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Diverse ways to build social protection?

Lessons from the breadth of emergency social policy responses around the world

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The unprecedented shock brought about by the Covid-19 pandemic and its potential effect on poverty, pushed for an expansion in the social policy response frontier. Although it is still early to assert whether the magnitude of the response was sufficient, let alone effective, most countries were able to rapidly expand social protection and assistance using diverse tools. Has this unprecedented response been only a temporary reaction, or will it pave the way to building stronger, more inclusive social protection systems? Can these systems take diverse forms given the local contexts and constraints; or are universal systems, rooted in complex institutional arrangements, the final benchmark to which developing countries should aspire?

This brief examines the social policy responses aimed at protecting income and job losses implemented amidst the pandemic. A rich dataset has been exploited to characterize the breadth of countries' policy responses by building an index that reflects the diversity of policies implemented, amongst all those available, in terms of social assistance, social insurance, and the labour market. This analysis offers a qualitative approach on whether governments' actions were comprehensive or narrow, conditional on the fiscal efforts and the stringency of the containment measures. There are three key insights from this analysis. First, even when social protection systems are highly conditioned by the income level of each country, all countries resorted to the social assistance dimension of social protection. Second, even in the presence of new social assistance measures, most developed countries also relied on social insurance and labour market policies. Finally, social protection systems should be continuously strengthened, especially in case more stringent measures are required due to the current and future threats to public health.

The impact of the Covid-19 pandemic on social protection

The pandemic has threatened years of progress in global poverty reduction.[2] Estimates of the impact of Covid-19 on extreme poverty in 2020 suggest that under different assumptions about the distributional impact of the crisis, between 119 and 168 million people could have been pushed into extreme poverty.[3] These estimates show the severe stress that the pandemic has posed on social protection systems.

To what extent should social protection be transformed worldwide to face the threats of the pandemic on jobs and income losses? The UN Secretary-General has pointed to integration and investments into national policies and strategies, international cooperation in initiatives, such as the recently launched Global Accelerator for Jobs and Social Protection, and a comprehensive financial architecture, as key components for a job-rich and inclusive green recovery.[4] The urgency of these transformations has positioned the current social protection reform efforts “at the crossroads” according to the International Labour Organization (ILO).[5]

Countries’ reactions to the crisis can be divided into two dimensions: the breadth of their responses and the depth in terms of fiscal resource allocations. This brief innovates by building a “social response breadth index” as a proxy of the breadth of the instruments targeted at jobs or income support used by governments to face the social consequences of the pandemic.

The index is based on the measures surveyed by Gentilini et al. (2021)[6] in an extensive database that reviews and classifies more than 3,000 social policy initiatives in more than 180 countries and territories. The index comprises three dimensions: (i) social assistance, (ii) social insurance, and (iii) labour market (figure 1).

Figure 1: Dimensions and categories of social response (Gentilini et al., 2021)

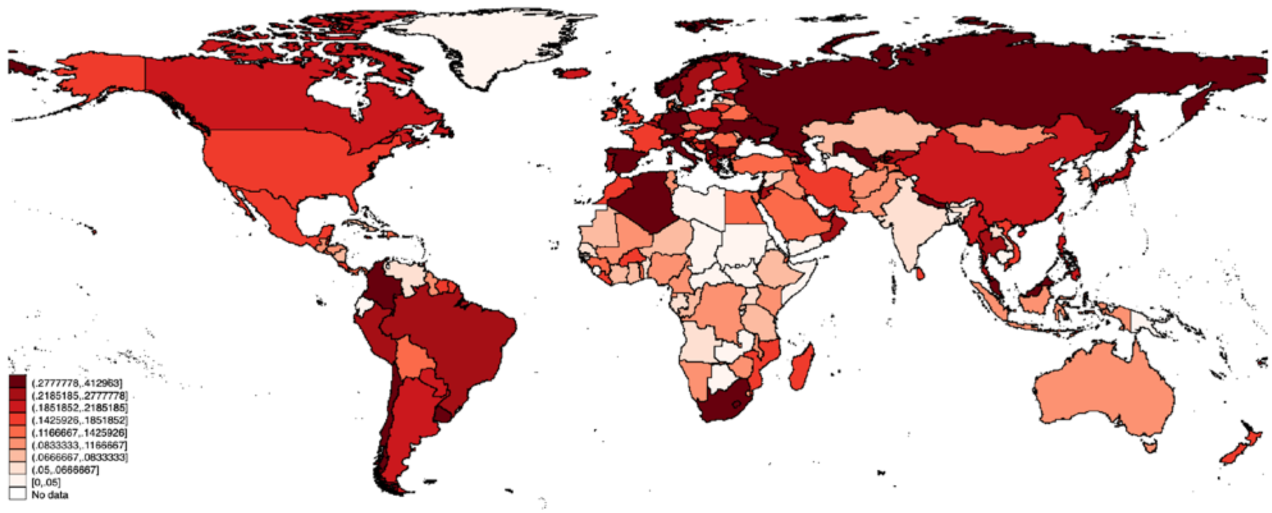
Each dimension is divided into categories comprising 42 subcategories of different kinds of measures.[7] Policies under each grouping are not always elements of the exact same kind: some are fiscal, some are regulatory, some are contributory, some depend on the law, others depend on the strength of the fiscal system, etc. However, the index is built to grasp the amplitude of the response. The index varies between zero (no measures taken) and 0.41 (job or income support measures taken in 41% of the universe of subcategories of response).

The index was not rescaled between 0 and 1 to keep its interpretation as a fraction of the available tools used by governments. Higher values imply that the country resorted to a more extensive set of social protection instruments. The breadth of policy responses will also be analysed in this brief alongside the fiscal efforts made by countries,[8] the stringency of lockdown measures[9] and the necessary resources to fund a temporary basic income (TBI)[10] that could have completely offset the increase in poverty due to the pandemic.

Only developed countries could resort to a broad set of instruments

The index varies widely amongst countries and regions (figure 2). Western European and South American countries, constituted mostly by upper-middle-income (UMIC) and high-income countries (HIC), are the regions where the breadth of social policy responses was greatest. This was followed by Asia, North and Central America, and then Oceania, where the spread of the virus was rapidly contained in some countries, especially in Australia and New Zealand. Finally, the African continent, mostly integrated by low-income (LIC) and low-middle-income countries (LMIC), accounts for the least use of a wide range of social protection tools. It is worth noting that higher values do not represent the efficacy of each country's policies to mitigate the social impact of Covid-19. It is an index of the diversity of tools adopted by governments to alleviate the social consequences of Covid-19.

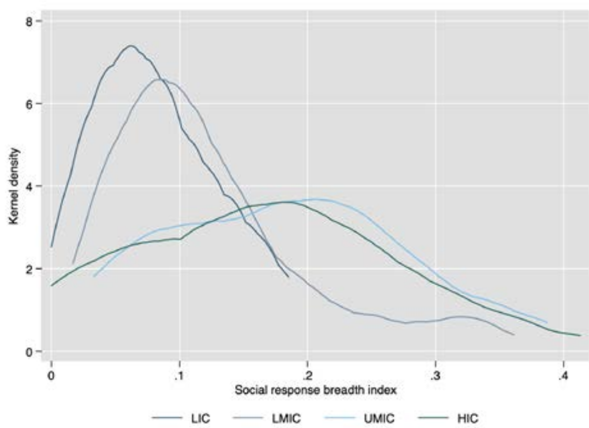
Figure 2: Social response breadth index



Source: Own estimates based on Gentilini et al.'s (2021) social protection database.

The distribution of the index across income groups suggests three findings (figure 3). First, in general, the richer the country, the broader the types of social policy instruments to which they could resort. The most relevant divide seems to be between LIC and LMIC *vs* UMIC and HIC. None of the LIC and LMIC could resort to a response as ample as the average breadth response in UMIC and HIC. Second, the variance of the response breadth in UMIC and HIC is higher. This fact probably accounts for the pre-existing variance in the characteristics of the prevailing safety nets for this group of countries compared with LIC and LMIC, especially in HIC where safety nets are usually extensively developed. Third, in HIC the number of instruments slightly curves down (the average breadth of the response is lower in HIC than in UMIC). This might reflect their ability to concentrate efforts during the emergency on policy instruments that were already in place, for example, existing safety nets like unemployment benefits.

Figure 3: Social response breadth index (kernel distribution) by group of income

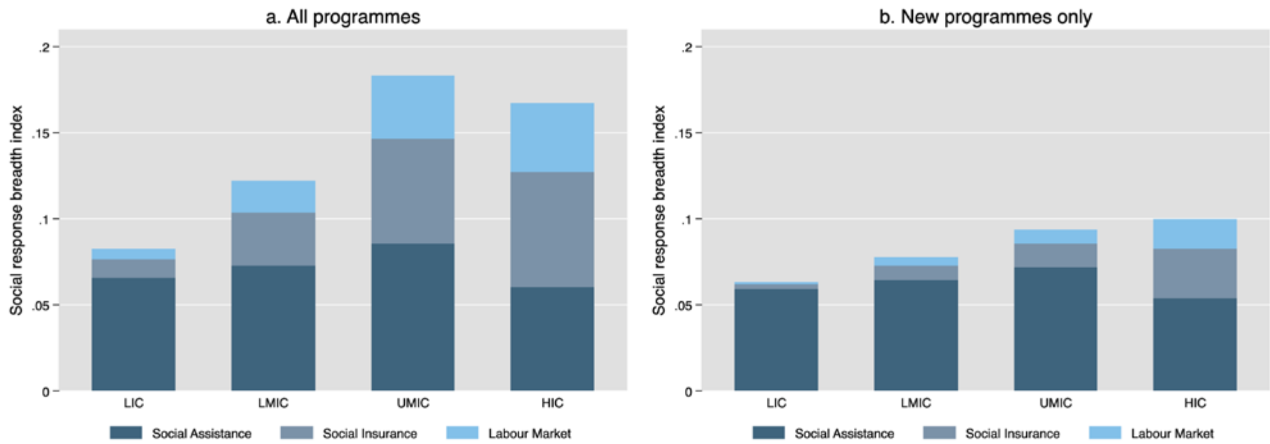


Source: Own estimates based on Gentilini et al.'s (2021) social protection database.

Social insurance and labour market instruments were out of reach for poorer countries

The breadth of the measures by dimensions portrays an interesting picture (figure 4). Social assistance instruments were used universally. However, social insurance and labour instruments were more intensively used by countries with higher income levels, where such mechanisms were already well established. Whilst less than half of such instruments were used in LIC and LMIC, they constitute a major part of the instruments used in UMIC and HIC. This seems consistent with the relative developments of each dimension according to income levels.

Figure 4: Social response breadth index by components (all programmes and new programmes only)



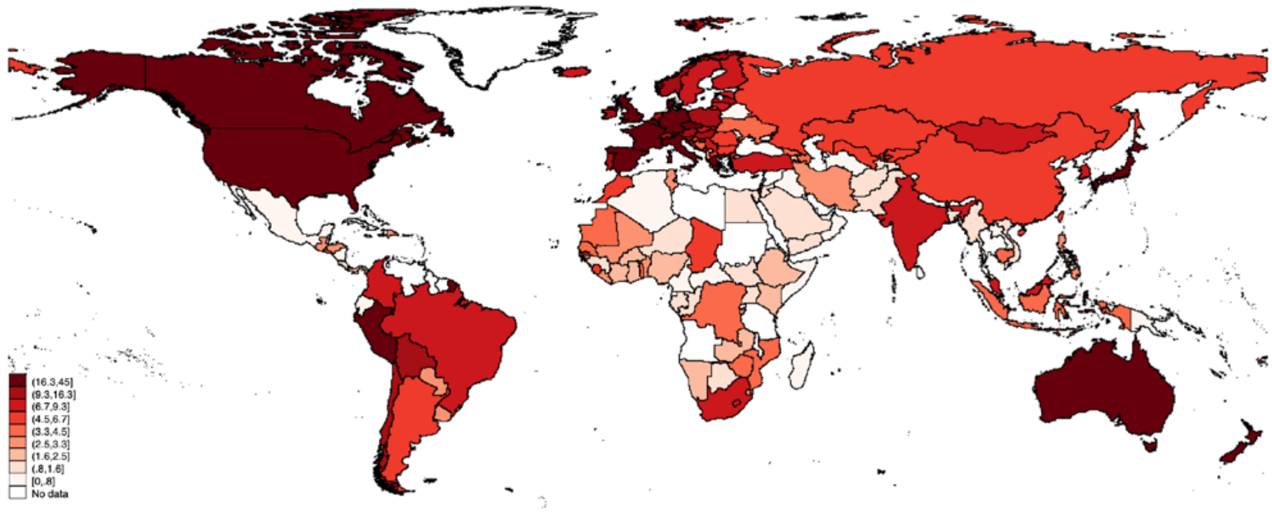
Source: Own estimates based on Gentilini et al.'s (2021) social protection database.

Many countries resorted to social assistance programmes independent of their income level. Unlike the common perception that social assistance programmes were more commonly used in less developed countries, these tools have been used extensively at all income levels. Additionally, there was little creation of new social insurance and labour market programmes in LIC and LMIC. In contrast, UMIC and HIC resorted more to already existing programmes in those areas. This result, combined with a lower breadth of responses, suggests a modest span of transformations in social protection systems in less developed countries.

What determined the breadth of the response? Was it enough?

The size of the response was constrained by countries' economic capacity (figure 5). Yet, there is substantial heterogeneity within them. This section explores what countries did with what they had readily available and the way they approached the challenge of protecting jobs and providing income support. These heterogeneities are explored by looking at the relationships between the social response breadth index with IMF fiscal data,[11] the Oxford Covid-19 Government Response Tracker's Stringency Index[12] and the impact of the pandemic-induced shock on extreme poverty.[13]

Figure 5: Depth of fiscal response (as percentage of GDP)



Source: Own estimates based on IMF (2021) fiscal response database.

Did depth determine the breadth of the response? The fiscal response

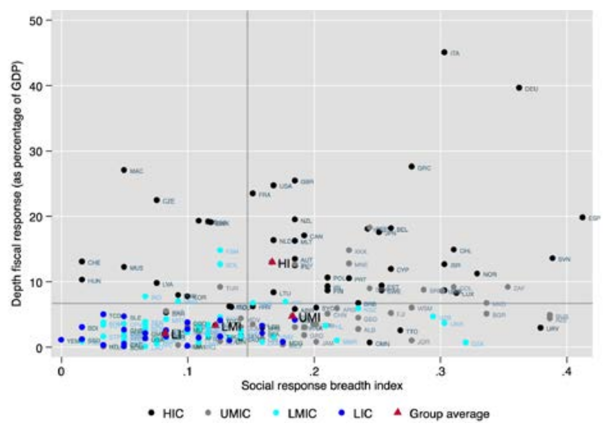
Countries were forced to mobilize resources to respond to the challenges posed by the pandemic. This happened during a decline in GDP and revenue due to the negative shock on both national and international demand and supply. In 2020, the world economy shrunk by 3.2% according to IMF estimates —the worst contraction in GDP since World War II. In this context, countries made diverse efforts to secure extra funding to tackle the impact of the pandemic.

The magnitude of the additional fiscal resources allocated to address the impact induced by the pandemic can be used as a proxy for the depth of countries' responses. These include additional resources to health systems, social protection, support for workers and companies amongst others. This has been surveyed by the International Monetary Fund.[14] The database includes the most trackable measures, implemented or announced by governments from January 2020 to June 2021, to address the impact of the pandemic. It also distinguishes the total fiscal effort made by countries in terms of their GDP in non-health, guarantees and other below-the-line measures (i.e. equity injections, loans, asset purchase or debt assumptions).

The fiscal response varied significantly in different countries in terms of their GDP according to the IMF data. The group of HIC was able to make significant efforts, whilst the middle-income countries' strengths were more mixed. However, LIC were amongst those with the least fiscal response even in terms of their GDP.

Policy responses can be jointly analysed in terms of breadth and depth (figure 6). Three clear messages emerge from this simultaneous consideration. First, reactions by LIC were relatively low both in terms of breadth of their social responses and also their fiscal depth. Almost all LIC belong to the quadrant below the mean global breadth and fiscal depth of social responses. Second, the same is true when considering LMIC. However, a handful of LMIC could resort to a broader set of policies but with relatively low fiscal depth. Third, the social policy breadth among UMIC has been above the world average but distributed around the global average in terms of fiscal depth. Finally, most of HIC belong to the quadrant of breadth and depth above the world average. Only some HIC have had strong fiscal responses (above the average) and limited breadth (below the average) —e.g. Australia. Some HIC likely focused on fewer instruments with relatively more resources. On the contrary, some countries have had an ample response but with less fiscal depth than the world average —e.g. Uruguay.

Figure 6: Social response breadth index and depth of fiscal response



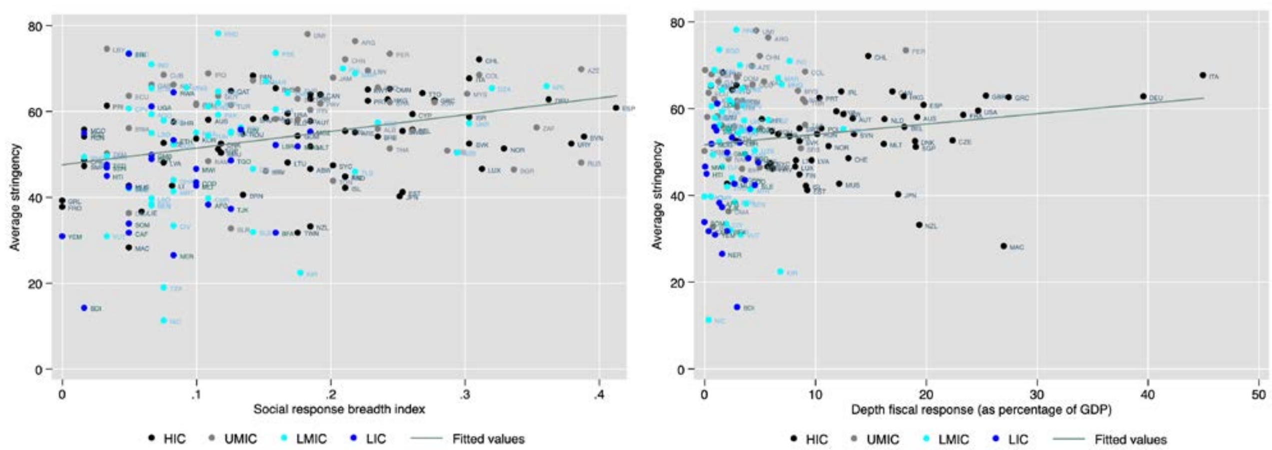
Source: Own estimates based on Gentilini et al.'s (2021) social protection and IMF (2021) fiscal response databases. Note: Lines represent database averages in each dimension.

Did the health emergency determine the breadth of the social protection response? The relationship with the stringency of measures

Much has been discussed about the relationship between the social policy responses and the capacity of governments to take non-pharmaceutical actions to reduce the spread of the virus. This subsection exposes the breadth of the social protection responses and its correlation with the stringency of the measures taken by countries (figure 7). This is a composite index based on nine indicators, including school closures, workplace closures, cancellation of public events, restrictions on public gatherings, closures of public transport, stay-at-home requirements, public information campaigns, restrictions on internal movements and international travel controls. Larger values of the index imply stricter measures.

There is a positive correlation between the social response breadth and the average stringency.[15] Countries that could afford to live under more stringent conditions to contain the virus also implemented broader social protection measures. This fact illuminates some discussions on the role and importance of social protection systems to enable countries to act to prevent the spread of viruses. This is also an interesting observation when considering that there is no significant correlation between stringency and the fiscal depth of the social policies.

Figure 7: Social response breadth index, Stringency Index, and fiscal response



Source: Own estimates based on Gentilini et al.'s (2021) social protection, IMF (2021) fiscal response, and Oxford Covid-19 Government Response Tracker (Hale et al., 2021) databases.

Additionally, most of the countries that were able to implement a broad set of social policies and impose strong stringency measures belong to HIC and UMIC. When analysed by subindexes, these countries were able to resort to broad social insurance and labour market policies. This is probably because they could afford to stop the economy with lockdown measures and protect their citizens with social policies and furlough schemes simultaneously. However, in the fewer cases of less developed countries that implemented both broader social policy responses and strong stringency measures, they were able to do so fundamentally based on the social assistance policies (e.g. through cash transfers).

Was the response enough? Comparing it with a temporary basic income (TBI) to completely offset the pandemic-induced increase in extreme poverty

Even though the effectiveness of the whole social policy efforts on poverty is still under analysis, it is possible to compare them to an ad hoc benchmark.[16] This subsection compares available information on social policy responses to the "ideal" effort countries should have made to completely offset the increase in poverty induced by the responses to the pandemic. The depth and breadth of social responses are compared with the magnitude of establishing a TBI to fully offset the increase in extreme poverty as advocated by UNDP. For this exercise, the TBI is supposed to be delivered over six months given the depth and duration of the crisis, coupled with pre-existing conditions of inequality and exclusion that made the poor and vulnerable more prone to devastating economic effects of the emergency.

Poverty increases could have been completely offset, on average, with a six-month TBI of approximately 3.0%, 2.6%, and 0.7% of annual GDP of LIC, LMIC, and UMIC, respectively. These estimates show that the required resources to prevent extreme poverty increases (at the $1.90 a day poverty line) were more important for less developed countries, even when those resources were out of reach for most of them. This is the inverse picture to the actual depth of the countries' fiscal responses. Despite needing it most, the depth of the responses in LIC and LMIC was lower even in terms of their own GDP.

Additionally, when this "ideal" TBI is compared with the breadth of the social policy responses, the correlation between both is negative (figure 8). This potentially highlights the scarcity of tools available for poorer countries compared to the benchmark magnitude of the efforts required.[17]

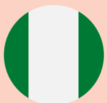
Both results, in terms of depth and breadth, showcase the magnitude of the challenge imposed by the pandemic on social protection systems in terms of poverty increases. It also points to how distant many countries and the international community were from sufficiently facing those challenges in terms of fiscal resources and available social protection tools. Only a small group of countries, mostly within the HIC, seem to have been able to be up to the challenge.

Figure 8: Social response breadth index and size of the theoretical TBI to fully offset extreme poverty increase

BOX - Country highlights: breadth, policy innovations, depth, and the virus

Colombia is an UMIC that has had a relatively broad social policy response, well above the world average. However, the depth of the fiscal response was near the world average. Colombia's response was also innovative in some specific social assistance programmes, in particular *Ingreso Solidario*, which increased its coverage by 160%.[18] One innovation, for example, was the delivery of funds through bank accounts with e-money. This implies that a million *Ingreso Solidario* beneficiaries that did not have accounts before the pandemic, now do. The efforts resulted in temporarily mitigating all poverty increases at $1.90 and $3.20 a day, and a sizeable share of the increase was even at $5.50 a day.[19] However, the pre-existing poverty and inequality problems persist.

Togo is an interesting case of an LIC. The breadth of its response was below the world average, but one of the amplest for an LIC. The depth of the fiscal response was near the world average and at the top of the LIC. It was also innovative in terms of its social assistance instruments, using a recent database built with electoral purposes (95% coverage) to target a new cash transfer programme for informal workers. It also used digital platforms to transfer money.[20]



Nigeria is an LMIC that had a relatively low breadth response and fiscal depth. In terms of social assistance, it expanded the coverage of its cash transfer programme by 642% from a very low base.[21] Additionally, it innovated the use of satellite data to identify dwellings and target beneficiaries.[22] The actual impact of these efforts