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# TEMPORARY BASIC INCOME: Protecting Poor and Vulnerable People in Developing Countries

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# TEMPORARY BASIC INCOME:

## Protecting Poor and Vulnerable People in Developing Countries

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### ABSTRACT

As the rate of new COVID-19 cases accelerates across the developing world, it exposes the potentially devastating costs of job losses and income reversals. Unconditional emergency cash transfers can mitigate the worst immediate effects of the COVID-19 crisis on poor and near-poor households that do not currently have access to social assistance or insurance protection. This paper provides estimates for a Temporary Basic Income (TBI), a minimum guaranteed income above the poverty line, for vulnerable people in 132 developing countries. A TBI amounts to between 0.27 and 0.63 per cent of their combined GDPs, depending on the policy choice:

- i. top-ups on existing average incomes in each country up to a vulnerability threshold;
- ii. lump-sum transfers that are sensitive to cross-country differences in the median standard of living; or,
- iii. lump-sum transfers that are uniform regardless of the country where people live.

A temporary basic income is within reach and can inform a larger conversation about how to build comprehensive social protection systems that make the poor and near-poor more resilient to economic downturns in the future.

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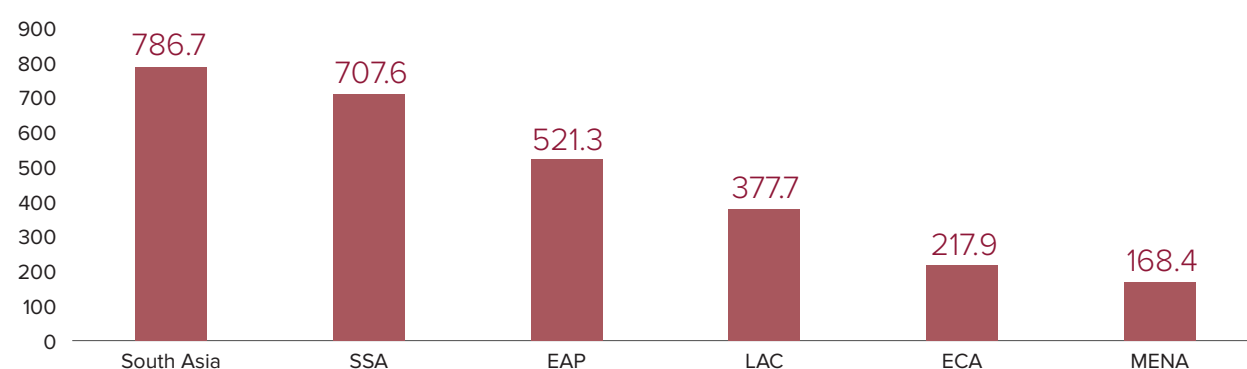
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# 1 INTRODUCTION

The rapid surge of COVID-19 cases across developing countries and the devastating socio-economic crisis that follows because of lost jobs and incomes suggests that unprecedented policy measures are needed. In most developing countries, social protection systems are weak and tend to benefit mostly formal workers, leaving poor and vulnerable people and their families partially or fully unprotected. While the world has witnessed an expansion of social protection and assistance measures in response to the pandemic, the lion's share of spending has been accounted for by high-income economies. Specifically, the number of such measures has increased from 103 to 1,055 across 200 countries and territories since mid-March; fully one-third of those are non-contributory cash transfers benefiting 15 per cent of the world's population. However, total spending by low- and middle-income countries amounts to just US\$77.9 billion, or 13.2 per cent of the world's total of US\$589.6 billion. In per capita terms, these countries are spending an average of US\$7 in social assistance or US\$9.5 if social insurance and labour market programs are added, which is in stark contrast with the corresponding averages of US\$121-123 recorded by high-income economies.<sup>2</sup>

This paper estimates the total and per beneficiary amounts of a temporary basic income (TBI) to poor and vulnerable people in 132 developing countries<sup>3</sup> defined as: a top-up to existing average per capita incomes that are below a minimum defined by a near-poverty, vulnerability threshold that changes in value (in PPP 2011), depending on a region's standard of living;<sup>4</sup> 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 coverage of these schemes ranges from 168-218 million people in the Middle East and North Africa (MENA) and Europe and Central Asia (ECA), to 378-521 million people in Latin America and the Caribbean (LAC) and East Asia and Pacific (EAP), to 708-787 million people in sub-Saharan Africa (SSA) and South Asia (Figure 1).

**FIGURE 1. REGIONAL COVERAGE OF TBI SCHEMES ON POOR AND VULNERABLE (MILLION PEOPLE)**



Source: Own estimates based on PovcalNet data for 2018. See section 3 and the annex for specific details on the data and estimation procedure.

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.

<sup>2</sup> Based on Gentilini et al. (2020a).

<sup>3</sup> These 132 developing countries are home to about 83 per cent of the world's population. An additional subset of 33 high-income developed countries, which together are home to 14 per cent of the global population, were excluded from the computations. The remaining 3 per cent of the world's population is concentrated in 30 countries for which there is no available data. See further details and the lists of included and excluded countries in the annex.

<sup>4</sup> From here onwards and unless otherwise stated, all monetary amounts are expressed in international dollars at 2011 PPP exchange rates.

# 2 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. Crises in the past have revealed deep-rooted structural inequalities and injustices that haven't been decisively addressed and that could exacerbate dramatically as the immediate impacts of the current crisis strike peoples' lives and livelihoods. For starters, seven out of ten workers in developing countries make a living in informal markets (ILO 2018). Most of them are engaged in activities and tasks that are less likely to be performed from home (Dingel and Neiman 2020; Hatayama et al. 2020)<sup>5</sup> and hence some of them, especially in urban settings, are particularly affected by current COVID-19 containment measures. According to some estimates, for informal workers the first month of the crisis could have caused earnings contractions of up to a startling average of 82 per cent in low- and lower-middle-income countries (ILO 2020). Secondly, a sizable share of the population in developing countries cannot be regarded as economically secure in the face of shocks and impoverishment risks. The data shown in Figure 1 above suggest that, before the crisis, a fourth of the total population in EAP, and between half and two-thirds of the total population in the rest of the regions, were either poor or at high risk of poverty according to region's standard of living.<sup>6</sup>

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 (ILO 2018; Packard et al. 2019). 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,<sup>7</sup> even more so if people's productive assets are low or have been depleted. Some recent estimates assuming a 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 (Mahler et al. 2020; Sumner et al. 2020; Valensisi 2020).<sup>8</sup>

Beyond the immediate monetary impacts, the progression of the pandemic has exacerbated already wide gender inequalities as it has increased the burden of care on working mothers, while hitting harder those sectors with relatively more female employment (Alon et al. 2020; Cowan 2020). In addition, there are potentially harmful, long-lasting consequences on human development that are magnified by pre-existing circumstances. The disruption in education due to COVID-19 containment measures has put the accumulation of human capital at risk, pushing some school-age groups further down the learning ladder as a result of lacking computer equipment and internet connection, of receiving deficient coaching

<sup>5</sup> Dingel and Neiman (2020) estimate that the share of jobs that could be performed at home is less than 25 per cent in most of the developing countries they analyse, and as low as 5 per cent in some sub-Saharan countries.

<sup>6</sup> See the details of the estimation in section 3.

<sup>7</sup> Evidence for the US suggests that workers might lose close to three years of pre-crisis earnings if mass-layoffs occur at times when the unemployment rate is above 8 percent (Davis and von Wachter 2017).

<sup>8</sup> And potentially more when using higher poverty lines and assuming harder contractions in per capita incomes.

at home, or of living in inadequate conditions, viz. overcrowded, stressful or violent homes. It has been estimated that the impact on education could cause the human development index to decline for the first time since 1990, effectively erasing the progress achieved over the last six years (UNDP 2020).

In terms of health, some risk factors — such as hypertension, diabetes or obesity, some of which are more prevalent among people at the bottom of the income distribution, as well as persistent conditions of indoor and outdoor pollution, malnutrition, and lack of basic services such as clean water and nearby health centres — could make some people in developing countries particularly vulnerable to COVID-19 (Alkire et al. 2020; Brown et al. 2020; Schellekens and Sourrouille 2020). Finally, while factors such as conflict or climate-related shocks were making more than 130 million people experience acute food insecurity before the pandemic, its progression has increased the risk of famines in several countries (FEWS Net 2020; FSIN 2020).

It is thus likely that the non-pharmaceutical efforts to contain the disease, magnified by pre-existing structures of inequalities and exclusion, carry devastating costs for the livelihoods of less advantaged people. As the return to business as usual is uncertain in terms of both if and when, the accelerated progression of the pandemic across developing countries makes clear that unprecedented mitigating actions are urgent.

# 3 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 shock-resistant transfers in the form of what is termed in this paper a temporary basic income (TBI). The term *basic income* has been commonly used to refer to universal basic income (UBI) schemes in a simpler way by longstanding proponents —without implying that the *universal* component does not still apply to it (see, for instance, Standing 2017, 2020; Van Parijs and Vanderborght 2017). Such a term is employed here to denote schemes of emergency cash assistance that are explicitly temporary, up to 9-12 months as discussed below, while retaining some of the features that characterize UBIs.

The latter schemes carry the notion of a *right* to income with an undetermined duration; its coverage is universal or quasi-universal, viz. paid individually to all resident citizens and legal resident non-citizens in a country; and its delivery is unconditional, not subject to means or job-seeking testing or spending conditions (see also Gentilini et al. 2020b). TBIs as proposed here, on the other hand, are not universal but targeted to people with livelihoods below a vulnerability-to-poverty threshold, which is at least 70 per cent above the value of the poverty line (see next subsection). While this targeting involves, by definition, a mechanism to exclude non-eligible people, TBIs remain unconditional in terms of not imposing behavioural conditions such as job-search or use of the cash benefits. Finally, the delivery of TBIs, as with that of UBIs, is assumed to be made on an individual basis, regardless of household composition,<sup>9</sup> thus avoiding any assumption of economies of scale and unintended within-household discrimination that could be particularly harmful for women's empowerment and control of economic resources.<sup>10</sup>

The coverage, size, and duration of the temporary basic income schemes shown below 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.<sup>11</sup> There is strong evidence for developing countries that, in the presence of unconditional cash transfers, human capital accumulation can be protected and boosted through expenditure on more and better diets, as well as on health and education services (Haushofer and Shapiro 2016, Handa et al. 2018a). Moreover, by allowing people to meet their essential consumption needs, cash assistance could also lead to the protection and accumulation of productive assets and the diversification of livelihoods (Handa et al. 2018b), and boost the entry into entrepreneurship (Bianchi and Bobba 2013).

<sup>9</sup> A TBI, however, could vary depending on some individuals' characteristics. For instance, such schemes could consider a uniform transfer for adults and a child-benefit as a complement. They could also include supplements to compensate for the likely higher cost of living among some elderly people or individuals with disabilities who experience limited income-generating capacities.

<sup>10</sup> In the context of conditional cash transfer (CCT) schemes targeted to poor people, some recent evidence suggests that delivering cash assistance to women could exert a positive effects on several dimensions: more balanced economic power within the household, better spending in comparison to men in terms of more nutritious diet for children, and the possibility of women avoiding taking low-pay jobs and instead staying at home with their children (Armand et al. 2020; Garganta et al. 2017). Following this evidence, Figure A1 in the annex presents an estimate of the overall monthly cost of transfers targeted to 2.28 billion women (aged 15 and above) in developing countries, regardless of their economic condition, under each of the TBI options described below.

<sup>11</sup> And, crucially, attempting to reach those who have not been able to make any progress in average consumption through *business as usual* policies (Ravallion 2020).

The idea of a temporary basic income arises from the urgency to deliver shock-resistant transfers to an unprecedented crisis.<sup>12</sup> Several countries have taken a step forward in this direction by rolling out similar schemes under different names and with diverse targeting thresholds. In Tuvalu, for instance, there is already a fully-fledged scheme that does fulfil the UBI criteria, although articulated as having a limited lifespan until the crisis subsides (Gentilini et al. 2020a). In Spain, a monthly budget of €250 million was approved in May to provide a minimum income guarantee that is equivalent to lifting the incomes of 850,000 families and 2.3 million individuals up to a minimum threshold, and hence help them to move out of poverty and vulnerability.<sup>13</sup> In Colombia, the government introduced the *Solidarity Income* scheme to deliver resources to an additional 3 million vulnerable households — and increase the cash transfers for 12 million people through existing assistance schemes (Alvarez et al. 2020).

Two significant caveats are worth noting here. First, the fact that poor and vulnerable people in developing countries may benefit from a TBI does not necessarily mean that, in all settings, markets exist for the goods and services that people value and require, and, even if markets exist, it is unclear whether they can be distorted by the predefined duration of the TBI. That is, while some available evidence from local UBI pilots is not supportive of inflationary pressures,<sup>14</sup> there is the risk that knowing in advance the duration of the TBI could lead to a spike in local food prices. This may be problematic among the poorest, given that they spend a larger share of their income on food, and also because in poorer countries people tend to face differentials in prices for healthy vs. non-healthy foods that are much higher than in richer countries (Headey and Alderman 2019). Second, even the successful implementation of a TBI does not resolve the key systemic challenge faced by most developing countries today: how to build a robust social assistance and social insurance system that is equitable, but also enjoys broad-based political buy-in, does not harm labour participation rates and is financially sustainable over the long run (Ortiz et al. 2018).

### 3.1. VULNERABILITY THRESHOLDS AND TBI SCENARIOS

The economic costs imposed by the pandemic are hard not only for the existing poor, but also to those who were at high risk of falling into poverty before the pandemic and who are likely experiencing a limited income-generating capacity. Three scenarios of a temporary basic income for poor and vulnerable-to-poverty people in 132 developing countries are considered.

This group of potential beneficiaries is comprised, first, by 1.07 billion people living under the typical international poverty lines of \$1.90, \$3.20, and \$5.50 a day, applied depending on countries' living

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