



UNITED NATIONS DEVELOPMENT PROGRAMME

Mitigating Poverty:

Global Estimates of the Impact of Income Support during the Pandemic

by Johanna Fajardo-Gonzalez, George Gray Molina, María Montoya-Aguirre, Eduardo Ortiz-Juarez



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United Nations Development Programme
1 UN Plaza, New York, NY 10075, USA

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The authors are grateful to Jacob Assa, Nathalie Bouche, Lars Jensen, Luis F. Lopez-Calva, Marcela Melendez, Mansour Ndiaye, Christian Oldiges and the RBLAC Chief Economist Office for their valuable feedback. Special thanks to Anna Ortubia, Dylan Lowthian, Lesley Wright and Samantha Happ for their expert work on communications. The findings, interpretations and conclusions expressed in this paper are entirely those of the authors.

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Abstract

This paper reconstructs the full welfare distributions from household surveys of 160 countries, covering 96.5 percent of the global population, to estimate the pandemic-induced increases in global poverty and provide information on the potential short-term effects of income-support programmes on mitigating such increases. Crucially, the analysis performs a large-scale simulation by combining the welfare distributions with the database of social protection measures of Gentilini et al. (2021) and estimates such effects from 72 actual income-support programmes planned or implemented across 41 countries. The paper reports three findings: First, the projection of additional extreme poverty, in the absence of income support, ranges between **117 million people** under a distributive-neutral projection and **168 million people** under a distributive-regressive projection—which may better reflect how the shock impacted poor and vulnerable households. Second, a simulation of the hypothetical effects of a temporary basic income with an investment of 0.5 percent of developing countries' GDP, spread over six months, finds that this amount would mitigate to a large extent, at least temporarily, the increase in global poverty at both the \$1.90- and \$3.20-a-day thresholds, although poverty would still increase significantly in the poorest regions of the world. Third, the analysis of income-support programmes in 41 countries suggests that they may have mitigated, at least temporarily, the overall increase in poverty in **upper-middle income** countries but may have been insufficient to mitigate the increase in poverty at any poverty line in low-income countries. Income support likely mitigated 60 percent of the increase in poverty at the \$3.20-a-day threshold and 20 percent at the \$5.50-a-day threshold among **lower-middle-income countries**. This pattern is correlated with the amount of social assistance per capita payments made in each country.

A key question arising from the pandemic policy response is: Was it robust enough to mitigate income and jobs losses around the world? While it is still early to adequately assess the welfare effects of multiple policy measures, this paper provides estimates of the potential influence of income support in mitigating, at least temporarily, increases in poverty headcount rates vis-à-vis a pure pandemic-induced shock scenario.² Clearly, policy responses around the world included more than income support—they included tax deferrals, service payment waivers and loans and guarantees, as well as various work furlough and employment insurance programmes, among other measures. But it is also evident that income support programmes were ubiquitous and made up a significant portion of the response.

Twelve months ago, two of the co-authors of this paper analysed the costs and implementation challenges of a temporary basic income (TBI) targeting poor and vulnerable people across the developing world (Gray Molina and Ortiz-Juarez, 2020). This paper revisits that exercise and provides counterfactual information on the potential short-term effects that income support has on mitigating the increase in poverty, and the associated financial costs, had countries implemented TBI schemes in response to the shock. To estimate the pandemic-induced increase in poverty and perform the simulations, the analysis retrieves the distributions of per capita income and consumption from household surveys in 160 countries (128 developing countries and 32 advanced economies) that covered about 96.5 percent of the world's population in 2019–2020. But the paper also dives into the actual response. Specifically, the analysis exploits these welfare distributions and the database of social protection measures of Gentilini et al. (2021) to undertake a systematic, large-scale assessment of the potential short-term effects on mitigating the increase in poverty of 72 cash-based programmes across 41 countries, which together concentrate a fourth of the global population and represent a fifth of the total number of countries that have planned or implemented income-support measures since March 2020.

There are three main findings derived from the simulations. First, spending equivalent to 0.5 percent of developing countries' GDP, for a monthly total of \$58.1 billion (2011 PPP) spread over six months, would have sufficed to mitigate, at least temporarily, the increases in global poverty at the \$1.90- and \$3.20-a-day poverty lines. Despite the aggregate mitigation, the number of people pushed below these poverty lines because of the crisis could still be significant within the poorest regions of the world. It is important to emphasize that the estimates rely on a distribution-neutral economic contraction. This seems unlikely, and it might well be that the incomes of some segments of the population contracted more than proportionally during the crisis; e.g., low- and middle-skill workers, women, or the informally employed (see, e.g., ILO 2020, 2021; IMF, 2021a). Although there is no consistent information available on the incidence of the income contraction across households, the analysis also simulated the mitigating effects of TBI schemes under an ad hoc regressive contraction that hits proportionally harder the bottom 60 percent of each country's population, which concentrates, on average across-countries, most of those living in poverty and at high-risk of falling into poverty (see section 4). The results suggest that the above investment could have helped to mitigate an important share of the increase in poverty, but certainly not all of it.

Second, actual income support programmes potentially mitigated the short-term increase in poverty in a sample of 41 countries. Although this result is driven by upper-middle-income countries that were able to roll out generous income support, the estimations suggest that low- and lower-middle-income countries may not have provided transfers large enough to fully mitigate the shock-induced increase in poverty and even experienced short-term increases in their headcount rates. Finally, although there has been substantial heterogeneity in the generosity and coverage of the social protection response across countries, mostly conditional on fiscal capacity and budget adaptation, the limited effectiveness observed in some poorer

² While this paper focuses on monetary poverty, it acknowledges that other dimensions of poverty such as education, employment, food security or safety are likely sensitive to the existence and timing of the income support provision.

countries suggests that there is room for action even under significant constraints. Yet, again, the success of these moderate interventions in mitigating the increase in poverty is likely fragile under a scenario in which the income contraction is harder on those at the bottom.

Although with important caveats, the results presented in this paper provide some initial benchmarks on how the pandemic shock likely impacted poor and vulnerable households around the world, but also how important policy choices were in potentially mitigating those effects. The remainder of the paper is organized as follows. Section 2 reviews the evidence on the socioeconomic impacts of the COVID-19 pandemic and introduces the income support measures implemented as part of the governments' policy response to this crisis. Section 3 discusses the construction of the distributions of per capita income or consumption and measures the increases in poverty at different poverty lines. Section 4 estimates the potential magnitude of the mitigation of poverty increase from hypothetical and actual emergency income support around the world. Finally, Section 5 discusses some policy implications and provides a conclusion.

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