National policy responses: social protection mechanisms

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- **Big picture**: the pandemic and the cost-of-living crises have tested social protection systems –coverage, benefits and mitigation impact– over the past three years.
- Calls to move to more adaptative social protection systems –systems that are responsive to shocks– have become more prominent we, but we *need to assess how actually-existing system respond.*
- We present evidence from two waves of social protection response –during the pandemic and cost-of-living crisis.
- Assessments, achievements and shortcomings.
- **Larger question**: what if fiscal resources where not a constraint? Would we protect incomes or jobs? Would we do something else?

Assessments

Assessment questions:

1. What were households' incomes expected trajectories for a given year, had the **pandemic** (2020) or the **cost-of-living crisis** (2022) not occurred, and how have these shocks changed that counterfactual picture?
2. What is the impact of income support mechanisms on mitigating income losses and poverty increases?

We exploit full distributions of per capita household income to quantify the country-specific impacts on poverty and vulnerability-to-poverty

The pandemic

Our analysis zooms in to:

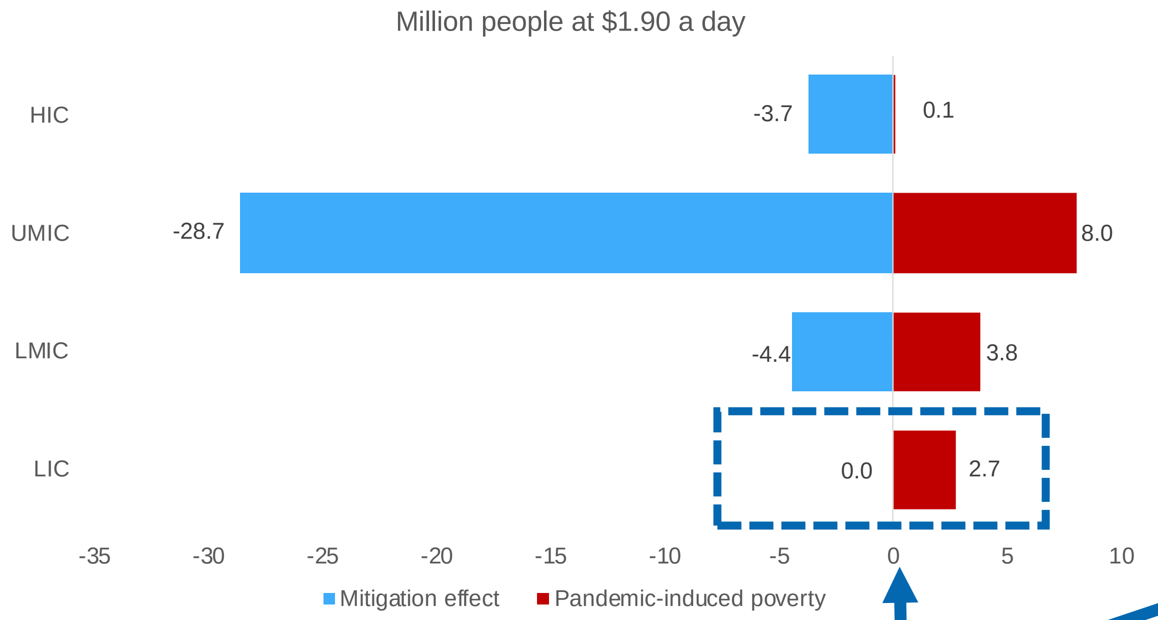
- **72 income support programs across 41 countries** (1.95 billion people)
- Data available in terms of coverage and generosity

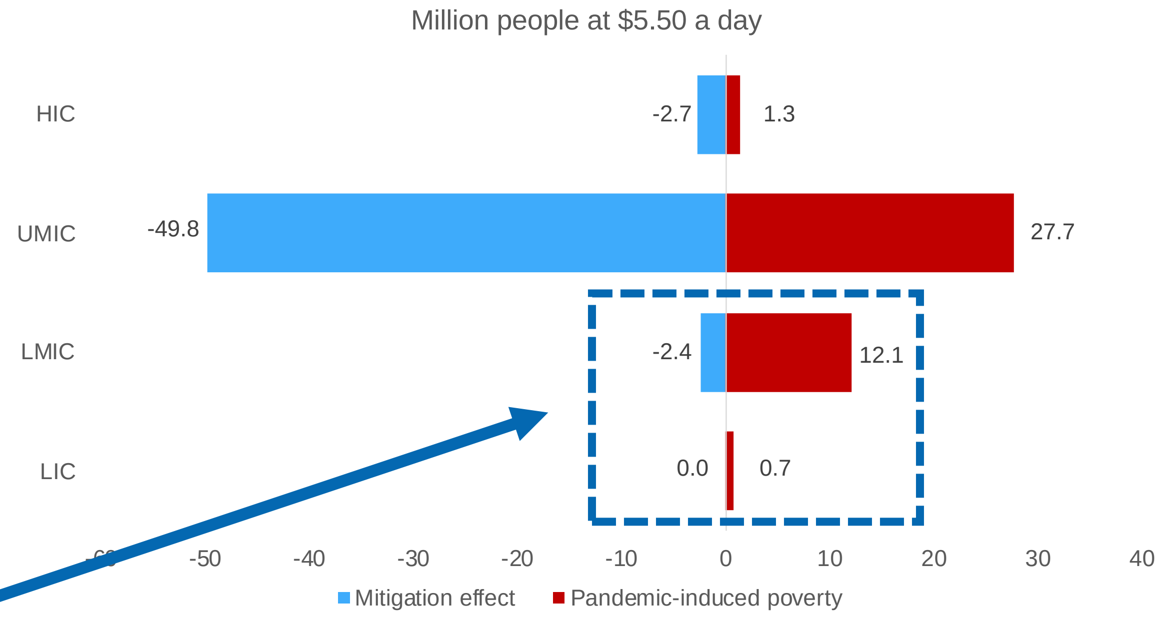
Findings:

- Income support **mitigates between 75% and 95% of poverty increases** in these countries, depending on the poverty line
- However, there are sharp differences between countries

The pandemic

Cash assistance across 41 countries had the potential to mitigate the short-term poverty increase due to the pandemic-induced contraction —chiefly in HICs and UMICs





Except for LICs (and LMICs in the case of the highest poverty line)

Why the differences?

- A key driver is fiscal: While LICs transfer as little as US$4 a day in social assistance, HICs transfer as much as 212 times more
- Many countries expanded their social protection system’s horizontal or vertical reach, but the generosity and capacity to sustain payments —and to keep people out of poverty— concentrates mostly in HICs and some UMICs
- In most MICs and LICs, such capacity depends on either growth in revenues or growth in debt
- We have been calling for comprehensive debt suspension —e.g., we flagged the potential for SDRs to address liquidity challenges in LICs and MICs

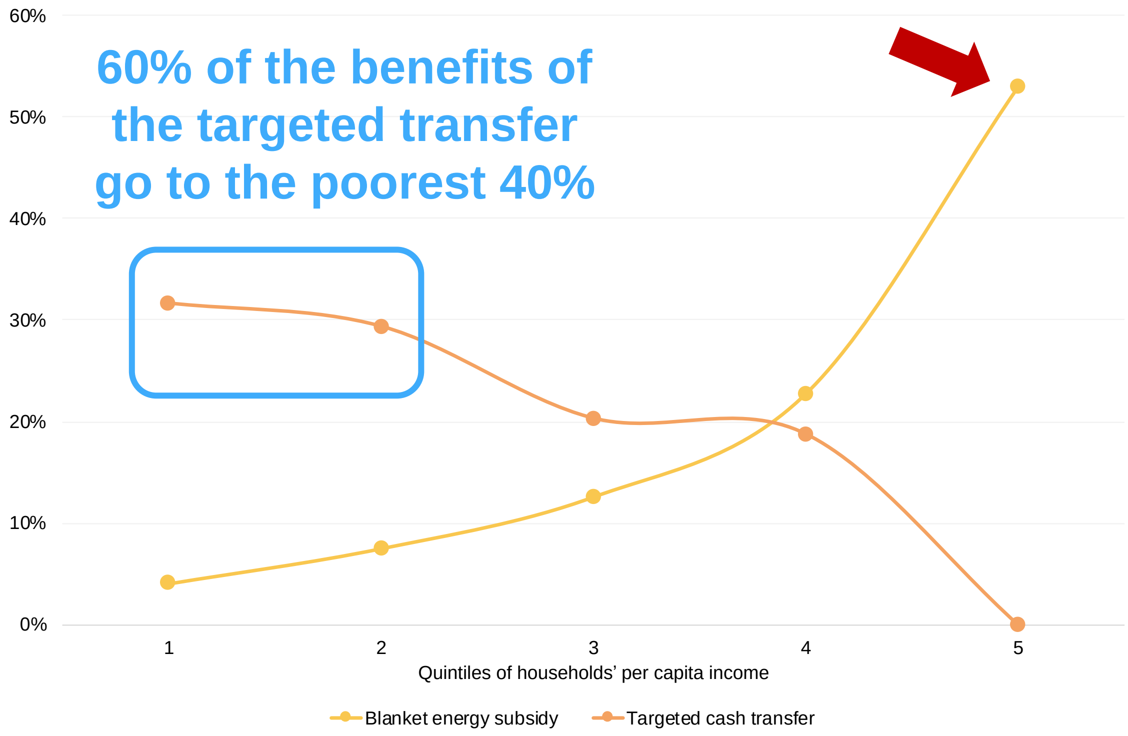
The cost-of-living crisis

What works best as poverty-increase mitigation policy (two policies with similar cost across 159 countries)?

1. Blanket energy subsidies
    - The most-used tools in developing countries (due to urgency to respond)

2. Targeted cash transfers (including 13% of administration costs)
    - Common practice in advanced economies due to capacity to mobilise their social protection architecture and job-saving policies

By contrast, more than half of the benefits of the subsidy go to the richest 20%



The cost-of-living crisis

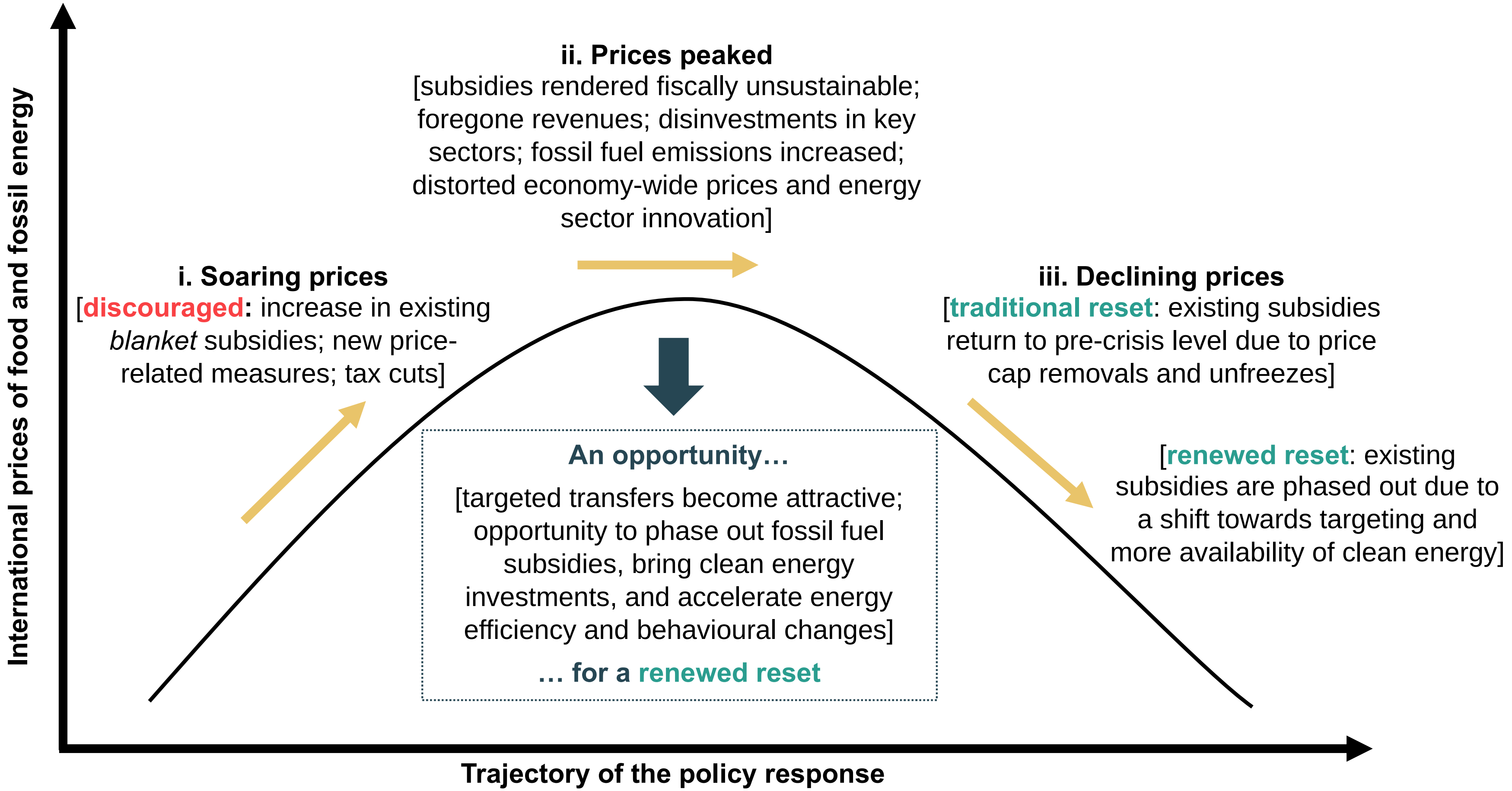
- The targeted transfer mitigates all the short-term poverty increase globally at $1.90 and $3.20 a day (52-72 million people, depending on the poverty line)

- Among those who would fall into poverty at $5.50 a day (71 million people), the cash transfer would prevent up to 74% from doing so

- The potential of the blanket subsidy is comparatively modest: it could prevent only between 22% and 27% of those who would fall into poverty in the absence of policy responses, depending on the poverty line

Policy trajectory

These recent shocks have brought the opportunity for a renewed reset in the policy response trajectory



Conclusion

- Actually-existing social protection systems are constrained by political economy, fiscal and implementation capabilities.
- The fiscal space challenge is massive: mitigation effects during Covid19 and cost-of-living crisis + budget rigidities + debt overhang have left countries depleted.
- The SDG stimulus plan focuses on releasing fiscal space through liquidity injections, new rates and maturities for development lending and debt restructuring.
- In the long run, universal social protection systems need to be built with stronger tax and fiscal pillars.

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