



ADDRESSING THE COVID-19 ECONOMIC CRISIS IN ASIA THROUGH SOCIAL PROTECTION

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Addressing the COVID-19 economic crisis in Asia through social protection

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Executive summary

The COVID-19 pandemic has created a perfect storm of crises across Asia, resulting in widespread job losses or cuts in wages in both the formal and informal economies. All Asian economies have been hit hard by the crisis, with economic growth falling significantly, while some countries are predicted to fall into recession. Across the region, prior to the crisis, most families in Asia were living on low and insecure incomes and were ill-prepared to withstand the impacts of the COVID-19 crisis. Nonetheless, a high proportion of families have experienced very large reductions in their incomes across the welfare distribution. If an effective fiscal response is not forthcoming, national economies will suffer and they will take a long time to recover. In addition, hundreds of millions of people will experience hardship while levels of poverty will increase dramatically.

In response to the COVID-19 crisis, many high-income countries have put in place large fiscal response packages to help stimulate their economies and minimise the recessions they are facing: for example, the Group of Seven countries are spending, on average, 5.6 per cent of GDP. In effect, they are doing ‘whatever it takes’ to rescue their economies and support the majority of their citizens. Asia needs to follow a similar approach, ensuring that those most in need are covered.

To date, low- and middle-income Asian countries have responded to the COVID-19 crisis by either expanding existing social security programmes or introducing new schemes. However, so far the magnitude of these fiscal responses, ranging between 0.02 to 0.8 per cent of GDP, is still too small to constitute effective economic stimulus packages; they are also not up to the task of countering the devastating effect on the wellbeing of vulnerable members of the population.

Underdeveloped and weak social security systems have limited the capacity of governments across Asia to respond adequately to growing needs brought about by COVID-19. A public health crisis layered over a high incidence of poverty, food insecurity, gender gaps and income inequalities, will require much more than currently exists or has been initially presented as an emergency response. Response plans so far have largely been based on existing poverty-targeted social assistance (or poor relief) schemes and social registries (or poor lists). But the targeting effectiveness of these programmes and registries is weak, often excluding over half of the poorest members of society. Further, a high proportion of those most affected by the crisis—across both the informal and formal economy labour force—are families on middle, but still low, incomes who are unable to access social security through existing systems. The perceived arbitrariness of targeting and the exclusion of those on middle and low incomes is likely to increase the risk of social unrest.

Some countries have put in place larger responses. For example, the Philippines is providing a transfer aimed at the 75 per cent poorest households across the country. However, by using its social registry to identify beneficiary households, it is likely that a considerable portion of intended recipients will be excluded. Sri Lanka’s response is reaching almost 70 per cent of households while Timor Leste is planning an almost universal transfer to households. India has announced a package of support equivalent to 10 per cent of 2019 GDP but only 0.8 per cent of GDP is intended to go towards social protection.

Asian countries need to adopt innovative approaches to social protection if they are to effectively protect the most vulnerable during the COVID-19 crisis. The IMF has suggested establishing emergency universal transfers across the region. One option is to set up simple, temporary universal lifecycle social security schemes, learning the pros and cons of doing so from the design and delivery of social security systems in high-income countries.

Another option gaining growing traction internationally is to offer all legal residents within countries a universal basic income (UBI), at least temporarily. In Sri Lanka, at a cost of around 4 per cent of GDP, a UBI could provide an average transfer of around US\$95 per household per month (equivalent to 29 per cent of GDP per capita) for a duration of six months, providing all recipients nationally with

an average of around 45 per cent of pre-household expenditure, and around 100 per cent to the households that, prior to the crisis, were the poorest.

Countries in Asia should also explore additional measures. One option for countries without unemployment benefit systems would be to use their social insurance or income tax systems to identify workers who lose their jobs and provide them with a proportion of their salary, in other words a partial payment while on furlough, as long as the employer keeps them on the pay-roll. However, this would be restricted mainly to employees in the formal economy. Thus, it should be combined with other broad-based schemes that reach the majority of the population.

It is, of course, a challenging context for low- and middle-income countries with low government revenues to finance a large stimulus package. Indeed, as economies contract, tax revenues will fall. There is a range of options that countries could use to finance fiscal stimulus packages, although they need to be tailored to the context of each country. If a stimulus package helps economies and hence tax revenues to recover more quickly, governments will be able to pay back financial liabilities that they take on now. Further, if countries do not act, they will likely face hostility from their citizens and potential political instability, requiring them to spend on costly public order measures while their economies will face an increasing risk of collapsing.

The COVID-19 crisis and its widespread impacts demonstrate the need to reform current social security systems in Asia, which, to a large extent, are based on models that high-income countries had been using in the 18th and 19th centuries. It is essential that countries build modern, comprehensive and universal systems that can effectively reduce poverty and inequality, and are more effective in tackling large-scale shocks. These reforms must also address gender disparities in wages and benefits, access to economic opportunities, and unpaid care work. The current crisis presents an opportunity to build more effective social security schemes that can be scaled back once the crisis finishes. If a further crisis hits, they could be expanded once more. In contrast to the conventional belief that social security for all members of society is a cost to governments, it needs to be recognised as an important component of a long-term, sustainable development strategy.

UNDP has a mandate for sustainable development, a strong programmatic country presence and relevant expertise, and an integrator role in UN Country Teams. It is thus well-positioned to assist governments at national and subnational levels to help improve, scale up and, where necessary, integrate social protection systems in a manner that remains compatible with long-term fiscal and social viability. This could significantly extend the reach of social protection payments and help all members of society cope with any sharp deterioration in their welfare stemming from the crisis. In turn, this would help contain inequality, and alleviate the risk of rising social tensions, necessary factors for a smoother post-crisis recovery and progress on the SDGs.

To summarize the main points in this Position Note on the social protection response to COVID-19:

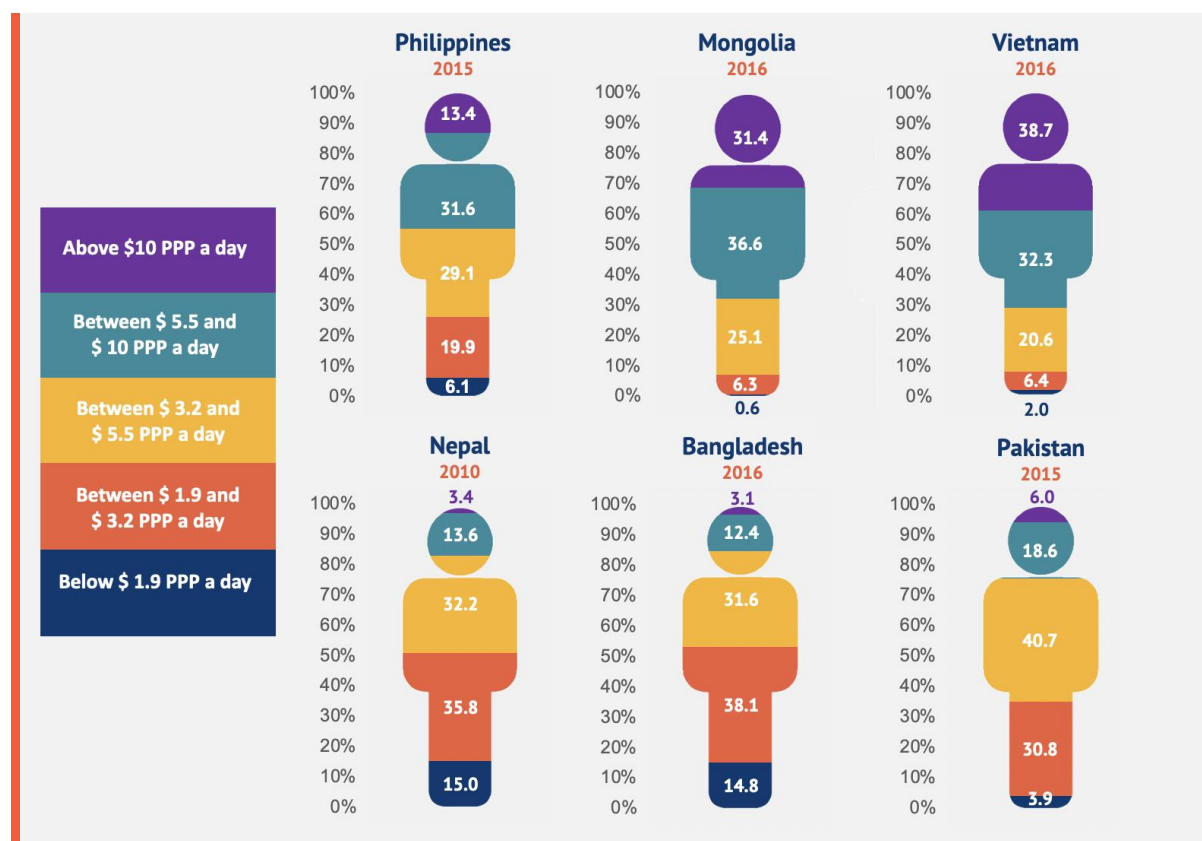
- Social protection systems in Asia have large gaps in coverage that need addressing urgently;
- Current national responses tend to be too small to contain the massive socio-economic impact; a few are now expanding and begin to reflect a re-think of social protection systems;
- The key goal in the policy response is to promote sustainability by reaching the most vulnerable; rapid data diagnostics are key to keep targeting on track and fast evolving to catch those falling back into poverty.
- Emerging social protection systems needs to blend innovative approaches with existing ones, so not starting from nothing and not throwing out what has worked well before;
- UNDP has an important role to play in helping governments of the region shape the social protection response, bringing experience from elsewhere, new data and tools, and working with partners both in the UN and outside to leverage the policy, programme and resourcing needed.

1 Introduction

The COVID-19 pandemic is having a significant impact across Asia, slashing economic growth rates and pushing a range of countries into recession. It is a perfect storm of crises: since it is a global crisis, demand for countries' exports are falling, resulting in widespread job losses or cuts in wages in both the formal and informal economies; countries that have adopted physical distancing and lockdown measures are experiencing a further reduction in national demand, with many people unable to work while businesses are closing; and, as people fall ill, their capacity to work reduces, as does their income.

Prior to the crisis, across most low- and middle-income Asian countries, the majority of the population were already living on low and insecure incomes. As Figure 1 indicates, in many countries, the majority were living on less than \$5.50 (PPP) per day with few people above \$10 (PPP) per day, which some would argue should be the international poverty line.

Figure 1: Proportion of the population living under different poverty lines (PPP international \$) across a selection of Asian countries

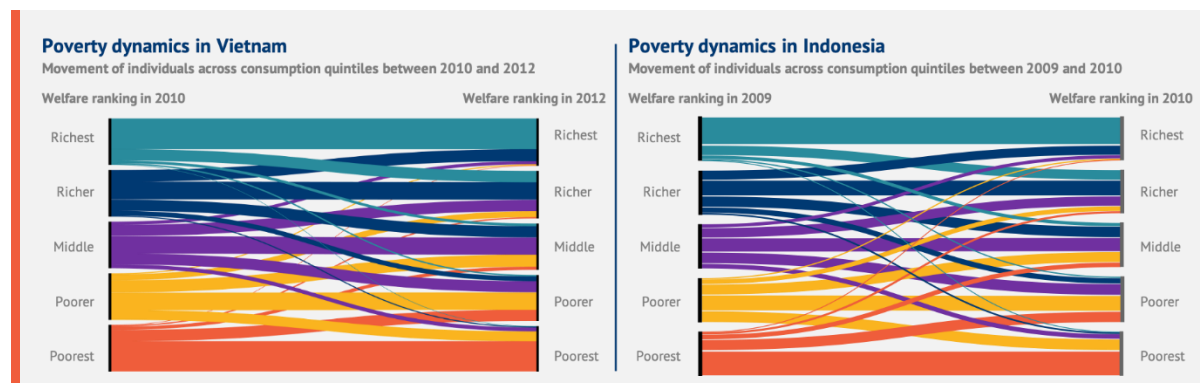


Source: Created using internationally comparable data from PovcalNet, retrieved from <http://iresearch.worldbank.org/>.

In addition, incomes were insecure. Figure 2 illustrates the movement of households relative to each other across welfare quintiles over a two-year period in Vietnam and over one year in Indonesia. In both countries, many households changed their position within the wealth distribution as they were

affected by shocks or responded to opportunities, although, on average, year on year the economic position of the population as a whole will have improved slightly, as economies grew.¹

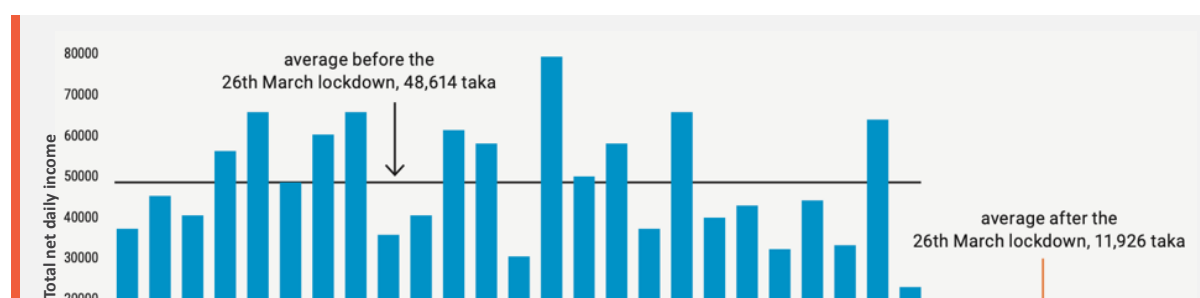
Figure 2: Movement of individuals across consumption quintiles in Vietnam (2010-2012) and Indonesia (2009-2010)



Sources: Secondary analysis of Vietnam Household Living Standards Survey and Indonesia SUSENAS Panel Survey

Therefore, an already challenging situation for families and individuals has been significantly exacerbated by COVID-19. Thirty-eight per cent of employment in Asia-Pacific is in sectors that are most at risk due to the COVID-19 crisis, mostly labour-intensive low-paid and low-skilled work. However, the crisis has the potential to affect a wide range of workers across informal and formal economies, resulting in significant and sometimes catastrophic losses in income. Figure 3 is a vivid example of the impact of COVID-19. It shows the average incomes of 60 low-income households in Bangladesh, as recorded in daily diaries, and indicates the dramatic fall in incomes when lockdown measures were introduced.

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



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