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A Temporary Basic Income (TBI) for Developing Countries

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COVID-19 and the response to the pandemic is driving millions of informal-sector and self-employed workers into poverty. How to mitigate those effects? This brief provides estimates of a temporary basic income for all poor and vulnerable people in the developing world.

Recent economic growth projections suggest the developing world will be in for a prolonged economic slump.² Formal-sector workers can be protected through partial or full work furloughs, unemployment insurance, tax standstills, and debt standstills, among other measures. However, the world's approximately 2 billion informal-sector workers – who do not have access to either social insurance or social assistance support, and may not even be counted in a government registry – have no such safety net.³ How to mitigate the impoverishing effects of the COVID-19 crisis and economic lockdowns for the world's most vulnerable populations?

This brief simulates the total and per beneficiary amounts of a temporary basic income (TBI) to

poor and vulnerable individuals in 132 developing economies defined as: a top-up to existing average per capita incomes that are below a minimum defined by a vulnerability threshold that changes in value, depending on a region's standard of living; a transfer equivalent to half each country's median per capita income or consumption, depending on the available indicator in each country, and thus is also sensitive to varying standard of living across countries; and a lump-sum transfer of \$5.50 a day that is uniform across countries. The rationale behind the estimates is to offer a benchmark in terms of size and cost for providing unconditional, non-entitlement-based cash assistance during a specific period in the developing world.

Pre-existing conditions make people in developing countries less resilient to shocks

Developing countries are less equipped and less resilient to shocks than advanced economies. For starters, seven out of ten workers in developing

countries make a living in informal markets;⁴ most of them are engaged in activities and tasks that are less likely to be performed from home and therefore some

of them, especially in urban settings, are particularly affected by current COVID-19 containment measures.⁵ According to some estimates, informal workers in the first month of the crisis could have seen their earnings contract up to an average of 82 percent in low-income and lower-middle-income countries.⁶

Secondly, a sizable share of the population in developing countries cannot be regarded as economically secure in the face of shocks and impoverishment risks. By considering vulnerability thresholds that change in value depending on a region's living standard criteria, the data suggest that, before the crisis, a fourth of the total population in East Asia and Pacific (EAP), and between half and two-thirds of the total population in the rest of the regions – namely Europe and Central Asia (ECA), Latin-America and the Caribbean (LAC), the Middle East and North Africa (MENA), South Asia and sub-Saharan Africa (SSA) – were either poor or at high risk of poverty.⁷

These pre-existing conditions of informality, poverty, and vulnerability coexist with relatively weak social protection systems that tend to benefit mostly

formal workers. Of the above statistic of seven in ten workers in informality, only one of them can rely on employment-based protection programs, with underinvestment particularly acute in Africa, South Asia, and the Arab States.⁸ Under such circumstances, any COVID-19 containment measures would prevent a large majority of people from earning an income. In the absence of safety nets, the sudden drop of people's incomes hits particularly hard during crises and often persists with a low recovery well beyond the end of the crisis,⁹ even more so if people's productive assets are low or have been depleted.

Recent estimates assuming a relatively moderate contraction in incomes suggest that the total number of people in poverty, as measured by the lowest standard of \$1.90 a day, could increase by 70-100 million globally as a result of the pandemic – and potentially more when using higher poverty lines and assuming harder contractions in per capita incomes.¹⁰ Beyond the immediate monetary impacts, the progression of the pandemic has also exerted harmful effects, with long-lasting consequences, on human development indicators.¹¹

A temporary basic income for poor and vulnerable people

The immediate welfare losses are difficult to quantify. However, it is urgent and only fair to provide temporary relief to poor and vulnerable people in the form of a basic income.¹² The coverage, size, and duration of the temporary basic income schemes assume that the costs of the crisis are widespread, profound and potentially lasting. As such, the amounts per beneficiary might help people to cover internet connectivity to support education and work from home, compensate for costs associated with childcare, or assist households to prevent the depletion of productive assets – in addition to enabling people to cover essential spending.¹³ Several countries have taken a step forward in this direction by rolling out similar schemes under different names and with diverse targeting thresholds – such as Tuvalu's fully-fledged temporary UBI,¹⁴ Spain's minimum income guarantee¹⁵, or Colombia's *Solidarity Income* scheme.¹⁶

Three scenarios of a temporary basic income for poor and vulnerable-to-poverty people in 132 developing countries are considered. The assistance considered in each scenario comprises cash transfers with homogeneous amounts across targeted individuals within a country under three options: top-ups on existing average incomes in

each country; lump-sum transfers that are sensitive to cross-country differences in median standard of living; and lump-sum transfers that are uniform regardless of the country where the beneficiary population lives. Specifically, to cover 1.07 billion poor and 1.71 billion vulnerable people in 132 developing countries, the costs of the following transfer equivalences are compared:

1. **A cash transfer equivalent to each country's average shortfall in income in relation to vulnerability thresholds that change in value according to region's standard of living, viz. \$3.20 a day for countries in South Asia and SSA, \$5.50 a day for countries in EAP and MENA, and \$13 a day for countries in ECA and LAC.** Under this approach, average incomes among poor and vulnerable people before the crisis are supplemented up to the point of reaching the vulnerability threshold.¹⁷
2. **A cash transfer equivalent to half the median household per capita income or consumption in each country.** This option follows some well-established approaches¹⁸ and, by definition, changes in value across countries as the countries' per capita median income or consumption also

varies. A feature of this transfer is that if the value of the half median indicator in a given country is lower than the typical international poverty line of \$1.90 a day, then such value is raised up to the latter amount. Therefore, the minimum amount of a temporary basic income per beneficiary under this option cannot be lower than \$1.90 a day.

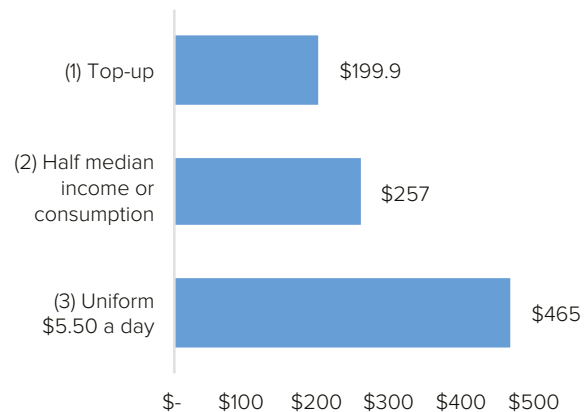
3. **A uniform cash transfer of \$5.50 a day.** These uniform transfers build on an earlier proposal of an assistance relief of \$1.90 a day for around 3.4 billion poor people, but expand the latter's scope by increasing the size of the transfers and adjust the coverage to include vulnerable individuals by taking into account the different standard of living across countries.¹⁹

The estimation of the total and per beneficiary costs of these temporary basic income schemes exploits the latest publicly available data, from around 2018, for each of the 132 developing countries considered.²⁰ As a result of the pandemic's progression it is likely that, relative to the figures recorded in 2018, the incidence of poverty has already increased and those who were already poor before the pandemic became poorer. While there are some recent studies suggesting these outcomes, there is also uncertainty in terms of their magnitude. Given this, and assuming that pre-crisis welfare levels as reflected by the 2018 data are a more objective starting point to provide an initial benchmark of the potential costs of cash transfers, Figure 1 presents the overall cost of each of the above TBI options on a monthly basis. For the total coverage of 2.78 billion poor and vulnerable people, the total cost of a temporary basic income is as follows:

- Option (1) costs \$200 billion per month, in which the TBI is equivalent to the average distance between the incomes of these people and the vulnerability thresholds.
- Option (2) costs \$257 billion per month, in which the TBI is sensitive to the median standard of living.

These monthly figures are roughly half the total cost of a uniform transfer of \$5.50 a day to the developing world's poor and vulnerable people (\$465 billion per month).

Figure 1. Monthly cost of a temporary basic income under different scenarios (\$ billion)



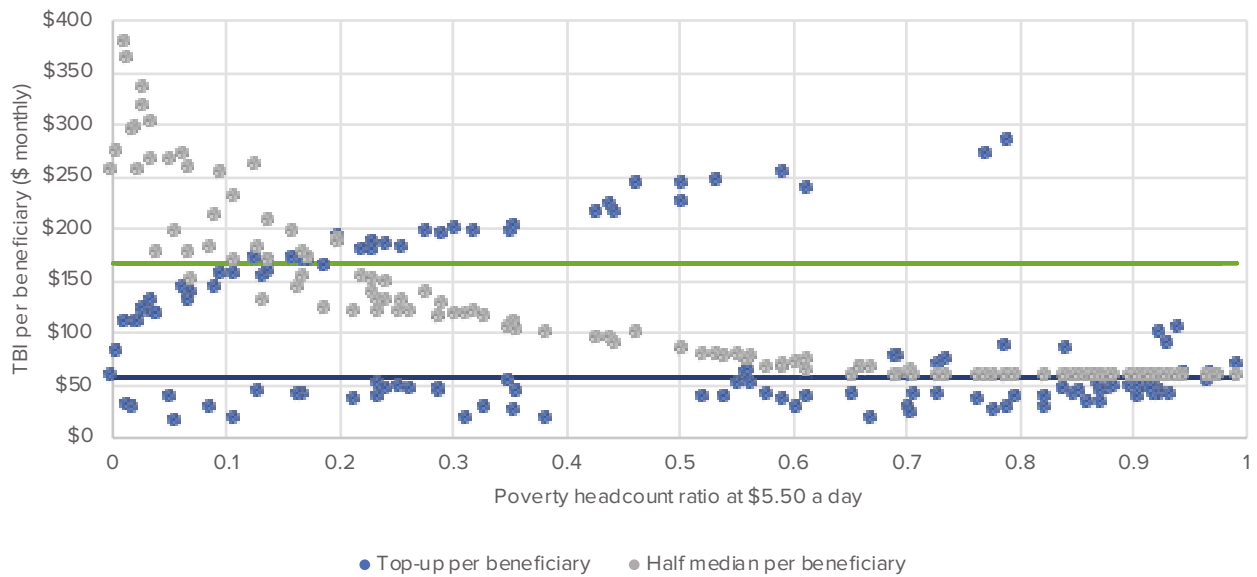
Source: Own estimates based on PovcalNet.

Notes: Monthly amounts are expressed in international dollars at 2011 PPP exchange rates.

After almost 4 months of containment measures that have imposed varying economic and developmental costs, the spread of COVID-19 is accelerating across the developing world. Considering the size of the global economy, it is a moderately-priced measure to provide an assistance transfer over a period of 3 to 9 months assuming a profound shock with a slow recovery – that is, longer than the average duration of 3 months of new social protection measures currently in place.²¹ For instance, providing 3-9 months of a TBI equivalent to either the average distance between the incomes of poor and vulnerable people and the vulnerability thresholds (option (1)), or to half the median per capita income or consumption (option (2)), could cost between 1 and 3.1 percent of the 132 developing countries' GDP (or between 0.4 and 1.7 percent of the world's GDP), whereas a uniform transfer of \$5.50 a day for the same population could amount up to \$4.2 trillion, or 5.6 percent of the developing countries' GDP (3.1 percent of the global GDP), if such a transfer is delivered over a 9-month period.

Figure 2 plots the amounts of temporary basic incomes per beneficiary in each country. Starting with those derived from the top-up option, the data reveals that the largest monthly transfers, above \$100 per beneficiary, are observed mostly in ECA and LAC, as these regions have a relatively high vulnerability threshold of \$13 a day, given their standard of living, and with a tendency to increase, as expected, the poorer a country is within those regions. A similar tendency is observed at the bottom of the plot, where the size of transfers ranges \$15 to \$100 per beneficiary in the remaining four regions, with the largest amounts being observed among the poorest countries.

Figure 2. Temporary basic income per beneficiary under different scenarios (\$ monthly)



Source: Own estimates based on PovcalNet.

Notes: Monthly amounts are expressed in international dollars at 2011 PPP exchange rates. The dashed horizontal lines represent the monthly amount per beneficiary of the following uniform transfers: \$5.50 a day (upper line) and \$1.90 a day (lower line).

The opposite pattern is observed for option (2), with the largest amounts per beneficiary, above \$250 per month, being observed in 19 richer countries (16 of which in ECA and LAC), whereas the lowest, between \$58 and \$70 per month, are observed in 56 low-income and lower-middle-income countries,

of which 38 are in SSA and 7 in EAP. The plot also illustrates that the option of a temporary basic income of \$1.90 a day (\$57.8 per month) proposed in an earlier analysis as an emergency relief²² might delimit the lower bound of a temporary transfer (lowest dashed line).

Conclusion: Mitigating the Crisis

In most developing countries, the counter-factual to a TBI is not *nothing* but expanding existing social assistance or social insurance programmes to reach diverse populations with various eligibility and targeting criteria and payment schemes. This brief focuses on estimating potential sizes of income transfers to 1.07 billion poor and 1.71 billion vulnerable

The idea of a temporary basic income arises from an unprecedented set of responses to an unprecedented crisis. It is being rolled out under different names and with diverse targeting thresholds in countries around the world. It intersects with existing social assistance and insurance systems, but also with the idea of an entitlement-based Universal

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