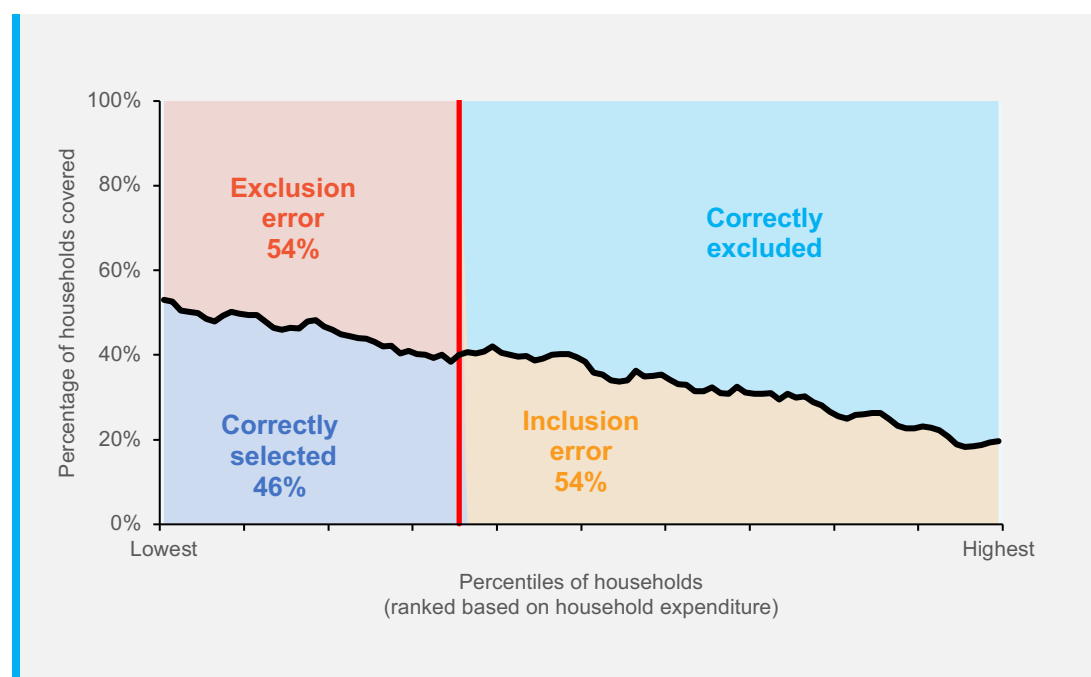


Source: Secondary analysis of Bangladesh HIES 2016, India IHDS 2012; Pakistan HIES 2016 and Sri Lanka HIES 2016.

#### 4 South Asia's social protection systems

Some countries have developed so-called social registries to support more effective targeting – such as Pakistan's National Socio-Economic Register (NSER) and India's Poor List – but they are also highly inaccurate. As Figure 4-3 shows, India's Poor List has an exclusion error of 54 per cent while Pakistan's NSER is responsible for the poor targeting effectiveness of the BISP. In fact, the collection of data for social registries is undertaken infrequently: for example, Pakistan undertook the survey for the NSER in 2009 and, only in 2019, did it begin the recertification of households. As a result, the information on the NSER is very out of date and children under 10 years of age, for example, are not included. Bangladesh has unsuccessfully been attempting to develop a social registry since 2016, but already much of the survey data is out of date, even before it has been used.

**Figure 4-3: Effectiveness of India's Poor List in identifying households living in poverty**



Source: Secondary analysis of India IHDS 2012.

The weaknesses of South Asia's social protection systems has meant that countries have been unable to respond effectively to the COVID-19 crisis. A high proportion of those affected – in particular those on middle incomes – are not recipients of social protection schemes. Unemployment benefits, which can act as automatic stabilisers during an economic crisis, are absent from the region. And, even if countries want to reach the poorest members of society, the poor quality targeting of poor relief schemes means that they are unable to reach most of them. While it is often argued by advocates of social registries that their lists could be used to identify households for emergency payments, in reality they face many challenges, not least their inaccuracies. One particular problem is that social registries do not hold bank details of those on the lists, unless they are current recipients of schemes. Therefore, even if the list is produced, the government still needs to find the households and enroll them so that payment details can be taken. In reality, this holds little or no advantage over asking people to apply for support after the emergency starts.

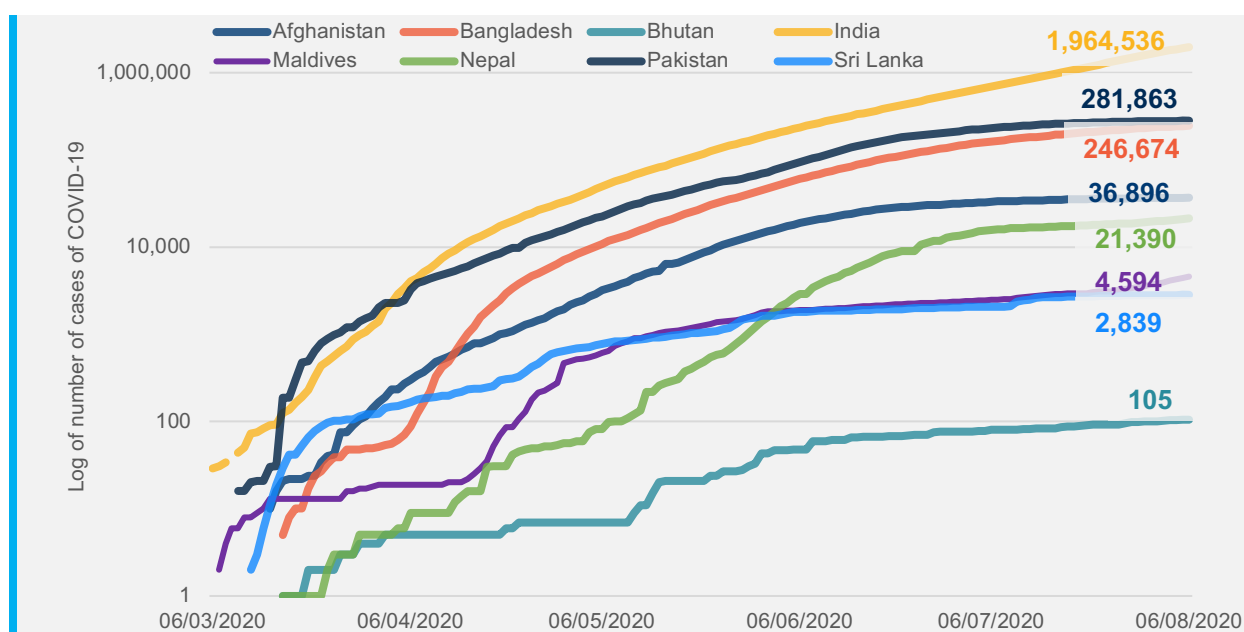
## 5 The health and fiscal responses of South Asian governments to the COVID-19 crisis

Fortunately, South Asian countries have responded to the crisis in different ways. This includes both a health response to limit the spread of the virus as well as a range of measures to tackle the economic and livelihoods crisis. The following sections, therefore, examine these responses, looking, briefly, at the health response before moving onto the main topic of this paper, the delivery of fiscal stimuli through social protection.

### 5.1 COVID-19 and health responses in South Asia

The South Asia region has done remarkably well in limiting the spread of the COVID-19 virus, despite weak health systems, at least during the initial stages of the crisis. Figure 5-1 shows the number of identified cases between 6<sup>th</sup> March and 6<sup>th</sup> August 2020. When compared to the sizes of national populations and other regions of the world, the numbers are low across most countries in South Asia, with Sri Lanka standing out as being particularly effective in reducing the spread of the virus. However, more populous countries have seen a recent spread in the number of infections, with number of cases surging in India, while cases of COVID-19 are rising in Bangladesh and Pakistan.

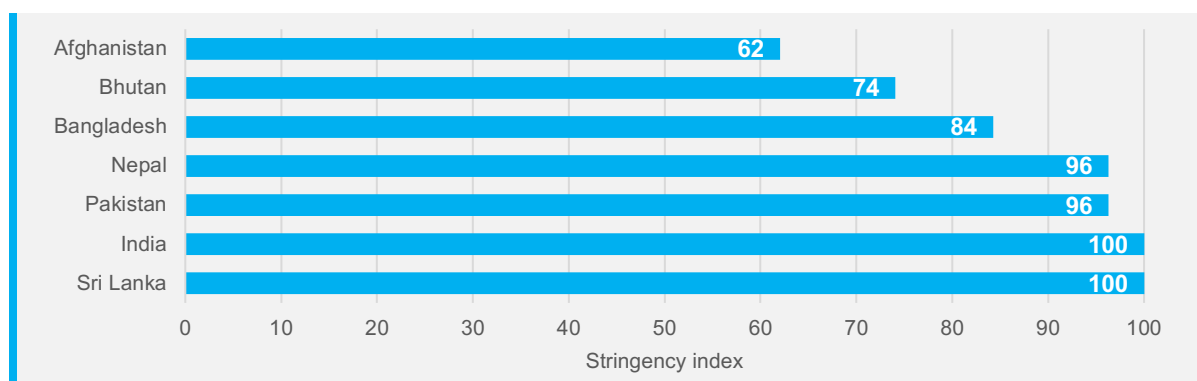
**Figure 5-1: Number of cases of COVID-19 across South Asia, between 6<sup>th</sup> March and 6<sup>th</sup> August 2020**



Source: University of Oxford's Government Response Stringency Index and Our World in Data. Retrieved from: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>; <https://ourworldindata.org>.

At the beginning of the crisis, most countries in South Asia rapidly implemented measures that banned large gatherings and subsequently implemented full or partial domestic lockdowns resulting in the closure of public services and businesses. The most stringent measures were implemented in India, Nepal, Pakistan and Sri Lanka, which imposed some of the most robust measures to contain the spread of COVID-19. Figure 5-2 shows the scores for the region given by Oxford University's Government Response Stringency Index, with most countries scoring highly while India and Sri Lanka achieved 100, the highest possible score. More detail on the measures taken can be found in Annex 1.

**Figure 5-2: Stringency scores for health measures taken by governments of South Asia in response to COVID-19**



Source: University of Oxford's Government Response Stringency Index. Note: The Stringency Index does not include data on the Maldives. Retrieved from: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>

However, public health and physical distancing measures have been gradually eased since April, although at varying rates. This is understandable, since governments recognise the need to balance the trade-off between controlling the virus and protecting national economies, people's jobs and the broader wellbeing of their populations. Worryingly, as Figure 5-1 shows, the number of cases is rising exponentially in countries that are more densely populated, including India, Bangladesh and Pakistan, after physical distancing measures were eased. In urban centres, physical distancing measures have been nearly impossible to enforce among slum areas and densely populated areas, making many vulnerable urban households more at risk of obtaining the virus. Further, a large proportion of the population include migrant workers who, at the onset of the lockdown, were forced to return to their home provinces making the enforcement of social distancing impossible. While the growth in the number of cases indicated by Figure 5-1 is alarming, in reality, the number of positive tests is almost certainly underreported. For example, by 22<sup>nd</sup> July, a random test of over 200,000 residents in Delhi found that nearly a quarter had been infected by coronavirus, which raises the concern that the number of cases in India is much higher.<sup>53</sup>

In order to effectively control the spread of the virus, governments will have to establish effective systems of testing and tracing to enable a rapid identification of new cases of COVID-19 and those with whom they have been in contact, so that they can be isolated from the rest of the population until the risk of contagion has passed. Governments may also have to impose localised lockdowns, if there are clusters of COVID-19 cases in a specific area. And, physical distancing measures will need to continue, including in transport, the workplace, shops, services and general interactions between people. This is likely to continue to result in many businesses being able to work at full capacity, which may threaten their sustainability. In fact, in India, local lockdowns have been re-imposed in July as the number of cases surged past one million, while in June in Pakistan, the World Health Organization called on the government to re-impose stricter measures to contain the spread of the virus.<sup>54</sup>

If, however, governments are unable to control the spread of the crisis and the number of cases rises exponentially, they will face very difficult choices on whether to re-establish more stringent control measures, including national lockdowns. If so, the economic crisis could deepen while further harm may be caused to individual and family wellbeing, which, as described earlier, has already been severe.

<sup>53</sup> Farrier (22 July, 2020).

<sup>54</sup> Ghosal (15 July, 2020); Sullivan (10 June, 2020).

## 5.2 Social protection measures implemented in South Asia to provide a fiscal stimulus and income support to families

As discussed earlier, if South Asian countries want to protect their economies and people from the COVID-19 crisis and enable a rapid economic recovery, it is essential that their governments finance large fiscal responses through an expansion of their social protection systems. Governments have two complementary options for an effective fiscal response: they can scale-up their existing social protection systems, which, as Section 4 described, are currently limited in reach; or, they can establish new schemes to support those who are currently excluded by their social protection systems. If they wish to scale-up existing schemes they can undertake:

- **A vertical expansion** of schemes, which means increasing the transfer values for the period of the crisis; and/or,
- **A horizontal expansion** of schemes, which means widening their coverage temporarily.

The good news in South Asia is that a number of governments have recognised the seriousness of the situation and have implemented fiscal response measures through social protection, encompassing all the options set out below. A summary of the national responses can be found in Table 5-1.

Most countries in South Asia have implemented some form of fiscal stimulus that contains social protection measures. However, the main responses have been in Pakistan and Sri Lanka, while little has been undertaken in other countries, and no measures have been adopted in Nepal. While it is positive that South Asian countries have taken action, the responses, to date, have been too small to act as an effective economic stimulus. The most comprehensive measures have been undertaken in Sri Lanka, which has invested approximately 0.33 per cent of GDP in the horizontal and vertical expansion of its social protection schemes, as well as implementing new emergency programmes while Pakistan has invested around 0.41 per cent of GDP in its Ehsaas Emergency Cash Programme. However, across the remaining countries, investments in social protection measures are much smaller.

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).<sup>55</sup> In effect, high-income countries are doing 'whatever it takes' to rescue their economies and citizens, an approach endorsed by the IMF.<sup>56</sup> 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."<sup>57</sup> However, the only low- and middle-income countries that approach this level of spending are Mongolia, at 1.6 per cent of GDP, and Timor Leste at 2 per cent of GDP. Across South Asia, more needs to be done to support families to survive the crisis and generate greater consumption and demand. This, in turn, would enable markets to stay open for businesses and provide a greater boost to the economy. It is essential that South Asian countries implement large scale social protection responses if they are to minimise the losses to their economies and, in some cases, avoid deep recessions, with significant human impacts.

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<sup>55</sup> IMF (2020a).

<sup>56</sup> Fouad et al (2020).

<sup>57</sup> Ravallion (2020).

## 5 COVID-19 and the health and fiscal responses in the South Asia region

**Table 5-1: Summary of tax-financed social security responses to COVID-19 in South Asia**

Country	Name of scheme	Number of recipients	Increase in transfer per month (LCU and US\$)	Transfer value (% GDP per capita) <sup>58</sup>	Duration of support	Cost (% 2019 GDP)
Bangladesh	Primary Education Development Program 4	14 million children <sup>59i</sup>	Tk.25-50 (US\$0.29-0.58)	0.2-0.4%	12 months	0.16%
	Direct transfers to poor working households	5 million households	Tk.1,000 (US\$11.84)	2.4%	One-time	
	Direct transfers to poor senior citizens, widows and women deserted by their husbands in 100 upazilas	850,000 recipients	Tk.2,500 (US\$29.60)	1.52%	One-time	
	Direct transfers to insolvent persons with disabilities in 100 upazilas	255,000 recipients	Tk.700 (US\$8.29)	5.1%	12 months	
Bhutan	Druk Gyalpo's Relief Kidu (Emergency scheme for unemployed workers and self-employed who have lost their earnings)	13,006 recipients	Nu.7,000-10,000 (US\$99.40-142.00) + Nu.800 (US\$11.40) per child	36.1% - 51.6% + 4.1% per child	3 months	0.08%
India <sup>60</sup>	NSAP for elderly, widows and disabled	35 million recipients	Rs.1,000 (US\$ 14.60)	2.6%	One-time payment	0.15%
	NSAP for elderly, widows and disabled	850,000 recipients	Rs.4,000–5,000 (US\$53-66)	10.4% - 12.9%		
	PMJDY (Jan Dhan financial inclusion)	200 million women	Rs.500 (US\$6.50)	3.5%	3 months	
Maldives	Pradhan Mantri Kisan Samman Nidhi	87 million farmers	Rs.2,000 (US\$26.50)	15.5%		
	Income Support Allowance	69 recipients	Up to MVR5,000 (US\$325)	Up to 25.0%	3 months	0.0003%
Pakistan <sup>61</sup>	Ehsaas Emergency Cash Programme	13,020,522 households	Rs.1,000 (US\$6.00) to Rs.3,000 (US\$18.00)	1.4% to 4.2%	4 months	0.41%
Sri Lanka <sup>62</sup>	Samurdhi, Disability and Chronic Illness Allowances	2,578,169 recipients	LKR5,000 (US\$26.30)	1.3%	2 months	0.33%
	Senior Citizens' Allowance	559,059 recipients	LKR3,000 to LKR 5,000 (US\$15.80–26.30)	0.8% - 1.3%		
	Farmers' and Fishermen's pension schemes	165,275 recipients	LKR5,000 (US\$26.30)	5.7%		
	Unemployed Graduates	40,000 recipients	LKR20,000 (US\$105.30)	22.7%		
	Self-employed workers	2,357,077 recipients	LKR5,000 (US\$26.30)	1.3%		
	Pre School Teachers	39,784 recipients	LKR5,000 (US\$26.30)	1.3%		

Sources: Gentilini et al. (2020); ILO (2020d); The Edition (18 June, 2020); Ehsaas Emergency Cash, retrieved from: [https://www.pass.gov.pk/ecs/uct\\_all.html](https://www.pass.gov.pk/ecs/uct_all.html); Kidd, Moreira Daniels et al (2020a); Kidd, Sibun et al (2020).

<sup>58</sup> The transfer values of household benefits, as a percentage of GDP per capita, have been adjusted to reflect per capita values, as 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.

<sup>59</sup> 14 million children currently receiving the Primary Education Stipend receive a top-up of either BDT 25 of BDT 50 in total. While there is no information on how many of these children receive the differential top-up rates, it is assumed that 20 per cent of the children receive BDT 25 for pre-primary and 80 per cent receive BDT 50 rate for primary.

<sup>60</sup> In India, many states have also introduced their own schemes. For example, the state of Uttar Pradesh has additionally implemented Rs.611 crore (US\$80 million) in payments to 27.5 million workers of the National Rural Employment Guarantee Scheme (NREGS) scheme. The NSAP transfers have been doubled for the payment in April.

<sup>61</sup> Pakistan's Ehsaas Emergency Cash Programme includes 4.5 million existing recipients who will receive a top-up of Rs.1,000 (US\$6) to reach a maximum transfer value of Rs.3,000 (US\$18).

<sup>62</sup> Sri Lanka's Samurdhi scheme and Senior Citizens' Allowance includes a one-time top-up for excvfgisting recipients to provide a maximum transfer value of LKR 5,000 (US\$26.30). The current recipients of the Disability and Chronic Illness Allowances have not been included as they will not receive any additional payment above their normal transfers of LKR5,000 (US\$26.30) per month. Recipients of the Senior Citizens' Allowance were given LKR3,000 (US\$15.75) on top of their monthly benefit of LKR2,000 (US\$10.50), while those on the schemes' waiting lists were given LKR5,000 (US\$26.30) per month.

## 5 COVID-19 and the health and fiscal responses in the South Asia region

The measures taken across South Asian countries are likely to have minimal impacts due to the limited duration of the emergency support schemes. Few of the measures will involve payments that last for more than four months, yet the impacts of the crisis on family welfare will be felt for much longer. In India, the vertical expansion of its Old Age, Disability and Widows Allowances has only included one-time emergency payments, similar to the emergency payments to households in Bangladesh which have only been paid once (and, at the time of writing, have reached few of the promised 5 million households<sup>63</sup>).

A further challenge with some emergency income support measures taken by South Asian countries is that they have been based on expanding existing relatively ineffective 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.

Another concern with the use of poor relief schemes is that the transfer values, even when their value is increased, are very low and unlikely to provide meaningful support to families. As Table 5-1 indicated, most of the transfers are providing less than five per cent of GDP per capita per person when measured over a period of three months, which is very low when compared to social protection schemes found internationally. For comparison, the average value of a social pension in a low- or middle-income country is around 15 per cent of GDP per capita. In Sri Lanka, analysis conducted by UNICEF indicates that the transfer of LKR5,000 (US\$26.30) covers only 13 per cent of the normal monthly consumption requirements of a household while, in Bangladesh, the payments to older people and widows of Tk.500 (US\$5.920 per month only cover 2.4 per cent.<sup>64</sup> Even among the poorest households, the support would cover less than a fifth of what they normally consume.

The effectiveness of responses to date in reaching those who need support can be examined by looking at the responses in Sri Lanka and Pakistan. Over a period of two months, the Government of Sri Lanka has spent 0.33 per cent of GDP on a combination of expanding poor relief schemes complemented by a transfer to all informal economy workers.<sup>65</sup> Nonetheless, as Figure 5-3, shows, simulations by UNICEF have predicted that around 34 per cent of households nationally would 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. A telephone survey undertaken by UNICEF in early May confirmed the simulations, finding that 31 per cent of respondents had not received support. 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 have received 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.

Figure 5-3 also shows the likely coverage of the emergency support scheme, Ehsaas, in Pakistan, which will cost just over 0.4 per cent of GDP. While the scheme achieves high coverage (89 per cent) of households in the poorest decile – although this is likely to be an overestimate – the scheme still excludes 32 per cent of households in the second poorest decile. Further, the majority of households living on middle – but still low and insecure – incomes will be excluded. It should be taken into account that Figure 5-3 illustrates the situation using the welfare distribution prior to the COVID-19 crisis, whereas many

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<sup>63</sup> Kidd, Sibun et al (2020).

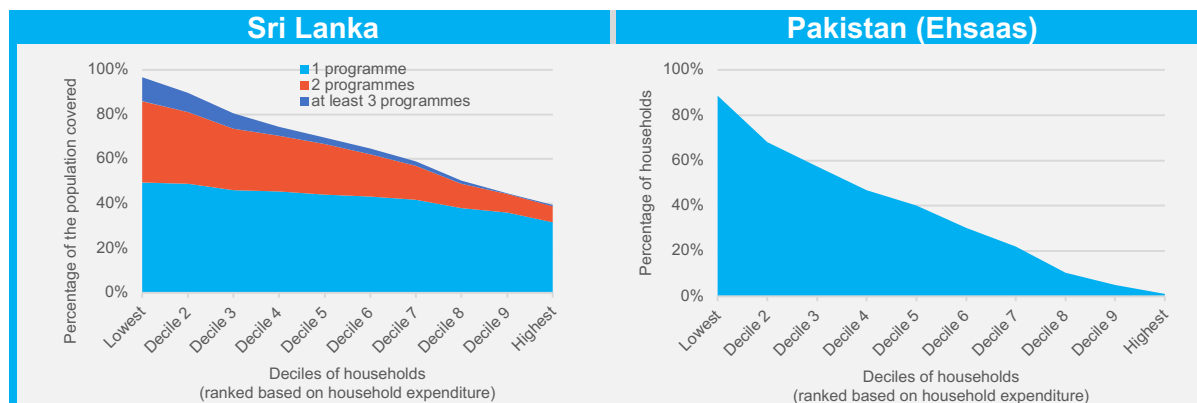
<sup>64</sup> Kidd, Moreira Daniels et al. (2020a) and Kidd, Sibun et al (2020).

<sup>65</sup> Analysis in this paragraph is taken from Kidd, Alim, Athias and Kidd (2020).

## 5 COVID-19 and the health and fiscal responses in the South Asia region

households, including those in the middle and higher end of the wealth distribution, are likely to have experienced significant income losses and will have moved into poorer deciles.

**Figure 5-3: Recipients of the COVID-19 support measures in Sri Lanka and Pakistan, across the welfare distribution<sup>66</sup>**



Source: Kidd, Moreira Daniels et al (2020a); Secondary analysis of Pakistan HIES 2016.

In addition to using existing poor relief schemes, a number of countries in South Asia have implemented new emergency schemes, reaching certain categories of workers or households who will receive support for a limited duration of time. Sri Lanka has implemented schemes reaching unemployed graduates, self-employed workers and pre-school teachers. Bhutan, the Maldives and India have similarly implemented new emergency schemes that provide income support to workers who have been affected by the crisis. Bangladesh is making a one-off payment to upto 5 million households living in poverty.

South Asian countries have, of course, provided other support measures, sometimes considerably more than the level of spending on cash benefits. 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.<sup>67</sup> 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 critically important that countries put in place fiscal responses that provide cash to families so that they spend it, thereby increasing national consumption. As a result, governments would be able to sustain markets for entrepreneurs, both large and small. Only supporting businesses, while not supporting the markets they sell into, may mean that many businesses fail even if they receive direct support from government. Therefore, much more needs to be done to put in place an adequate level of fiscal response which can mitigate the impacts of the COVID-19 crisis on both national economies and families. The following section looks at a feasible response for the South Asia region.

<sup>66</sup> To calculate coverage and impacts of the emergency programmes implemented by the Government of Sri Lanka and Government of Pakistan, eligible individuals and, by extension, their households, had to be identified in the dataset so that the effects of expanding existing or introducing new programmes could be simulated. To do this, the different criteria imposed by each scheme were considered to indicate an eligible individual and household. Due to a lack of updated information in terms of the extension of these programmes and top-up schemes, the additional benefits received by households is based on available information during April 2020 and may not reflect the information in Table 5-1, which has been updated to reflect government's social responses implemented up to July 2020.

<sup>67</sup> IMF (2020c) and Gentilini et al. (2020).

## 6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

Given the continuing need for South Asian countries to invest in large-scale fiscal stimulus packages and the challenges of using current social protection schemes, now is the time to examine whether alternative approaches to emergency social protection are both feasible and preferable. To be effective, alternative approaches should recognise that, even in a crisis, the basic rights of everyone to social security and a minimum standard of living – which are enshrined in both universal and regional human rights frameworks (see Box 4-1)<sup>68</sup> – need to be upheld. A rights-based investment in social protection requires Governments to push for the use of the maximum resources available and for a progressive realisation of the right to social security for all.

While the United Nations (2020) has called for universal transfers to be used as a response to the COVID-19 crisis – which reflects a long-standing commitment for all countries to build national social protection floors, in line with human rights principles and as set out in the Sustainable Development Goals<sup>69</sup> – other more surprising actors have also recognised that universal transfers are an appropriate response. For example, the IMF (2020b) has proposed that, in the context of South Asia, where social protection systems are small and fragmented, universal transfers should be considered. The IMF suggests that a universal basic income could be one option but, if this is regarded as too costly, countries could establish universal schemes that deliver benefits to categories of the population that are at greater risk of harm as a result of the COVID-19 crisis, such as children or older people. Further, the Global Director of Social Protection at the World Bank – an institution that has consistently advocated for poor relief in the South Asia region – has recently argued that countries worldwide now need to consider establishing universal social protection entitlements, with a particular focus on reaching the missing middle.<sup>70</sup>

In addition to being consistent with a human rights approach, universal benefits have a number of key advantages. They are relatively easy to establish since the criteria are very simple (although a disability benefit may be more challenging to design, since it would require some means of assessing disability<sup>71</sup>). They are a relatively easy means of reaching the vast majority of people affected by the COVID-19 crisis, including families with breadwinners working in both the formal and informal economies. And, importantly the criteria would be easily understood by the general population, who are likely to be in favour of prioritising those categories of the population regarded as more vulnerable. As a result, the lifecycle schemes would likely be popular.

Therefore, building on a previous paper that considered the potential for implementing emergency universal child benefits across the region, this paper examines a broader set of lifecycle schemes that would provide support not only to children but also to all older people

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<sup>68</sup> Including the following universal instruments: Universal Declaration of Human Rights articles 22, 25; International Covenant on Economic, Social and Cultural Rights articles 9, 10, 11; Convention on the Rights of the Child article 26; International Labour Organisation Social Protection Floors Recommendation, No. 202, and regional human rights instruments.

<sup>69</sup> Achieving universal social protection is front-and-centre in the Sustainable Development Agenda, as part of SDG 1 (End poverty in all its forms everywhere), and specifically Target 1.3: Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable, which, as demonstrated by international evidence, can only be achieved through universal transfers (Kidd and Athias 2019). Universal social protection is furthermore recognized as a key catalyzer of many other SDGs.

<sup>70</sup> Rutowski (2020).

<sup>71</sup> The extent to which countries in South Asia have disability assessment mechanisms varies, but most could be strengthened. If an emergency disability benefit were taken forward, it would be necessary to build on what countries already have in place to develop a disability assessment mechanism that could be used for the emergency response, which may be less than perfect, but good enough. If governments decide to establish permanent universal disability benefits, the next 6 months could be spent designing an improved assessment mechanism. This would include determining the eligibility criteria.

## 6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

and people with disabilities.<sup>72</sup> The analysis is undertaken using national household survey datasets from Bangladesh, India, Nepal, Pakistan and Sri Lanka. It assumes that the emergency benefits would be provided to the following categories of the population:

- **Emergency child benefit:** every child aged 0-17 years;
- **Emergency disability benefit:** every person with a disability aged 0-59 years, which the analysis assumes is three per cent of the population within the age group;<sup>73</sup> and,
- **Emergency old age pension:** every person aged 60 years and above. However, given that Nepal has a comprehensive old age pension already for everyone aged 70 years and above – providing a high value transfer<sup>74</sup> – it is assumed that, in Nepal, coverage is only for those aged 60-69 years.<sup>75</sup>

For the purpose of the analysis – and, in line with Martin Ravallion’s suggestion – the proposed package of emergency support is set at around two per cent of 2019 GDP in each country. This is also similar to the size of Timor Leste’s fiscal stimulus package, so should be considered as fiscally feasible.<sup>76</sup> Table 6-1 shows the value of each transfer and the total costs of each benefit over a period of six months. The values of the child benefits, when measured in terms of GDP per capita, are above the level of decent child benefits that are found across the world in normal times, which is around four to five per cent of GDP per capita. It is, though, higher in Nepal since, given the existence already of a universal old age pension, more can be invested in benefits for children. The values of the disability and old age benefits are more or less in line with, or higher than, the average offered by similar benefits, again in normal times, which is around 15 per cent of GDP per capita.

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<sup>72</sup> Kidd, Alim, Athias and Kidd (2020).

<sup>73</sup> The estimate of 3 per cent is based on the coverage within middle-income countries that have comprehensive disability benefits for children and the working age population, such as Uzbekistan and South Africa. See Kidd et al (2019). It is not possible to determine a priori the coverage using estimates of disability prevalence from within countries as they can vary greatly and are very sensitive to the type of questions asked and assumptions made in the analysis.

<sup>74</sup> Nepal provides universal old age pension coverage through a combination of a social pension and a civil service pension. The value of the social pension is R3,000 (US\$26.64) per month, which is the equivalent of 30 per cent of 2019 GDP per capita, one of the highest values in the world.

<sup>75</sup> Disability and old age benefits also exist in India, Pakistan and Sri Lanka, while there is a disability benefit in Nepal. However, they are very small in coverage and/or transfer values and provide minimal support to people with disabilities and older people. Therefore, unlike with Nepal’s pension – which is universal and provides a high transfer value – taking them into account would make almost no difference to the results in the analysis. Therefore, the analysis has assumed that the emergency programmes will be delivered in addition to the existing benefits.

<sup>76</sup> Timor Leste is providing a transfer of \$100 per month to almost all households in the country, over a period of 6 months.

6 *Alternative emergency, lifecycle universal social protection measures to protect the economy and families*

**Table 6-1: Potential emergency, universal lifecycle schemes to be delivered over 6 months**

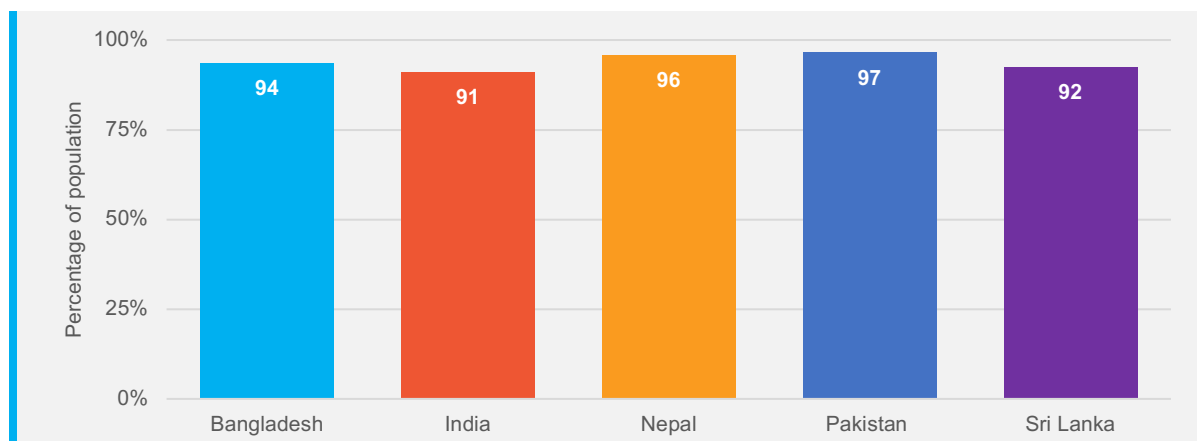
Benefit	Monthly transfer value (local currency)	Monthly transfer value (US\$)	Monthly transfer value (US\$ PPP)	Monthly transfer value (% of GDP per capita)	Cost (% of 2019 GDP)
<b>Bangladesh</b>					
Child Benefit	800	10	25	6%	0.9
Disability Benefit	3,000	36	95	22%	0.3
Old Age Pension	3,000	36	95	22%	0.9
<b>India</b>					
Child Benefit	700	9	33	5%	0.9
Disability Benefit	2,500	33	119	19%	0.3
Old Age Pension	2,500	33	119	19%	1.0
<b>Nepal</b>					
Child Benefit	700	6	22	7%	1.2
Disability Benefit	2,000	17	62	20%	0.3
Old Age Pension <sup>77</sup>	2,000	17	62	20%	0.5
<b>Pakistan</b>					
Child Benefit	800	5	22	5%	1.1
Disability Benefit	3,000	18	81	19%	0.3
Old Age Pension	3,000	18	81	19%	0.7
<b>Sri Lanka</b>					
Child Benefit	3,000	16	53	5%	0.7
Disability Benefit	9,000	49	160	15%	0.2
Old Age Pension	9,000	49	160	15%	1.2

As Figure 6-1 shows, the emergency lifecycle transfers would reach a very high proportion of the population as either direct or indirect recipients. Coverage would range between 91 per cent in India and 97 per cent in Pakistan. The only households missing out would be those comprising only working age adults without disabilities, who would be less likely to be vulnerable.

<sup>77</sup> As noted in the text, coverage is only for those aged 60-69 years. Some people aged 60-69 receive benefits in Nepal, including Dalit's, widows and people in Karnali Zone. However, as the NLSS 2010/11 does not enable the identification of these recipients, for the basis of the calculations, we have assumed that no-one does. In effect, therefore, we slightly over-estimate the budget required.

## 6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

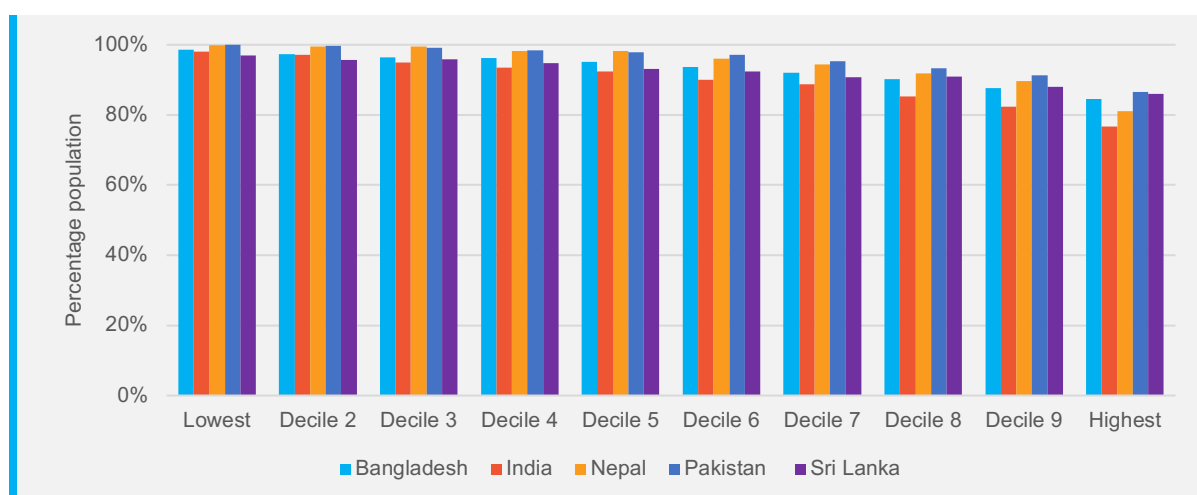
**Figure 6-1: Coverage of national populations by the emergency, lifecycle schemes (direct and indirect recipients)<sup>78</sup>**



Source: Secondary analysis of: Bangladesh HIES 2016, India IHDS 2012; Nepal NLSS 2010/11; Pakistan HIES 2016 and Sri Lanka HIES 2016.

Coverage in each country would be highest among those who were the poorest members of society prior to the COVID-19 crisis and lowest among those who were in the top 20 per cent of the population (see Figure 6-2). Importantly, those on middle incomes, who may well be among the hardest hit, will enjoy high coverage.

**Figure 6-2: Coverage of national populations across the welfare distribution by the emergency, lifecycle schemes (direct and indirect recipients)**



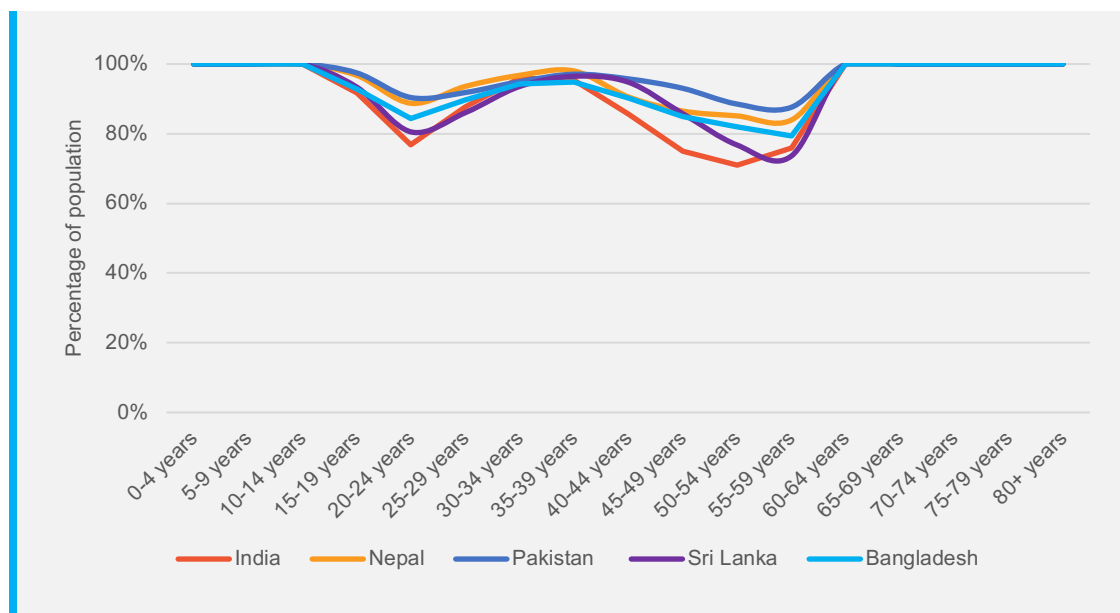
Source: Secondary analysis of: Bangladesh HIES 2016, India IHDS 2012; Nepal NLSS 2010/11; Pakistan HIES 2016 and Sri Lanka HIES 2016.

As indicated by Figure 6-3, coverage would also be high across all age groups. Due to the design of the schemes, coverage would be complete among children, older people and people with disabilities. However, the vast majority of the working age population without disabilities would be included as indirect recipients, with slightly lower coverage among those in their twenties and fifties, as they would be more likely to be living alone.

<sup>78</sup> In the case of Nepal, coverage includes the current old age pension.

6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

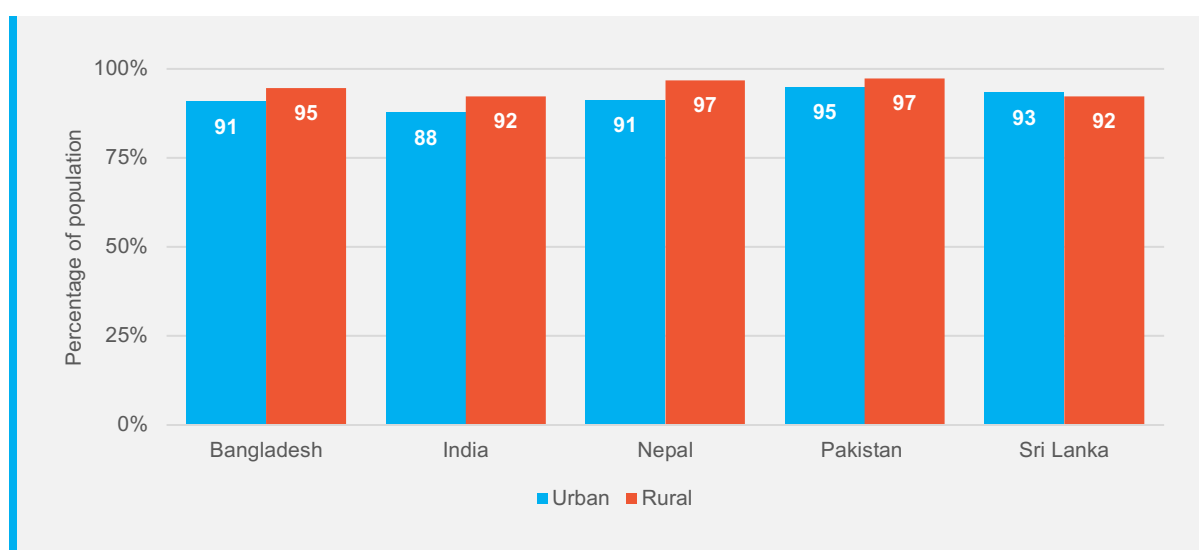
**Figure 6-3: Coverage of national populations across age groups by the emergency, lifecycle schemes (direct and indirect recipients)**



Source: Secondary analysis of: Bangladesh HIES 2016, India IHDS 2012; Nepal NLSS 2010/11; Pakistan HIES 2016 and Sri Lanka HIES 2016.

While the region’s poor relief schemes have higher coverage in rural areas compared to urban centres, geographic coverage with the lifecycle transfers would be much more even across each country. In fact, as Figure 6-4 shows, coverage would be above 90 per cent in both rural and urban areas (the only exception would be India, with 88 per cent coverage across its towns and cities). High coverage in urban areas is particularly important given that they are likely to be harder hit economically by the COVID-19 crisis and the risk of social unrest is higher.

**Figure 6-4: Coverage of national populations across urban and rural areas by the emergency, lifecycle schemes (direct and indirect recipients)**

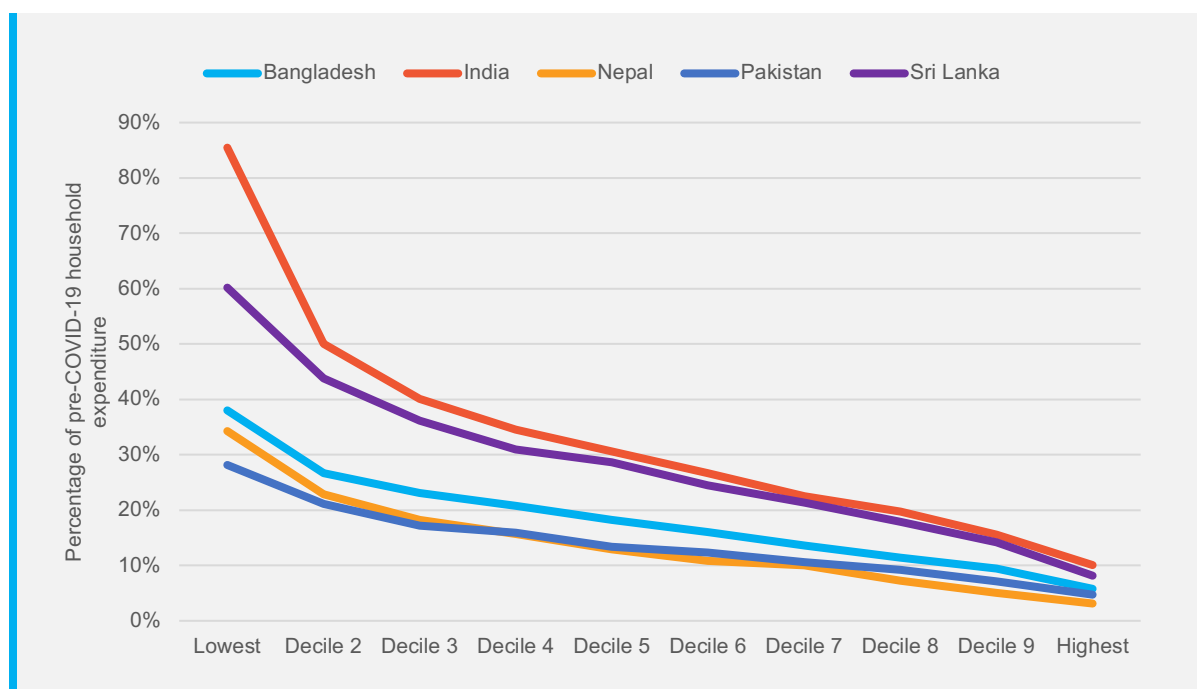


Source: Secondary analysis of: Bangladesh HIES 2016, India IHDS 2012; Nepal NLSS 2010/11; Pakistan HIES 2016 and Sri Lanka HIES 2016.

## 6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

If implemented well, the emergency lifecycle transfers would have a significant impact on household wellbeing. They would, on average provide recipient households with 35 per cent of pre-COVID-19 expenditures in India, 28 per cent in Sri Lanka, 19 per cent in Bangladesh, 15 per cent in Nepal and 14 per cent in Pakistan. As Figure 6-5 shows, those benefiting most when compared to their pre-COVID-19 situation would be those who were the poorest members of society prior to the crisis: among the poorest decile of the population, the proportion of pre-COVID-19 household expenditures would vary between 28 per cent in Pakistan and 85 per cent in India.

**Figure 6-5: Share of pre-COVID-19 monthly household expenditure that would be provided by the emergency, universal lifecycle schemes among recipient households<sup>79</sup>**



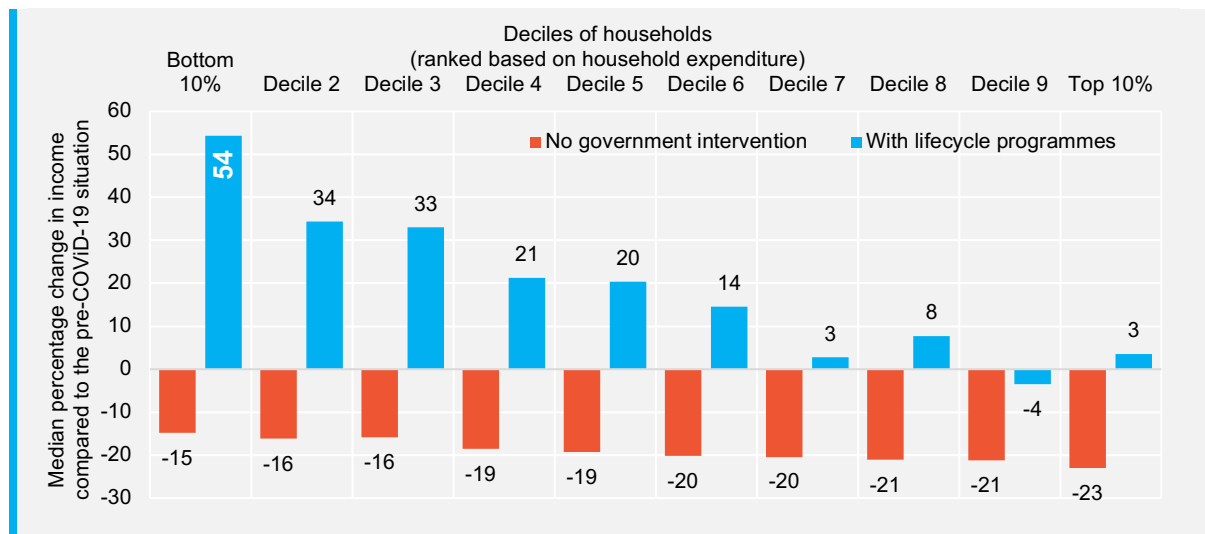
Source: Secondary analysis of: Bangladesh HIES 2016, India IHDS 2012; Nepal NLSS 2010/11; Pakistan HIES 2016 and Sri Lanka HIES 2016.

A more detailed analysis of the impacts of lifecycle transfers has been undertaken in Bangladesh and Sri Lanka, assessing the likely incomes of households in a post-COVID-19 scenario. Figure 6-6 indicates the impacts of COVID-19 on household incomes across the welfare distribution in Bangladesh, and predicts potential incomes if the proposed emergency lifecycle transfers were to be introduced. If the lifecycle programmes were implemented, across the bottom 80 per cent of the welfare distribution, incomes could recover to the levels they would have been if COVID 19 had not happened, with many households experiencing a significant improvement in incomes. On average, incomes would be 38 per cent higher when compared to a without COVID-19 scenario while they would be 54 per cent higher among the poorest 10 per cent of households.

<sup>79</sup> The analysis for Nepal only includes the expansion of the old age benefit for persons aged 60-69. It does not take into account the existing universal Old Age Allowance.

6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

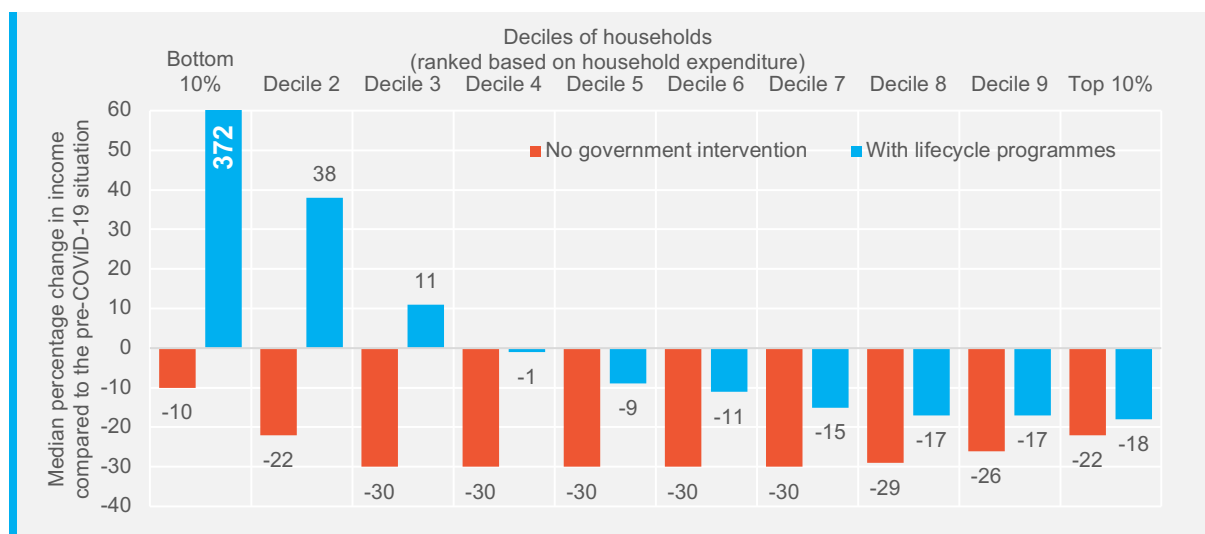
**Figure 6-6: Impacts of universal lifecycle transfers on household incomes across the pre-COVID welfare distribution in Bangladesh, comparing the post-COVID-19 scenario with the additional income offered by the lifecycle transfers**



Source: Kidd, Sibun et al (2020).

Similarly, Figure 6-7 shows predicted household incomes during the COVID-19 crisis across the welfare distribution in Sri Lanka and the potential incomes if the proposed emergency lifecycle transfers were introduced. It indicates that the lifecycle transfers would have a significant impact. Across the poorest 40 per cent of the population, on average families would have either almost recovered their pre-COVID-19 crisis incomes, or would be in a better position, with the poorest 10 per cent of the population being almost four times better-off. Among those on middle incomes, the income loss would be substantially reduced – for example from a 30 per cent loss among those in the 5<sup>th</sup> and 6<sup>th</sup> deciles as a result of COVID-19 to a 10 per cent loss if the schemes were introduced – while the lowest relative mitigation would be among the wealthiest. The lifecycle transfers would, therefore, be very pro-poor in the distribution of their benefits.

**Figure 6-7: Impacts of universal lifecycle transfers on household incomes across the pre-COVID welfare distribution in Sri Lanka, comparing the post-COVID-19 scenario with the additional income offered by the lifecycle transfers**

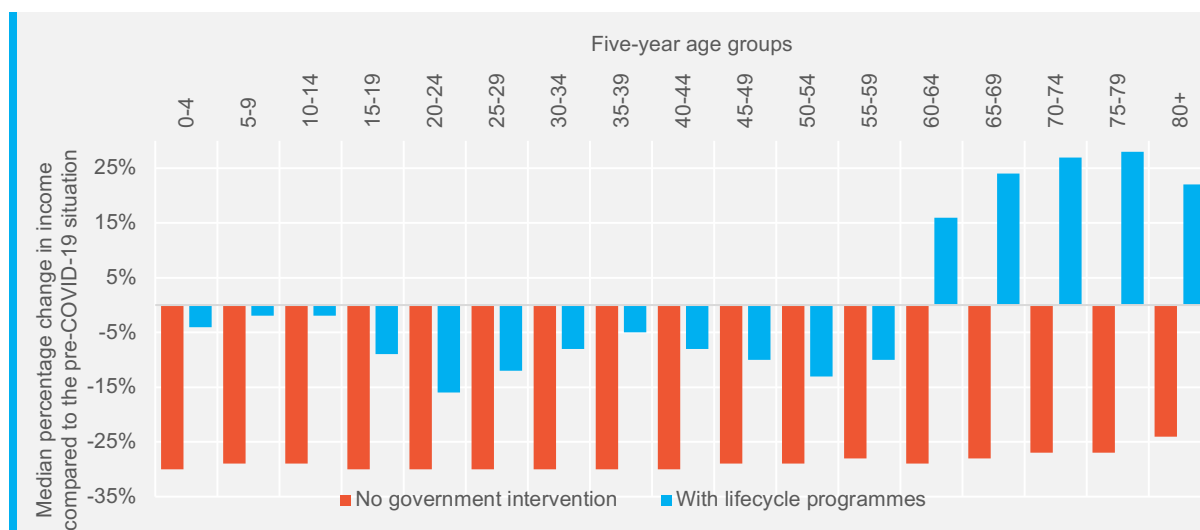


Source: Analysis undertaken of Sri Lanka's HIES for 2016.

## 6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

The impacts of the lifecycle transfers on families could be examined in other ways, such as across different age groups, as in Figure 6-8, which focuses on Sri Lanka. Older people would, on average be in a better position than they would have been if COVID-19 had not happened, while incomes among children would have almost returned to pre-crisis levels. Among people with disabilities, on average their incomes would be 30 per cent higher than prior to the crisis. Therefore, the impacts of the crisis would be almost entirely mitigated among many of the most vulnerable members of society.

**Figure 6-8: Impacts of universal lifecycle transfers on individual incomes across age groups in Sri Lanka, comparing the post-COVID-19 scenario with the additional income offered by the lifecycle transfers<sup>80</sup>**



Source: Analysis undertaken of Sri Lanka's HIES for 2016.

The emergency, universal lifecycle transfers would, therefore, guarantee the vast majority of families across South Asia a minimum level of monthly income. The amount received per household would vary, but the most vulnerable households with greater numbers of children, older people and persons with disabilities would tend to receive higher transfers. As a result, the nutrition of the most vulnerable members of society – in particular children, older people, people with disabilities and the sick – would be better protected. Importantly, the harm that is likely to be caused to child development if they experience undernutrition as a result of the COVID-19 crisis, should be mitigated. The home environments that could come under greater stress among families struggling to survive and feed themselves should improve, which should reduce the risk of domestic violence. Families will be less likely to draw down on their assets or take loans, thereby enabling them to recover more quickly from the crisis.<sup>81</sup> The support will be provided on a transparent and equal basis, with priority given to children, people with disabilities and older people.

Further, the transfers will also help stimulate economic growth by generating greater consumption, thereby fulfilling their role as a fiscal stimulus. Computable General Equilibrium (CGE) analysis undertaken by UNICEF in Sri Lanka suggests that the response by the Government in April and May of 2020 – at a cost of 0.33 per cent of GDP – would reduce the loss in economic growth from eight per cent to seven per cent, a very small improvement. However, as Figure 6-9 indicates, if an additional two per cent of GDP were

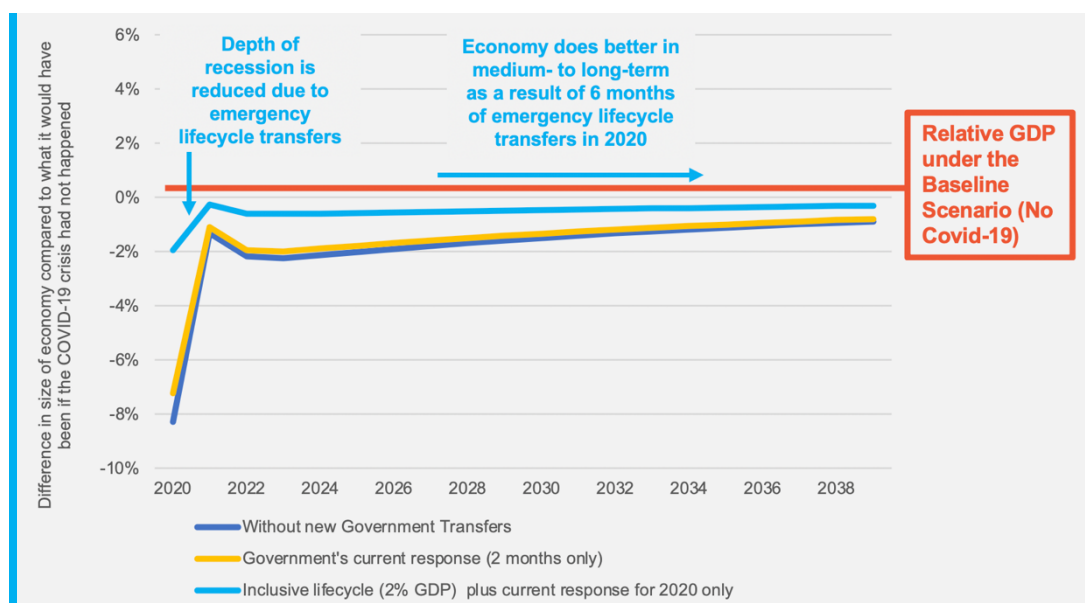
<sup>80</sup> Income for each individual is estimated by assuming that household income is shared equally among each household member.

<sup>81</sup> A number of studies have indicated that women may be less likely to be subjected to domestic violence if they are recipients of a cash benefit. See: Angelucci (2008); Handa et al. (2009); Hidrobo & Fernald (2013); Bastagli et al. (2016) and Baranov et al (2020). There is also good evidence that higher incomes and social security benefits reduce domestic violence. See WHO (2002).

## 6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

invested in lifecycle transfers over six months, the loss in economic growth would be reduced significantly to only two per cent, which would, in effect, mean that Sri Lanka would not fall into recession. Further, when the impacts are examined over time, the economy would continue to perform better up to 2038 when compared to a situation in which the Government does not respond any further.

**Figure 6-9: Simulated impacts of social protection transfers on economic growth in Sri Lanka – both current Government measures and six months of emergency lifecycle transfers – compared to what would have happened if COVID-19 had not occurred<sup>82</sup>**



Source: Bubbico et al. (2020).

Similarly, CGE analysis undertaken by UNICEF in Bangladesh indicates that an investment of two per cent of GDP in lifecycle transfers for six months would significantly mitigate the negative impacts of the COVID-19 crisis on the economy. Without any Government intervention, Bangladesh's economy could contract by 11.6 percentage points, resulting in a deficit of 3.4 per cent in GDP growth for 2020. With the lifecycle emergency transfers, the severity of the recession could be reduced by 46 per cent, reducing the economic growth deficit to 1.8 per cent for 2020.<sup>83</sup>

The emergency lifecycle transfers should also have an impact on employment, as illustrated by Figure 6-10. While employment would fall by almost 12 per cent in Sri Lanka if the Government did not provide any further fiscal stimulus, if the emergency lifecycle transfers were implemented, the fall would be only just over three per cent, a significant improvement. In future years, apart from 2021, the employment situation would always be better in Sri Lanka if the emergency lifecycle transfers were implemented than if the Government took no further action.<sup>84</sup> Analysis in Bangladesh similarly illustrates that the lifecycle transfers could save up to two million jobs, which would further significantly boost domestic demand and increase employment even more. A similar response could be expected elsewhere in South Asia.

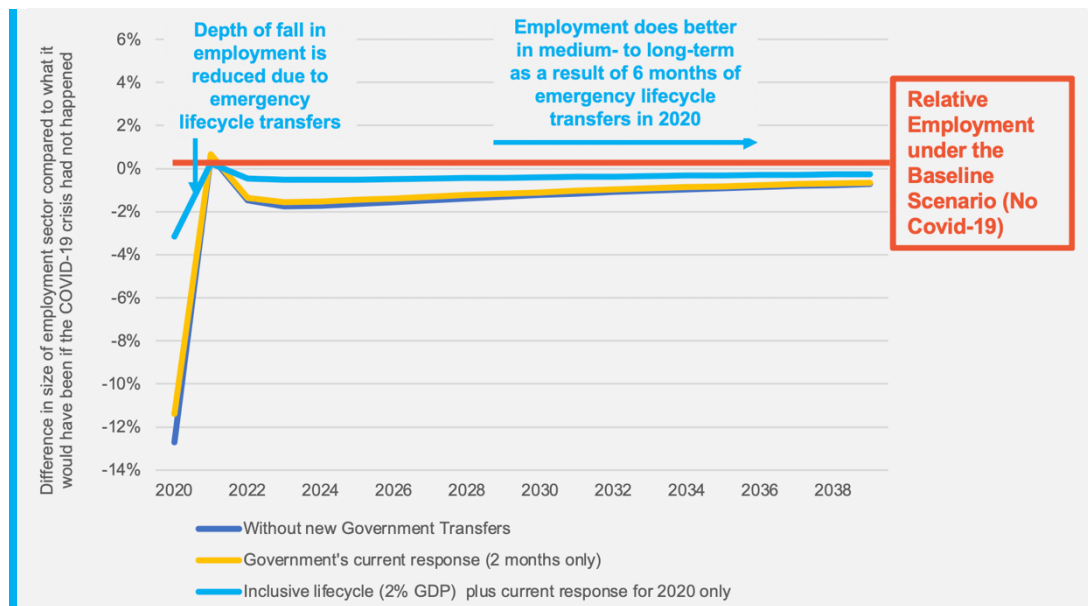
<sup>82</sup> The modelling assumes a 'pessimistic' scenario that lasts for 3 months. See Bubbico et al (2020) and Kidd, Moreira Daniel et al (2020a) for a more detailed explanation.

<sup>83</sup> Khondker and Gelders (2020).

<sup>84</sup> It is important to note that, while the CGE model predicts that, in 2021, rates employment would be similar under all scenarios, under the lifecycle transfers wages would be higher.

6 Alternative emergency, lifecycle universal social protection measures to protect the economy and families

Figure 6-10: Simulated impacts of social protection transfers on employment in Sri Lanka – both current Government measures and six months of emergency lifecycle transfers – compared to what would have happened if COVID-19 had not occurred<sup>85</sup>



Source: Bubicco et al (2020).

Overall, therefore, if governments of South Asia were to implement a further fiscal stimulus at a cost of two per cent of GDP, the positive impacts on family wellbeing and the national economy are likely to be significant. Given that the eligibility criteria of the emergency lifecycle schemes are easy to understand and the vast majority of families would benefit, if governments were to implement them, they are also likely to be very popular. And, because they would be a clear signal to citizens that their governments care for their them, they are likely to reduce the risk of social unrest and political instability.

<sup>85</sup> The modelling assumes a 'pessimistic' scenario that lasts for 3 months. See Kidd, Moreira Daniels et al (2020a) and Bubicco et al (2020) for a more detailed explanation.

## 7 Enabling the long-term recovery of South Asian economies through universal social protection

While it is critically important that South Asian countries implement immediate fiscal responses to lessen the economic shock during the COVID-19 crisis, it is also necessary to ensure the medium- and long-term recovery of their economies. Clearly a range of measures should be put in place but continuing with an expanded social protection system post-crisis is also necessary. Not only would this enhance individual and family wellbeing, it would generate greater consumption on a day-to-day basis, which will act as a permanent economic stimulus. Of course, this will depend on how the expansion of social protection is financed but, as long as it funded from additional taxation that would otherwise not have been spent on consumption – either because those taxed would have, for example, saved the money or sent it overseas – it will have a stimulus effect.

To be able to increase their investment in social protection, governments will need to invest in popular schemes, so that a broad consensus for higher taxation is built. The lack of popularity of poor relief schemes is a key reason for governments across the globe investing so little in them.<sup>86</sup> Therefore, one option for South Asian countries would be to continue with the same lifecycle schemes that are used in the emergency response, although initially they could be scaled back.

Figure 7-1 uses CGE modelling to show what the impact would be on economic growth in the long-term if Sri Lanka were to spend two per cent of GDP on its immediate fiscal response using emergency lifecycle transfers in 2020 and then scaling back investment to 1.5 per cent of GDP per year up to 2038. This would mean, in 2021, limiting the eligibility criteria for entry into schemes and also reducing the value of the transfers. One possible option is provided in Box 7-1. The CGE modelling estimates that the continuing investment in lifecycle social protection would result in the economy recovering to where it would have been without the COVID-19 crisis by 2021. By 2030, the economy will be around four per cent larger than if no further fiscal stimulus is implemented by the Government. In reality, the impacts on economic growth are likely to be higher, since the CGE model only examines the effect of greater consumption and demand. Yet, there is good international evidence that well-designed social protection impacts on economic growth in a range of other ways such as by strengthening the development of a nation's human capital, encouraging

### Box 7-1: Potential options for a lifecycle social protection system in Sri Lanka, beginning in 2021

If the Government of Sri Lanka were committed to investing around 1.5 per cent of GDP in a universal lifecycle social protection system in 2021, one option would comprise:

- A child benefit of LKR2,500 (US\$13.20) per month for all 0-8 year olds;
- A disability benefit of LKR5,800 (US\$30.50) per month for every disabled person aged 0-69 years; and,
- An old age pension of LKR5,800 (US\$30.50) per month for everyone aged 70 years and above.

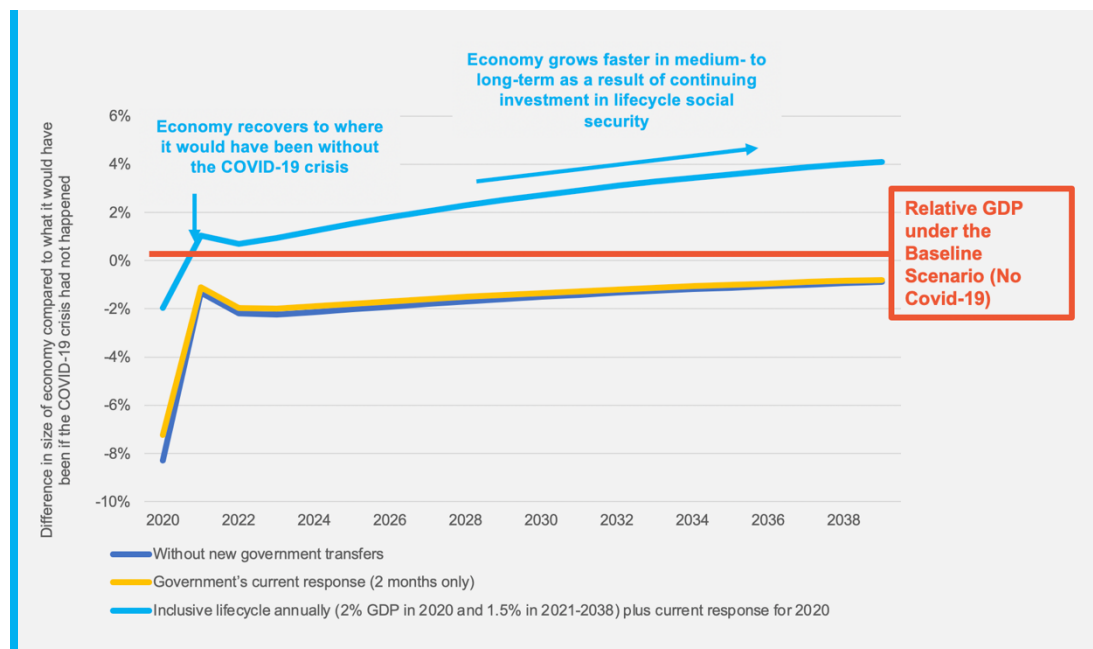
While the simulations in Figure 7-1 and Figure 7-2 assume that the social protection system with these characteristics will continue indefinitely, of course the Government could choose to expand the system further in future years, gaining even greater economic, social and political benefits. For example, a recent UNICEF paper shows how a universal child benefit could grow over time, starting with children aged 0-5 or 0-10 years, to eventually reach all children aged 0-17 years (Kidd, Moreira Daniels et al 2020b). And, of course, other components of a lifecycle system could be gradually introduced, such as unemployment, maternity, sickness and caregivers' benefits.

<sup>86</sup> See Kidd (2015) for a further explanation on why governments invest so little in poor relief schemes.

## 7 Enabling the long-term recovery of the South Asian economies through universal social protection

entrepreneurs to take more risks, facilitating higher employment and building a more attractive investment climate.

**Figure 7-1: Simulated impacts of social protection transfers on economic growth in Sri Lanka comparing Government measures – with six months of emergency lifecycle transfers plus additional investment of 1.5 per cent of GDP per year – with what would have happened if COVID-19 had not occurred<sup>87</sup>**



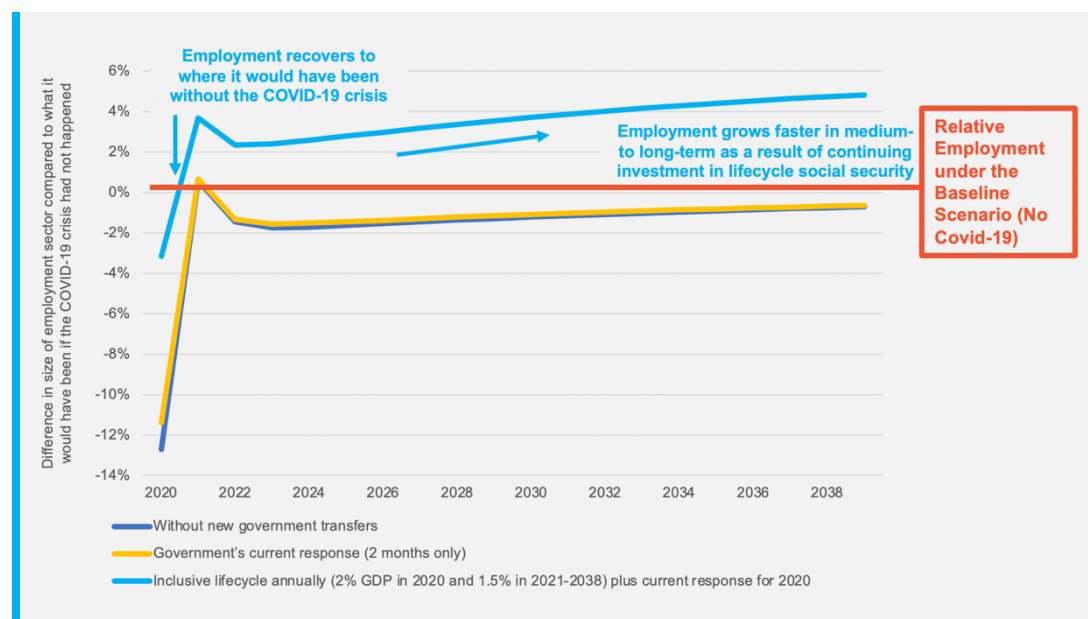
Source: Bubicco et al (2020).

The CGE modelling indicates that investing in universal lifecycle transfers will also increase employment. As Figure 7-2 shows, with an additional investment of 1.5 per cent of GDP per year, employment in Sri Lanka would be higher in 2021 than it would have been if the COVID-19 crisis had not happened and would continue to grow. By 2038, it would be around five per cent higher than a situation in which the Government of Sri Lanka chooses not to invest further in a fiscal response.

<sup>87</sup> The modelling assumes a 'pessimistic' scenario that lasts for 3 months. See Kidd, Moreira Daniels et al (2020a) and Bubicco et al (2020) for a more detailed explanation.

## 7 Enabling the long-term recovery of the South Asian economies through universal social protection

**Figure 7-2: Simulated impacts of social protection transfers on employment in Sri Lanka comparing current Government measures – with six months of emergency lifecycle transfers plus additional investment of 1.5 per cent of GDP per year – with what would have happened if COVID-19 had not occurred<sup>88</sup>**



Source: Bubicco et al (2020).

If the governments of South Asia were to expand social protection in the long-term to establish modern, universal social protection systems, they are likely to gain the same rewards as those predicted for Sri Lanka. In fact, the benefits would be much greater: family wellbeing would increase; child development would be enhanced; individuals would be able to live more dignified lives, in particular older people and people with disabilities; and, the social contract would be strengthened, with further political rewards for governments implementing this type of social protection system.

<sup>8888</sup> The modelling assumes a 'pessimistic' scenario that lasts for 3 months. See Kidd, Moreira Daniels et al (2020a) and Bubicco et al (2020) for a more detailed explanation.

## 8 Financing emergency, lifecycle social protection transfers

While it is relatively easy to make proposals on expanding the social protection sector during the COVID-19 crisis, it is also important to consider how such an expansion could be financed. It is also critical to move beyond the – usually incorrect – claim that ‘there is no fiscal space’ which is commonly used as an argument against investing in universal social protection. This would be a dangerous argument during COVID-19 given the large-scale economic collapse that countries are facing and the absolute necessity for much larger fiscal responses across South Asia if economies are to be saved and families protected. As discussed earlier, high-income countries are doing whatever it takes to save their economies and South Asian countries need to move forward in a similar manner. Therefore, innovative thinking is required by the governments of South Asian countries to be able to find the fiscal space that they require, given their low tax to GDP ratios and current challenging financial circumstances. It is also important to remember that investing in a fiscal response during COVID-19 is a human rights obligation, since it is essential to ensure that everyone attains an adequate standard of living and, minimally, are guaranteed not to experience hunger, even during a crisis.

The potential options for financing a fiscal response will vary between countries according to their circumstances. However, options that could be examined include the following:

- **Quantitative easing** – or, in other words, “creating new money” – over a short period of time could be attempted. The extent to which countries can do this will need to be carefully assessed since it may trigger a fall in the value of currencies on the international exchange markets and provoke inflation that is too high. However, the risk of higher inflation, initially, is minimal given the overall fall in the prices of consumer goods as a result of COVID-19. Nonetheless, if quantitative easing is adopted, there would need to be a careful macro-surveillance of its impacts.
- **Re-allocating government spending** from inefficient areas to the stimulus package should be a high priority. An examination of each budget item should be undertaken to determine whether they are delivering value for money in the current context or whether they could be better invested in a fiscal stimulus. Countries should, in particular, focus on subsidies that may not be well-targeted. Fuel subsidies, for example, tend to disproportionately benefit the wealthy and, therefore, are difficult to remove. However, if savings could be re-allocated to a more equitable form of social protection, such as the universal lifecycle schemes proposed in this paper, this should strengthen popular support for reform. Further, given the challenges of climate change, countries may wish to consider moving to a position of taxing fuel to create appropriate incentives to reduce its use and replace it with more sustainable forms of energy creation.
- Countries should **consider tax increases** on those who have been least affected by the crisis and who are not using their surplus incomes or wealth to generate greater consumption (as a result of, for example, increasing their savings or sending their wealth overseas). This is in line with proposals from both the IMF (2020a) and OECD (2020) which have argued that higher income taxes on the wealthy should be understood as ‘solidarity surcharges.’ A recent study found that a progressive wealth tax on four per cent of India’s wealthiest households could present the government with fiscal resources equivalent to 1 per cent of India’s GDP, which could be used to help finance lifecycle transfers.<sup>89</sup> Since income tax increases would only affect those

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<sup>89</sup> Subramanian (16 April, 2020) based on Landais et al (3 April, 2020).

who still have jobs and earn above the minimum required to be taxed, it would be a means of asking those suffering the least from the crisis to help those suffering the most. Further, if income tax increases are invested in lifecycle benefits, the vast majority of the population is likely to end up as net beneficiaries. So, while increases in income tax may provoke a negative reaction among some, this would be mitigated by the popularity of the measures across the vast majority of the population. It should be borne in mind that, across South Asia, the income tax rates on the wealthy are low – at between 18 and 30 per cent – and there is room for sensible increases.

- In the context of ‘solidarity surcharges,’ **one-off wealth taxes or permanent increases to taxes on property ownership** could also be considered so that those with the broadest shoulders are given the opportunity to support the majority of the population at a time of great need. If these taxes help reduce social unrest, those who pay the tax will find that it is money well-spent.
- **Innovative tax revenue options** could be explored, such as on the digital economy, inheritance taxes as well as expanding so-called ‘sin taxes’ on tobacco, alcohol and gambling.
- Much more should be done to **stop illicit financial flows overseas** while enhancing the capacity of the tax system to seek out hidden wealth.
- Governments could seek short-term **debt moratoriums followed by medium to long term debt restructuring/re-scheduling** that would free fiscal space to invest in protecting the population through social protection. As Nobel laureate economist Joseph Stiglitz argues, this should include a grace period for growth, lower interest rates, a change in the maturity and a reduction in the principal.<sup>90</sup> If countries were to use their savings to expand their social protection fiscal responses, it would be easier for them to repay their debts in the medium- to long-term (see below). For example, Sri Lanka’s total debt service (not interest) currently comprises half of national expenditure. Therefore, a deferral of only six months on half the national debt, for example, could potentially generate 1.5 per cent of GDP of fiscal space, which would be sufficient to pay for 4.5 months of the lifecycle transfers proposed in this paper.
- The options for further **loans from international financial agencies** such as the International Monetary Fund (beyond the Rapid Financing Instrument), Asian Development Bank, World Bank and bilateral donors could be examined. The availability of grants from bilateral donors is likely to be limited, although donor countries that benefit from the products and services provided by South Asia countries should consider offering support, not only as a mark of solidarity but also self-interest so that the products and services enjoyed by their citizens continue.
- Countries may be able to access **additional loans on the international markets** although, for South Asian countries 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 South Asian countries to sell **bonds and gilts** at competitive rates to national investors. 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 the economy – and, therefore, government revenues – shrink, an increase in the national gross debt is inevitable, even if further loans to pay for the stimulus package are not taken. In the medium- to long-term, of course, as Figure 8-1 illustrates, the best means of reducing national debt is through economic growth. If a stimulus package is financed, at least in part,

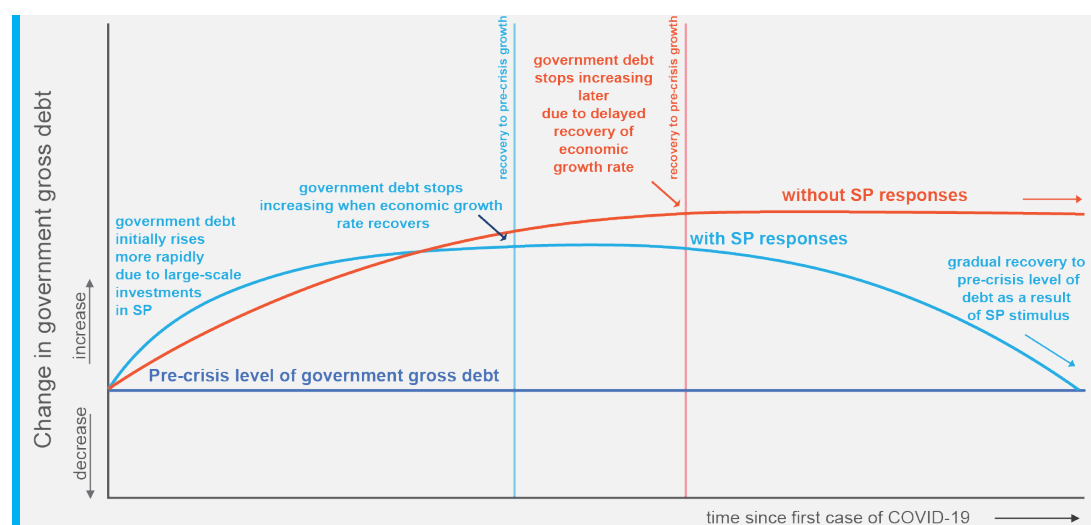
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<sup>90</sup> Stiglitz (2020).

## 8 Financing emergency, lifecycle social protection transfers

through loans, a government's gross debt is likely, at first, to expand more than without the stimulus, which may make governments wary of taking on more debt. However, over time, due to the higher revenues that would derive from the effects of the stimulus package, one possible outcome is that the level of government debt could end up being lower with the stimulus package than if no action is taken. Indeed, as indicated earlier, if there is increased social security investment after the crisis which drives further growth, the level of debt could fall even more quickly. Therefore, over time, by spending on a stimulus package during the crisis, countries may well find themselves in stronger financial position in the medium to long-term.

**Figure 8-1: Potential impacts of COVID-19 on government gross debt, with and without a stimulus package**



Source: Authors' creation.

In reality, a social protection system offering good quality, universal lifecycle transfers is likely to be highly popular and should strengthen the national social contract. If the majority of citizens receive regular and predictable transfers, they are likely to be more willing to pay higher taxes.<sup>91</sup> This was a key component of Europe's economic and social success, following the shock of the Second World War. By investing in high quality universal services, including social protection, the social contract in Europe was strengthened and tax revenues increased significantly, which, in turn, enabled further investments in popular public services, creating a virtuous circle of ever-improving public services and higher government revenues, alongside successful economies.

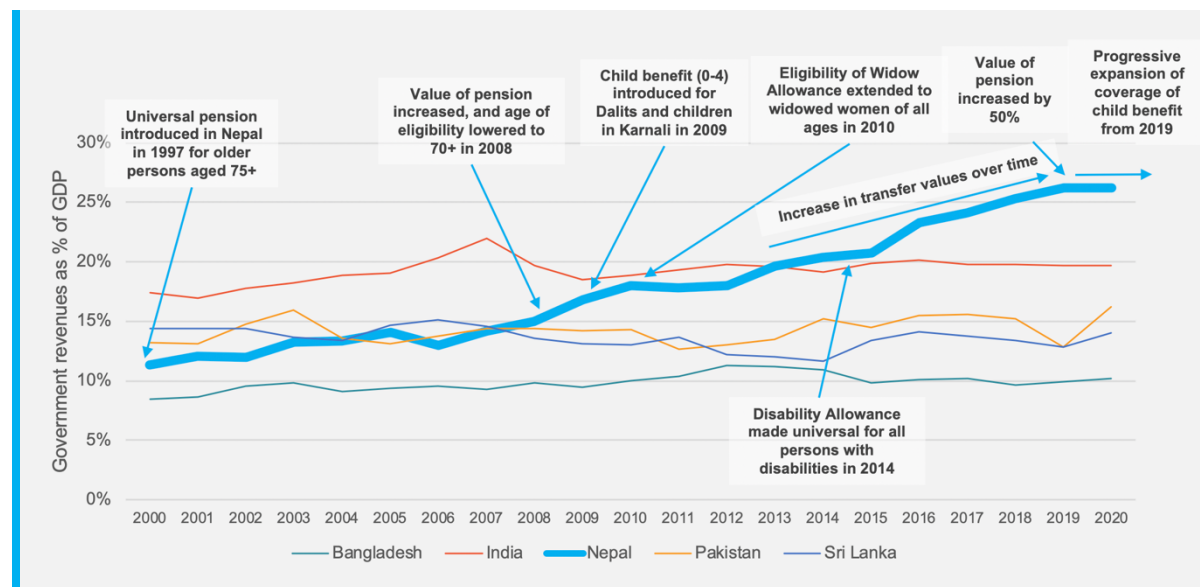
It may be no coincidence that Nepal is the only country in the Indian sub-continent to provide universal social protection and also the only one to have enjoyed a significant increase in government revenues, which have doubled in the past 20 years, despite Nepal also being the poorest country in the region. While it is not yet possible to demonstrate causality, Figure 8-2 shows the changes in government revenues over time in Bangladesh, India, Nepal, Pakistan and Sri Lanka alongside the main innovations in Nepal's universal social protection system. If other South Asian countries were to enjoy higher government revenues as a result of investing in universal social protection and strengthening the social contract, this would make it even easier to pay off their gross national debts and, over time, further enhance the quality of all public services, with countries creating their own virtuous circles. Indeed, if

<sup>91</sup> See Kidd (2015) for a more in-depth explanation.

## 8 Financing emergency, lifecycle social protection transfers

countries are to be able to provide decent services to their citizens, they will probably need to grow their revenues to at least 30 per cent of GDP.

**Figure 8-2: Government revenues across 5 countries in South Asia over time, alongside the main innovations in Nepal's universal social protection system**



Source: Based on data collected from IMF WEO April 2019.

As described earlier, the IMF (2020a) has highlighted a danger that the COVID-19 crisis may generate social unrest and political instability. There is an important rationale to continue investing in social protection as a means of fostering a stronger social contract and enhancing social cohesion, placing human dignity at the core of this relationship. Therefore, in light of the pandemic – and the universal health and economic crisis – investing in social protection should be considered to be a contribution to the safety and security of citizens, and a key intervention to avoid the escalation of social unrest. However, whereas investments in defence budgets range from 1.2 per cent of GDP in 2019 in Afghanistan to four per cent in Pakistan, as indicated earlier, expenditures on core tax-financed social protection transfers across South Asia amount to less than 0.5 per cent of GDP in most countries, with the exception of Nepal (1.7 per cent) and the Maldives (1.5 per cent).<sup>92</sup> With greater investments in social protection leading to more peaceful societies, it is likely that countries will be able to reduce their spending on defence, security and public order institutions and re-direct the savings to universal public services.

<sup>92</sup> Stockholm International Peace Research Institute (SIPRI) Military Expenditure Database. Retrieved from: <https://www.sipri.org/databases/milex>

## 9 Conclusion

The COVID-19 pandemic is an unprecedented global crisis and has caused immense harm across South Asia, and will continue to do so for some time. Economic growth has collapsed while the majority of families are suffering from falls in their incomes, some of them catastrophic. There is a real danger that the human development gains of recent decades may be lost, alongside widespread increases in poverty. The greatest harm is likely to be experienced by the most vulnerable members of society, including children, people with disabilities and older people. The risk of social unrest and political instability will grow, the longer the crisis continues.

It is, therefore, urgent that the governments of the region follow the example of many other countries and establish effective fiscal responses – using social protection transfers – that protect both markets and family wellbeing. Not only does this make economic sense but is a human rights obligation. Unfortunately, the fiscal responses to date by countries in the South Asia region have been inadequate: they will provide neither the required level of economic stimulus nor sufficient protection to families.

There is a solution if governments are willing to grasp it. As suggested by the IMF, World Bank and United Nations, South Asia could follow the example of high-income countries and do ‘whatever it takes’ to protect their economies and populations. They could invest in a massive expansion of their social protection systems by offering universal lifecycle benefits to all children, older people and people with disabilities alongside a set of broader support mechanisms that address unemployment, support businesses (particularly SMEs) and protect health. Timor Leste – which is investing two per cent of GDP in its fiscal response via (almost) universal transfers – shows what is possible for low- and middle-income countries in Asia.

A key advantage of universal lifecycle transfers is that their simple design means that they are relatively easy to implement during an emergency and would directly reach the most vulnerable members of society. They would be regarded by national populations as fair while their eligibility criteria would be easy to understand. They would also be very popular and governments choosing to put them in place would enjoy the political rewards. The argument that ‘there is no fiscal space’ for the introduction of universal benefits is not one that should be deployed at present: rather, the brightest minds in the region should focus their efforts on finding the necessary finance. If not, potentially an economic and social catastrophe awaits.

Finally, the COVID-19 crisis demonstrates the weaknesses of the region’s national social protection systems. In reality, most South Asian countries have systems that replicate those that high-income countries had in place over a hundred years ago. Now is the time for social protection in South Asia to move into the 21<sup>st</sup> Century with systems that are appropriate for ambitious, middle-income countries. Not only will this offer South Asians – the majority of whom live on low incomes – much-needed access to income support, it should play a major role in strengthening the social contract. If governments in the region promise their people universal social protection, and they receive a high quality service, trust in government should strengthen, resulting in a greater willingness for people to accept being taxed. By creating a virtuous circle of higher quality public services and higher government revenues, South Asia could be transformed. And, of course, if a universal social protection system were in place, the region would be much better prepared to respond to further crises on the scale of COVID-19. It is noticeable that the poorest country in the region, Nepal, seems to be on a different path to most other countries in South Asia regarding its commitment to building a more modern, universal social protection system, although there is still much to do. It is an example that the richer countries in the region could do well to follow.

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## Annex 1 Measures taken into account by the Stringency Index

Annex Table 1: Government measures implemented in response to COVID-19, as of 30<sup>th</sup> March

Government response	Afghanistan	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
School closing	Require closing (all levels)	Require closing (all levels)	Require closing (all levels)	Require closing (all levels)	Require closing (all levels)	Require closing (all levels)	Require closing (all levels)
Workplace closing	Require closing all but essential	Require closing all but essential	Require closing some sectors	Require closing some sectors	Require closing all but essential	Require closing all but essential	Require closing all but essential
Cancel public events	Required	Required	Recommended	Recommended	Required	Required	Required
Restrictions on gatherings	No restrictions	Restrictions on gatherings of fewer than 10 people	Restrictions on gatherings of fewer than 10 people	Restrictions on gatherings of fewer than 10 people	Restrictions on gatherings of fewer than 10 people	Restrictions on gatherings of fewer than 10 people	Restrictions on gatherings of fewer than 10 people
Close public transport	Required	Required	Recommended	Recommended	Required	Required	Required
Stay at home requirements	Required with exceptions	Recommend staying home	No measures	No measures	Required with exceptions	Required with exceptions	Total confinement
Restrictions on internal movement	Recommended	Required	Required	Required	Required	Required	Required
International travel controls	Screening	Quarantine	Border closure	Border closure	Border closure	Border closure	Border closure
Income support	No income support	No income support	No income support	No income support	<50% lost income	No income support	No income support
Debt/contract relief	None	Narrow	None	None	Broad	None	None
Fiscal measures	Yes	Yes	Yes	Yes	Yes	Yes	Yes
International support	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Public information campaigns	Coordinated public campaign	Coordinated public campaign	Coordinated public campaign	Coordinated public campaign	Coordinated public campaign	Coordinated public campaign	Coordinated public campaign
Testing policy	Symptomatic & eligible	Anyone symptomatic	Symptomatic & eligible	Symptomatic & eligible	Symptomatic & eligible	Symptomatic & eligible	Symptomatic & eligible
Contact tracing	Limited	Limited	Comprehensive	Comprehensive	Comprehensive	Limited	Comprehensive
Emergency investment in health care	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Investment in vaccines	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Stringency index</b>	<b>62.04</b>	<b>84.26</b>	<b>74.07</b>	<b>100</b>	<b>96.3</b>	<b>96.3</b>	<b>100</b>

Source: University of Oxford's Government Response Stringency Index. Retrieved from: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-trac>

For further information, please contact:

**UNICEF Regional Office for South Asia**

Leknath Marg

Kathmandu

Nepal

Tel: +977-1-4417082

Fax: +977-1-4418466

Web: [www.unicef.org/rosa](http://www.unicef.org/rosa)

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