
Photo: UN Women/Fahad Abdullah Kaizer <https://is.gd/LNU8I4>

EXECUTIVE SUMMARY

Socio-economic impacts of COVID-19, policy responses and the missing middle in South Asia

International Policy Centre for Inclusive Growth (IPC-IG)

international policy centre for inclusive growth

unicef for every child

Research Report No. 48
Socio-economic impacts of COVID-19, policy responses and the missing middle in South Asia
By International Policy Centre for Inclusive Growth (IPC-IG)

This publication is one of the outputs of the UN to UN agreement between the International Policy Centre for Inclusive Growth (IPC-IG) and the United Nations Children's Fund (UNICEF) Regional Office South Asia (ROSA).

The International Policy Centre for Inclusive Growth (IPC-IG) is a partnership between the United Nations and the Government of Brazil to promote South–South learning on social policies. The IPC-IG is linked to the United Nations Development Programme (UNDP) in Brazil, the Ministry of Economy (ME) and the Institute for Applied Economic Research (Ipea) of the Government of Brazil.

Research team

Research Coordinators
Fábio Veras Soares (Ipea and IPC-IG)
Rafael Guerreiro Osorio (Ipea and IPC-IG)
Pedro Arruda (IPC-IG)

Authors—Main report
Nicolò Bird
Yannick Markhof
Beatriz Burattini
Fábio Veras Soares
Élise Chrétien

Authors—Countries annex
Afghanistan: Beatriz Burattini
Bangladesh: Fabianna Ferreira and Gabriel Soyer
Bhutan: Krista Joosep Alvarenga and Fábio Veras Soares
India: Fabianna Ferreira and Gabriel Soyer
Maldives: Krista Joosep Alvarenga
Nepal: Isabela Franciscon, Pedro Arruda and José Campos
Pakistan: Yannick Markhof and Khurram Arif
Sri Lanka: Isabela Franciscon, Pedro Arruda and José Campos

United Nations Online Volunteer
Alisha Maharjan
Ifham Adam Ibrahim
Lisasha Poudel
Sudin Pradhan

Designed by the IPC-IG Publications team
Roberto Astorino, Flávia Amaral, Priscilla Minari and Manoel Salles

This publication is available online at www.ipcig.org.

For further information on IPC-IG publications, please feel free to contact publications@ipc-undp.org.

Suggested citation: IPC-IG and UNICEF ROSA. 2020. *Socio-economic impacts of COVID-19, policy responses and the missing middle in South Asia*. Research Report No. 47. Brasília and Katmandu: International Policy Centre for Inclusive Growth and UNICEF Regional Office for South Asia.Brasília: International Policy Centre for Inclusive Growth.

ISSN: 2526-0499

SOCIO-ECONOMIC IMPACTS OF COVID-19, POLICY RESPONSES AND THE MISSING MIDDLE IN SOUTH ASIA

ACKNOWLEDGMENTS

During the elaboration of this report, we were fortunate enough to receive important inputs and feedback from UNICEF specialists and, whether directly or through them, governments of most countries in the region. We did our best to address most of the suggestions and critiques, and to ensure that all errors were corrected. Although the authors bear full responsibility for any mistakes, errors or omissions, we would not have been able to complete this work without the collaboration of our UNICEF counterparts at the Regional Office for South Asia (ROSA) and at each of the eight Country Offices in the region. Namely, we would like to thank Jean Gough, Abdul Alim, Ivan Coursac, Bernadette Gutmann, Pravaran Mahat, Anne Sophie Bonefeld, Rabin Karmachaya, Stanley Gwavuya, Freshta Ahrar, Nienke Voppen, Mekonnen Woldegorgis, Marie-Consolee Mukangendo, Jigme Dorji, Misaki Ueda, Tapan Kapoor, Antara Lahiri, Soumen Bagchi, Luis Gorjon Fernandez, Yosi Echeverry Burckhardt, Mohamed El Munir Safieldin, Ibrahim Naseem, Usha Mishra Hayes, Thakur Dhakal, Sajith De Mel, and Louise Moreira Daniels.

FOREWORD

Dear reader,

This Research Report—*Socio-Economic Impacts of COVID-19, Policy Responses and the Missing Middle in South Asia*—examines the epidemiological evolution and socio-economic impacts of COVID-19, as well as responses by governments in South Asia during the first five months of the pandemic. It assesses the region's vulnerability factors, such as deficiencies in health preparedness, which required strong containment measures to control the spread of the disease. It also examines the challenges in providing income security to workers and their families in the event of both idiosyncratic and covariate shocks, due to high levels of informality and low social protection coverage.

The necessary containment measures required to save lives have severely impacted the livelihoods of millions of people, increasing the poverty gap for those who were already categorised as poor before the COVID-19 pandemic and pushing millions more into poverty. In addition to internal factors, a dramatic decrease in the external demand for goods and services will have more severe impacts on countries in the region whose gross domestic product (GDP) and total employment are directly pegged to global value chains, such as the garment industry in Bangladesh, Nepal and Sri Lanka, and foreign tourism in Bhutan and Maldives.

To respond to these dire prospects of low or even negative GDP growth, increased unemployment rates, and decreased disposable income for families, most countries in the region have introduced robust programmes, which are already yielding encouraging results. These include monetary and fiscal policies to protect businesses and employment, as well as social assistance responses in the form of in-kind and cash transfers, as well as subsidies for food and public utilities. Furthermore, in countries where school feeding programmes had a pivotal role on the social assistance set-up prior to COVID-19, there has been an effort to deliver take-home rations to support students and their families.

Despite the timely and robust social protection responses deployed by South Asian countries thus far, opportunities remain to further strengthen the overall shock-responsiveness of social protection systems and build the resilience of individuals and families to effectively cope with internal and external shocks. This includes consolidating integrated information systems to foster programme coordination across all administrative levels and enabling faster, more precise and 'cheaper' horizontal and vertical expansions during times of crisis. At the same time, the Achilles' heel of South Asian social protection systems is not so much social assistance, but rather social insurance. Despite commendable progress, most forms of social insurance in the region are still rather regressive, limited to the small portion of population who are formally employed. Social insurance schemes primarily cover formal workers, leaving out those in the informal sector (including migrants). Governments in South Asia must expand social protection floors—including rolling out universal programmes—and extend social insurance schemes while fine-tuning complementarity between these two important pillars, to avoid 'missing the middle' and therefore foster social cohesion.

Enjoy your reading!

Jean Gough
UNICEF Regional Director for South Asia

EXECUTIVE SUMMARY

The analysis presented in this report documents the ongoing policy responses to the COVID-19 crisis in South Asia and lessons that can be drawn for the future of social protection in the region. It discusses the epidemiological evolution of the disease and the containment measures adopted, the channels through which the pandemic and containment measures affect the economy and livelihoods—including the predicted impacts on gross domestic product (GDP) growth and poverty rates—as well the monetary and fiscal responses enacted by governments in the region. This latter discussion is focused on how social protection systems have adapted and expanded to respond to the massive covariate shock resulting from the pandemic, highlighting the challenges involved in reaching the so-called 'missing middle': workers covered neither by social assistance nor by social insurance. Finally, we discuss alternatives to scale up social protection systems in the region to ensure that these mostly informal or unpaid workers are covered by social protection programmes, in line with Sustainable Development Goal (SDG) Target 1.3: "Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable".

By the end of August 2020, South Asia was still grappling with the spread of COVID-19. India had emerged as one of the global hotspots of the pandemic. While the health crisis has wreaked havoc all over the world, South Asia was affected comparatively late. Thus, countries in the region were able to adopt stringent social distancing measures from mid to late March to slow down the spread of the disease and avoid overburdening their comparatively fragile health systems. The responses have varied in stringency and timing; however, near-full lockdown measures had been adopted in all countries but Afghanistan and Bhutan by early April. Common measures adopted across all countries in the region include school and workplace closures and severe restrictions on public transport.

The strict lockdown measures observed in South Asia have taken an economic toll, particularly on informal sector workers. This has sparked a debate in the region around the need for further general—as opposed to local ('smart')—lockdowns, and an apparent trade-off between 'lives vs. livelihoods'. Under the imperative of saving livelihoods, countries in the region have recently started to loosen restrictions.

A dire outlook: the economic impacts in the region

COVID-19 represents an atypical economic shock, as it is composed of three interrelated shocks that impinge on economic activity and may exacerbate each other, leading to a protracted economic crisis:

1. a negative **supply shock** brought about by closed shops and venues that cannot operate during strict or partial lockdowns;

2. a negative **demand shock** due to an internal slump in demand and spillover effects from high-income countries hit by the crisis, reflected in lower demand for tourism and export products; and

3. a **global financial shock** causing capital withdrawals from emerging markets, increases in interest costs for developing countries and currency depreciation.

Due to the uncertain nature of 'second-round effects', economic shocks across the globe negatively impinging on each other, and the further development of the pandemic, the quantification of the crisis' economic impacts is somewhat speculative at this point and comes with significant downside risks. The most recent estimates forecast recessions in most South Asian countries, with the economic slump lasting into 2021. According to the World Bank's June estimates, the region is projected to contract by 2.7 per cent in 2020, recovering modestly to 2.8 per cent growth in 2021.

This is in sharp contrast with growth figures from before the crisis, when South Asia was projected to continue being one of the fastest-growing regions in the world.

With incomes falling, the same is expected for private household consumption. This would also be reflected in a considerable setback in reaching SDG 1 ("end poverty in all its forms everywhere"). Preliminary estimates suggest that extreme poverty might increase by 1.8 to 2.3 percentage points in South Asia, or that up to 42 million people might fall below the World Bank's USD1.90 poverty line. Considering poverty lines of USD3.20 and USD5.50, this figure might be as high as 138 million and 102 million, respectively. These estimates have continuously worsened with the pandemic's progress in South Asia.

Importantly, there is a threat that in the absence of a strong and widespread social protection response, these economic impacts will be persistent and continue to impinge on the vulnerable populations, even as the macroeconomic scenario gradually starts to recover in the medium to long term. This is of special concern in light of South Asia's high informality levels. The crisis poses an even greater threat to the informal economy for three core reasons: 1) firms in the informal sector are hit particularly hard by the crisis because enterprises are often small, labour-intensive, and focused on services, making them susceptible to shocks on both the supply and demand sides; 2) informal workers are more exposed to the health and economic ramifications of the crisis because they tend to be less educated, low-paid, living in precarious circumstances, and migrate for work; 3) the informal sector is harder to reach through policy measures targeted at alleviating the strain of the crisis. This is because of low levels of financial inclusion and the fact that informal workers tend not to enjoy the same institutionalised protection as their formal counterparts. In this sense, informal workers constitute an important segment of the 'missing middle' not covered by social protection and are harder to reach through shock-responsive measures.

Alleviating the fallout: policy responses to the crisis

In order to curb the impact of the crisis on the economy and protect livelihoods during lockdown, South Asian countries have adopted a diverse set of monetary, fiscal and social protection policies. To support firms and households, central banks have reduced policy rates and facilitated credit, including flexibilisations in servicing existing debt. The main goal of these measures is to maintain the liquidity of firms and households during times of reduced revenue and income. Additionally, in response to the added strain on national health systems caused by the pandemic, all countries have increased their spending on the health sector. Tax reductions or deferrals in tax filing deadlines were also common policy tools employed in the region.

Regarding social protection, countries have introduced vertical expansions (increased benefit amounts to those already covered) and horizontal expansions (extending coverage to new beneficiaries), as well as introducing measures enhancing the comprehensiveness of social protection systems (extending the scope of risks covered). A strategy employed by most countries was to provide temporary cash and in-kind transfers to poor and vulnerable populations, including informal workers, to safeguard their subsistence given that their livelihoods are at risk. Moreover, all countries put labour retention measures in place, which were meant to secure formal sector jobs and allow for a quicker restart after lockdowns end.

Reaching the 'missing middle'

Differently from previous shocks, COVID-19 has affected incomes across the distribution and threatened livelihoods far beyond the poorest members of society. While social assistance in South Asia typically only aims to cover the poorest quintile, albeit with exclusion errors leaving parts of this group uncovered, even before the pandemic social insurance already failed to cover most of the region's population—which we term the 'missing middle'. At the onset of the crisis, this meant low overall coverage rates for non-poor informal workers. An important challenge for the emergency social protection response, therefore, was to quickly expand coverage to previously unprotected groups.

Important vehicles to this end were existing social registries and emergency registration campaigns, many of which were conducted remotely and/or digitally, in many cases building on tools that had been previously developed to support the implementation of existing social protection programmes.

Regarding the adequacy of the South Asian social protection response, the literature on cash transfers suggests that, in regular times, they should cover from around 15 per cent to 20 per cent of the average household income of the poorest quintile, a threshold reached by most—but not all—emergency food/cash transfers in the region. However, in a lockdown situation, cash transfers probably require higher values to ensure compliance with containment measures, as they must compensate for livelihood and income losses that may result from social distancing norms.

Furthermore, (semi) contributory initiatives proposed to support the informal and self-employed workers, which comprise a significant part of the missing middle in the region, tend to cover fewer branches (and related contingencies) of the minimum social security guarantees as established in the ILO Convention 102 on Social Security. For example, family or child allowances are not part of the 'simplified' packages for informal workers, which reveals their shortfalls regarding the protection of women and children from an income security viewpoint.

Policy recommendations for social protection

A significant concern is that the expansions of social protection that have taken place as a response to COVID-19 are limited to a specific time frame, while the economic impacts of the crisis and the threat of future shocks to the missing middle will outlast them. Therefore, policymakers need to draw lessons from the current crisis to expand regular social protection coverage, in line with universal coverage across the lifecycle. To that end, countries should employ a dual strategy:

1. Social protection floors must be expanded to provide basic social protection for all.

2. Social insurance must be extended to informal and self-employed workers to provide coverage in the face of idiosyncratic or covariate shocks.

Concrete steps to achieve the goals of this dual strategy include:

- Implementing universal or quasi-universal programmes, such as universal child benefits, paid sick leave, and other types of cash transfers that also include (marginally) non-poor people.

- Expanding and unifying social registries, expanding national ID ownership, and promoting the financial inclusion of poor and vulnerable people.

- Promoting formalisation, such as by opening contributory social insurance accounts supported by public funds.

- Abolishing perverse incentives for employers to hire workers informally to avoid contributing to social insurance and formalising semi-dependent employment relationships.

International Policy Centre for Inclusive Growth

SBS, Quadra 1, Bloco J, Ed. BNDES, 13º andar
70076-900 Brasília, DF - Brazil
Telephone: +55 61 2105 5000

ipc@ipc-undp.org • www.ipcig.org