4

Protecting Households with Fiscal Policy: Learning from COVID-19

Summary

The COVID-19 pandemic has acted as a global stress test of the ability of fiscal systems to protect household welfare in a crisis. The fiscal response has been unprecedented in scale, with nearly all countries implementing some measures designed to mitigate the impact of the crisis. Microsimulations in low- and middle-income countries suggest that poverty would have been 2.4 percent higher, on average, without this support.

This chapter is a first look at the lessons learned from this global experience to date. It examines not only the new fiscal policies implemented during the crisis—and highlights impressive achievements in the magnitude, speed, and targeting of the response—but also the vastly different abilities of fiscal policy to protect welfare in richer and poorer countries. Indeed, richer countries were able to protect welfare, and often jobs, from the contraction in global demand and the impacts of local lockdowns, whereas poorer countries were less able to do so. Many low- and middle-income countries found themselves constrained by lack of finance, low levels of formalization, and weak systems for delivering timely social support to households in need. On average, low-income countries, using fiscal measures, reduced the increase in poverty by about a quarter; lower-middle-income countries reduced the increase in poverty by about a third; and upper-middle-income countries halved the poverty increase. Meanwhile, there were notable exceptions in each income group where countries were able to innovate to overcome constraints (such as Togo) or even overcompensate so that poverty fell (such as Brazil and South Africa).

What lessons emerged from this global stress test? There are at least three: the importance of a country's ability to borrow to finance a fiscal response; the challenges of reaching households and protecting jobs in informal economies; and the need for delivery systems that can identify vulnerable people (not just the chronically poor) and provide support quickly. These lessons have implications for how to better prepare fiscally for a crisis by addressing debt, preparing contingent financing, and developing delivery systems that can meet the challenges of a crisis—all will increase the protective power of fiscal policy. The world is in the throes of compounding crises, and these lessons remain valid for future crises, whether climate, conflict, or health in nature. An initial

Chapter 4 online annex available at http://hdl.handle.net/10986/37739:
4A. Microsimulations of the Impact of COVID-19 and the Fiscal Policy Response on Poverty.

assessment of the response to the food and energy price crisis that emerged in 2022 highlights the need to heed these lessons as many governments (93 percent of those that implemented an early fiscal response) turn to inefficient subsidies rather than well-targeted support to manage the crisis.

Finally, this chapter delivers a reality check on the limits of the protection afforded by fiscal policy for many poor households in the near term. Support is needed for other instruments to build the capacity of poor households to protect their welfare in a crisis.

The nature of the fiscal response to the COVID-19 crisis

Globally, the fiscal response to the COVID-19 crisis has been unprecedented in scale, matching its historic impact on growth, poverty, and inequality, as discussed in part 1 of this report. The pandemic prompted an increase in spending around the world: as of September 2021, over US$17 trillion or 20 percent of the 2020 global gross domestic product (GDP) had been committed to the pandemic fiscal response.[1] More than US$10 trillion consisted of forgone tax revenue or additional spending in the health and nonhealth sectors (above-the-line measures), and about US$6 trillion went toward equity injections, loans (below-the-line measures), and guarantees.[2]

The extraordinary fiscal response worldwide to counteract the social and economic impacts of the pandemic has been widely documented in the literature (IMF 2020a, 2020b, 2021; World Bank 2021c and other World Bank regional economic updates; World Bank 2022d). Romer (2021) suggests that spending in advanced economies was four times as large during the pandemic as during the 2007–09 global financial crisis. Meanwhile, the Economic Commission for Latin America and the Caribbean found that the fiscal response in Latin American countries in 2020 amounted to the highest-ever public spending since fiscal data were first published in 1950 (ECLAC 2021). Most of the growth in primary spending took the form of cash transfers and subsidies.

Although the size of the fiscal response to the pandemic has been historic, this chapter does not document the response per se. Instead, it asks, what has been the impact of the fiscal response on household welfare? The data that answer this question are only just emerging and so will, at best, provide an incomplete answer. Other assessments will be needed at a future point when more data and evidence are available.

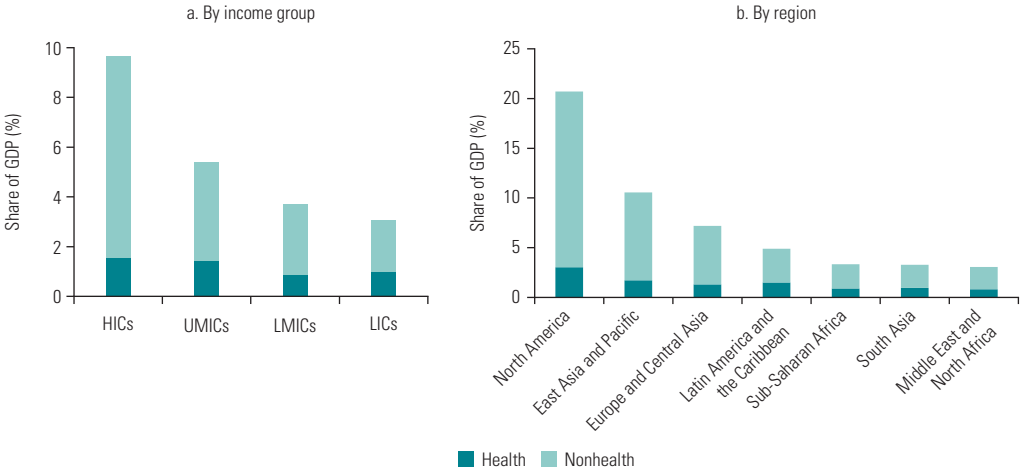
This section begins by summarizing some key differences in the size and nature of the response across countries. In what has been dubbed "the great financing divide," the size of the COVID-19 fiscal response varied tremendously (figure 4.1; also see World Bank 2022d). Lower-income countries spent significantly less than higher-income countries, whether measured in percentage of GDP or per capita GDP. Once spending on automatic stabilizers is taken into account, the gap in crisis-induced spending between lower- and higher-income countries could further widen.[3] The Fiscal Monitor database maintained by the International Monetary Fund (IMF) includes ad hoc fiscal measures announced by governments in response to the pandemic, but it does not capture expenditure on automatic stabilizers, such as unemployment insurance, which are more prevalent in higher-income countries.[4]

Health spending was ramped up significantly in upper-middle-income countries (UMICs) and high-income countries (HICs) during the first year of the pandemic. Although there were large differences in the per capita allocation across countries, health spending as a share of GDP was comparatively uniform. On average, it accounted for about a quarter of above-the-line spending.[5] Most COVID-19–related health spending was for treatments, followed by testing and contact tracing and purchases of medical goods (WHO 2021a). Despite increased spending, the health expenditure as a share of the total general government expenditure did not increase in 2020 in the majority of countries for which there are data, mainly because their total expenditure grew just as fast as or faster than health spending.[6] Their education expenditure also fell from its share in previous years (figure 4.2; also see Al-Samarrai et al. 2021).

Spending on the nonhealth sector response—most of which consisted of policies to support households and firms—accounted for most of the disparities between countries. Across regions,

FIGURE 4.1

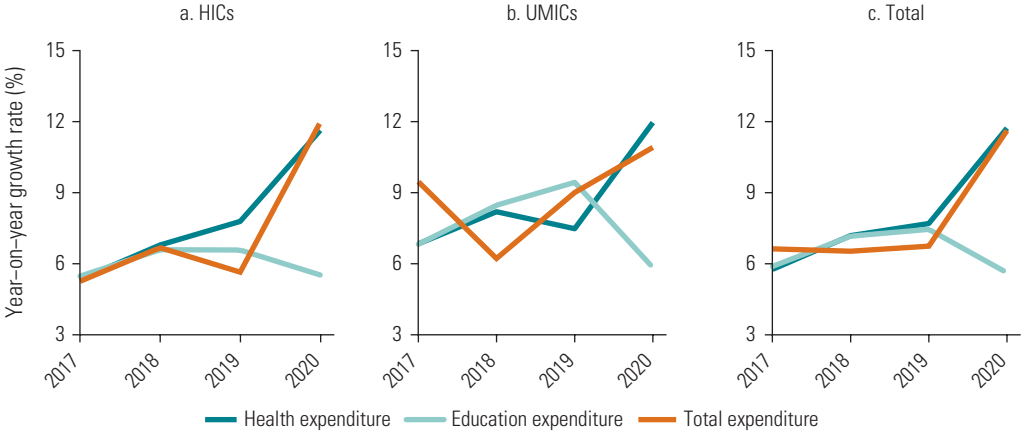
COVID-19 elicited an unprecedented, but highly unequal, fiscal response



Source: Original estimates based on data from International Monetary Fund, Database of Fiscal Policy Responses to COVID-19, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.
Note: The figure shows the above-the-line additional spending/forgone revenue in response to COVID-19, as a share of 2020 GDP, in each income group (panel a) and region (panel b). The response includes measures for implementation in 2020, 2021, and beyond. GDP = gross domestic product; HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

FIGURE 4.2

Health spending increased, but the share of spending on education fell in many countries



Sources: Original estimates based on data from International Monetary Fund, Government Finance Statistics database, Classification of the Functions of Government (COFOG), https://data.imf.org/gfs; United Nations Educational, Scientific and Cultural Organization, Institute for Statistics (UIS) database, http://uis.unesco.org/.
Note: The figure shows the year-on-year growth rate of health, education, and total government expenditure from 2017 to 2020 in HICs (panel a), UMICs (panel b), and combined (panel c). The sample includes 13 UMICs and 33 HICs for health expenditure (COFOG), 15 UMICs and 34 HICs for education expenditure (COFOG and UIS), and 16 UMICs and 33 HICs for total expenditure (COFOG).
HICs = high-income countries; UMICs = upper-middle-income countries.

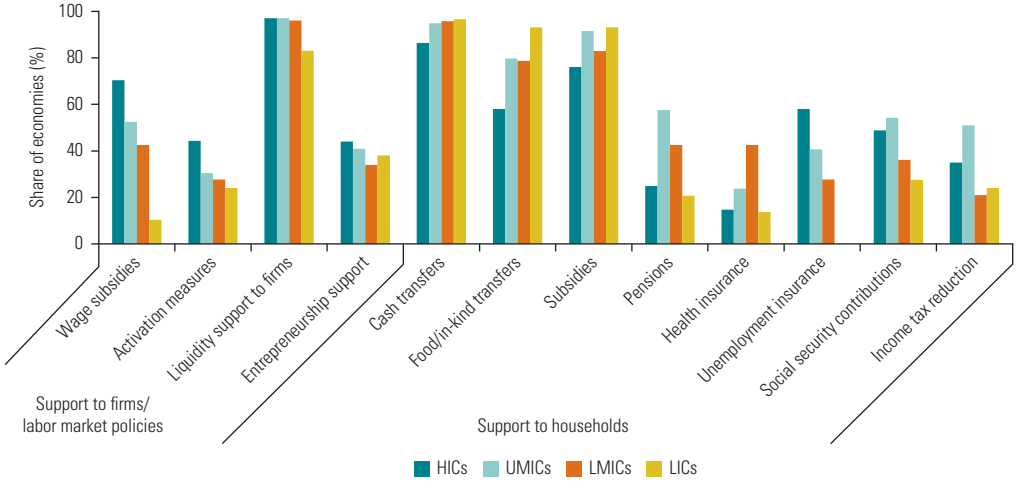
per capita spending was especially low in South Asia and Sub-Saharan Africa. Not only were poorer countries limited in the scale of the fiscal measures they could afford, but, as described in what follows, the nature of the response they could implement during the fast-moving crisis was also different.

Richer countries directed a larger share of their spending toward measures to support firms and save jobs, such as wage subsidies and providing firms with liquidity, which likely helped mitigate the impact of the pandemic and facilitated recovery efforts. This pattern is confirmed in several data sources. Benmelech and Tzur-Ilan (2020), using data through May 2020 from the IMF's Database of Fiscal Policy Responses to COVID-19, find that higher-income countries directed 3.5 percent of GDP toward businesses, compared with 1.2 percent in lower-income countries.[7] Analysis of expenditure data for job-related policies also reveals large disparities in fiscal expenditure targeted at firms, with low-income countries (LICs) spending the least, about 1.5 percent, and HICs spending the most, about 5.4 percent (Kamran et al. 2022). Wage subsidies were reported less in lower-middle-income countries (LMICs) and LICs, and LICs were also less able to provide firms with liquidity, something that was almost universally implemented. Labor market activation measures were also adopted more in richer countries (figure 4.3). Common revenue measures included deferral of corporate or individual tax payments, each adopted by at least 60 countries; reductions or deferrals of social security payments; tax relief to firms and households; and the lowering of indirect taxes such as the value added tax (VAT)—see IMF (2020b).

A large number of programs supported households in the form of transfers and subsidies—a response popular in lower-income countries (figure 4.3). Among the types of social assistance programs, poorer countries focused disproportionately on utility subsidies and food or other in-kind transfers. Almost all countries implemented cash transfers.

FIGURE 4.3

Nearly all countries provided support to households and firms, but the type of support varied by income group



Sources: Original estimates based on Gentilini et al. 2022a and Kamran et al. 2022.
Note: The figure shows the share of economies in each income group that adopted at least one measure for each category of support to firms and households in response to COVID-19. Data on liquidity support to firms, entrepreneurship support, and income tax reduction from Kamran et al. 2022. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

The impact of the fiscal response on household welfare

To truly assess impact, one must consider a counterfactual: What would have happened in each country had fiscal support not been provided? In the absence of such a counterfactual, three sets of questions are posed to assess whether the fiscal responses possessed the characteristics needed to be effective:

1. Was the fiscal response *adequate*? Was support large enough and broad enough to cover all those who had experienced losses, or at least those who had experienced losses and needed support to meet their immediate needs? Were those who received support better able to meet their basic needs?
2. Was the fiscal response *timely*? Did the support arrive when people needed it—that is, before households experiencing losses could no longer meet their basic needs or before they engaged in costly coping strategies such as selling assets? And did the support last long enough?
3. Was the fiscal support *well targeted*—that is, did it reach those who were experiencing losses, or the poorest who would find it the most challenging to cope with the losses experienced?

In seeking answers to these questions, this chapter considers both the support provided directly to households and the support provided to workers via support to firms. Firm and household outcomes tend to be correlated. For example, food insecurity was higher in countries that experienced more severe labor adjustments, and a larger share of households reported income losses in countries where firms experienced greater sales losses (figure 4.4). This finding confirms the importance of considering both firms and households in assessing the impact of a fiscal response on household welfare.

FIGURE 4.4

Household and firm outcomes are strongly correlated in low- and middle-income countries

Sources: Original estimates based on data from World Bank COVID-19 high-frequency phone surveys and COVID-19 Business Pulse Surveys.
Note: The figure shows the relationship between food insecurity and firm layoffs (panel a), and household income loss and change in firm sales (panel b). Each dot indicates economy averages from a pair of firm and household surveys conducted within two months of each other. The sample includes 25 low- and middle-income economies in panel a and 15 in panel b. LICs = low-income countries; MICs = middle-income countries.

Adequacy

Coverage of support was smaller than needed, particularly in poorer countries

The previous section documented large differences in the fiscal responses across countries. However, the impacts of the crisis also varied across country income groups, which could have influenced the size of the response. As a first assessment of the adequacy of support, data from the World Bank's high-frequency phone surveys, or HFPS (see box 2.2 in chapter 2 for details) and similar data from the World Bank's COVID-19 Business Pulse Surveys (BPS) are used to compare the shares of households and firms reporting losses with the shares of households and firms reporting receiving support.[8]

Although the data come with several important limitations for assessing coverage,[9] there is a very strong correlation between the share of the population receiving support, as reported by the HFPS, and the share of the population receiving social assistance, as reported by administrative data collected by Gentilini et al. (2022a) and the IMF data on nonhealth response spending per capita,[10] suggesting that the data do include aspects of the response. Similarly, the share of firms that report receiving support is also well correlated with the IMF data on the nonhealth fiscal response.

The survey data confirm what is expected from the results presented in the previous section—fiscal support was more far-reaching in UMICs than in LMICs and LICs. In UMICs, 47 percent of respondents in the household survey reported receiving support, compared

FIGURE 4.5

Fiscal support received by households and firms was lower in poorer economies

a. Share of households and firms receiving support, by type of support and income group

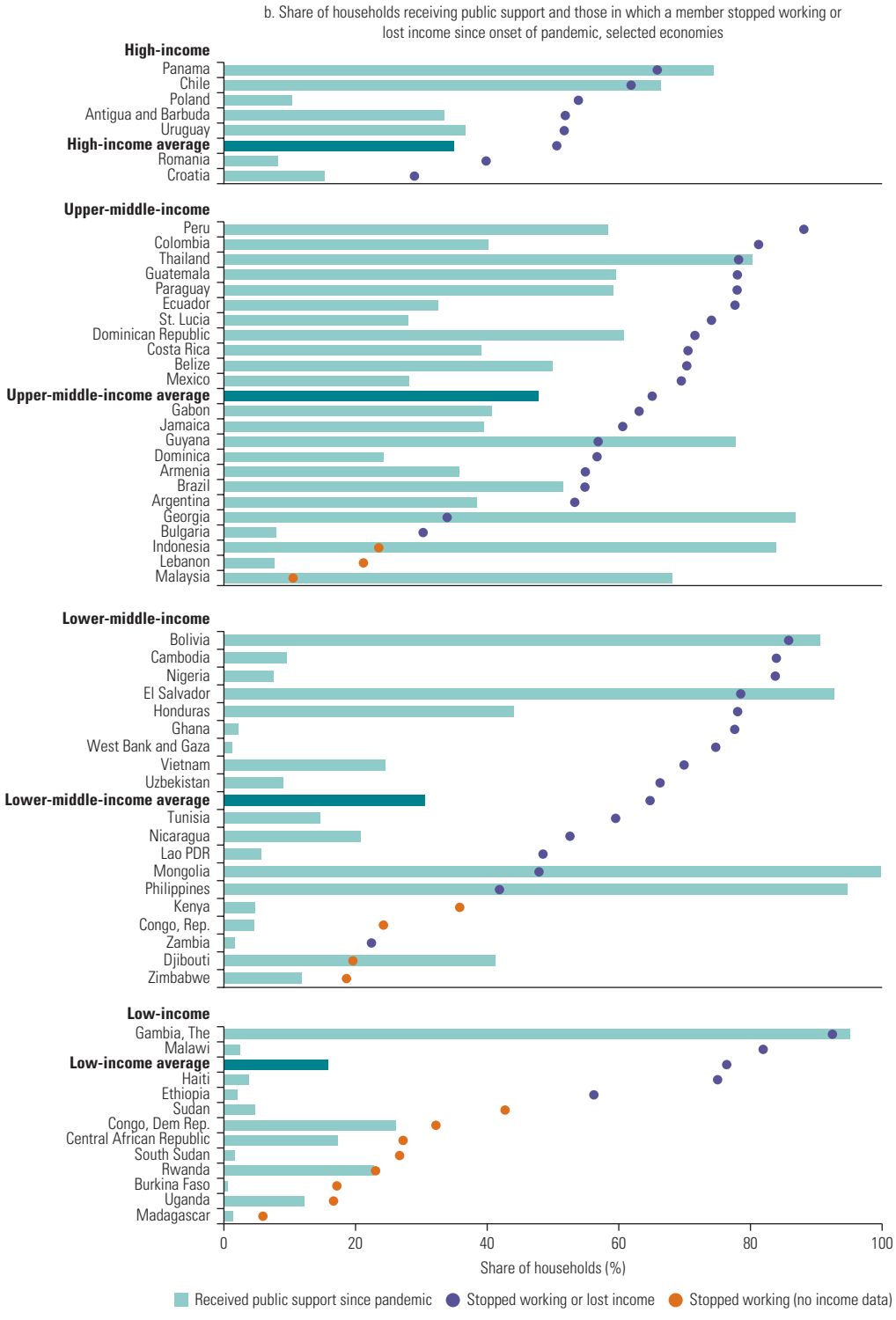
Sources: Original estimates based on data from World Bank COVID-19 high-frequency phone surveys (HFPS) and COVID-19 Business Pulse Surveys (BPS).

Note: The figure shows the share of households or firms in each income group reporting receipt of each type of public support, using the average of economy averages. In economies with multiple surveys, the survey with the highest share of households/firms reporting receipt of support is used. The share of the workforce receiving wage subsidies is shown, calculated using firm labor share weights (when available). The share of firms receiving support is shown for other categories of firm support. The sample includes 65 low- and middle-income economies for support to households (HFPS) and 83 economies for support to firms (BPS). Economies are weighted equally. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

(continued)

FIGURE 4.5

Fiscal support received by households and firms was lower in poorer economies *(continued)*



Source: Original estimates based on data from World Bank COVID-19 high-frequency phone surveys.
Note: The figure shows the maximum share of households reporting public support and job or income loss compared to before the pandemic from any survey conducted in an economy between April 2020 and August 2021. Where surveys did not collect data on income loss, the figure shows only the share of households with a respondent who stopped working. In this figure, economies are categorized using the 2020–21 income categorization.

with 29 percent in LMICs and 15 percent in LICs (figure 4.5, panel a). Likewise, 43 percent of firms in UMICs reported receiving support in the form of wage subsidies, grants, fiscal exemptions, or access to credit, compared with 20 percent in LMICs and 6 percent in LICs (figure 4.5, panel a). This discrepancy was particularly pronounced for the share of the labor force employed in firms receiving wage subsidies, presumably due to differences in the size of the informal sector in these countries.

The poverty impacts presented in chapter 1 for 2020 suggest, however, that needs were not necessarily lower in LMICs and LICs. Chapter 1 highlights that increases in poverty in 2020 were prevalent in countries in all income groups (figure 1.11). Thus lower rates of coverage imply that many affected households and firms in LMICs and LICs were without support. The household and firm survey data suggest this prevalency was not necessarily driven by smaller impacts of the crisis in LMICs and LICs (at least not as reflected in the share of households and firms that reported losses). Figure 4.5, panel b, shows that the share of households that reported receiving support was often less than the share of households reporting income losses.

Because of lack of data, it is not possible to determine whether the size of transfers was large enough to fully cover losses among the most vulnerable groups.

Those who received support were better able to meet their basic needs

To assess whether support, when provided, was appropriate in meeting household needs, the emerging body of literature on the impacts of social assistance provided as part of the COVID-19 response was reviewed. Published papers and working papers using data collected after assistance and a plausible identification strategy for determining impact were included in the review. About half of the 11 papers reviewed evaluated government programs; the others evaluated transfers provided by nongovernmental organizations, but gave insight into the impact of receiving a transfer during the pandemic. The papers consistently reveal that assistance had an impact, improving consumption, food security, labor market outcomes, and health services use (figure 4.6). These findings are consistent with evaluations in HICs as well (see, for example, Chetty et al. 2020).

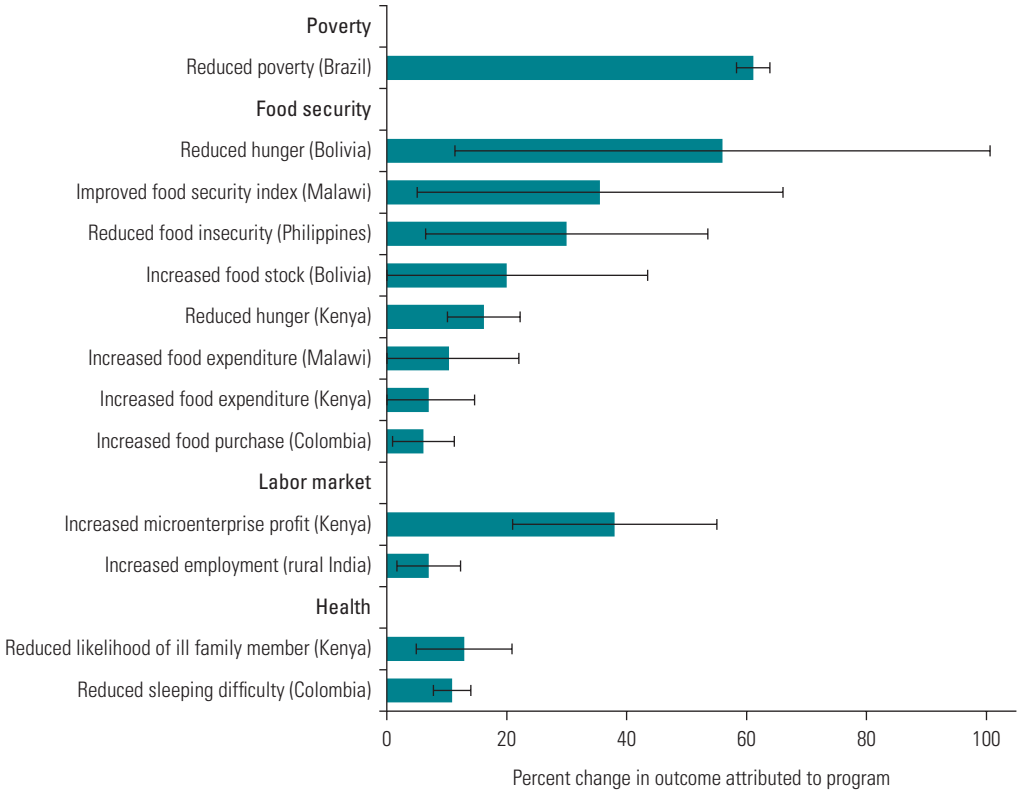
Cross-country analysis shows that transfers encouraged people to stay at home, particularly in poorer places, with corresponding health benefits (Aminjonov, Bargain, and Bernard 2021). This effect was also observed in a randomized controlled trial setting in Kenya (Banerjee et al. 2020), where transfers reduced both reported hunger and the number of people in a household who were infected. By way of comparison, Brooks et al. (2020) find that cash transfers to female entrepreneurs made their business more likely to be operating.

Household survey data also underscore the effectiveness of transfers provided. In Brazil, data show a 7.5 percent decline in poverty measured against the US$5.50 poverty line during 2020, despite widespread labor income losses (World Bank 2022a). This decline highlights the exceptional generosity of the emergency transfers provided. In Colombia, transfers reduced the increase in poverty from 9.0 percentage points to 6.8 percentage points (DANE 2021), and in the Dominican Republic transfers reduced the increase in poverty from 8.1 percentage points to just 2.4 percentage points (CTP 2021). In Costa Rica, although transfers reduced poverty by 4 percentage points, the income losses during the pandemic were severe. As a result, overall poverty increased significantly, by 6 percentage points (World Bank, forthcoming b). In Indonesia, the 2020 official poverty data suggest that fiscal policy protected people against the worst of the crisis, with poverty increasing to 10.2 percent rather than the 11.6 percent projected by simulations with no compensation (Ali and Tiwari 2020).

Support to firms also appears to have had a strong impact on job retention. According to BPS data,[11] firms that were financially constrained presented worse labor market impacts (reduced

FIGURE 4.6

Support provided to households had significant impact



Sources: Original estimates based on Bottan, Hoffmann, and Vera-Cossio 2021 (Bolivia); Menezes-Filho, Komatsu, and Rosa 2021 (Brazil); Londoño-Vélez and Pablo Querubin 2022 (Colombia); Afridi, Mahajan, and Sangwan 2022 (India); Banerjee et al. 2020 and Brooks et al. 2020 (Kenya); Aggarwal et al. 2020 (Malawi); Cho et al. 2021 (Philippines).
Note: The figure shows the estimated impact of fiscal support—most often cash transfers, but sometimes public works programs—on different outcomes, as a percentage change, based on ex post evaluations in selected economies. Ninety-five percent confidence intervals are shown.

working hours and wages, higher layoffs, fewer hirings) and an increased likelihood of falling into arrears (Farazi and Lopez-Cordova 2022). Cirera et al. (2021) use the BPS data to show that credit, cash transfers, and tax support during the COVID-19 pandemic were positively associated with expected sales growth. The authors also find that receiving wage subsidies is associated with a lower probability of firing workers. Gourinchas et al. (2021), using data from 27 European countries, estimate that, in the absence of government support, the small and medium enterprise failure rate would have been about 5.5 percentage points higher. In Chile, Albagli, Fernández, and Huneeus (2021) find that firms that received a new loan or entered into a refinancing operation increased employment relative to firms that did not.

These findings are consistent with the literature on fiscal response in other crises. At the country level, Cerra, Fatás, and Saxena (2020) show that the size of a fiscal policy response during a crisis is correlated with the ability to recover economic output. Rigorous evidence on the impact of cash transfers provided in response to a disaster is limited, but what is available shows significant short- and long-run welfare benefits (Del Carpio and Macours 2010;

Ivaschenko et al. 2020; Macours, Schady, and Vakis 2012; Mansur, Doyle, and Ivaschenko 2017; Pople et al. 2021). Earlier, Aker et al. (2016) found that cash transfers delivered by mobile phone to women in Niger after a drought provided sustained benefits for food security and diet diversity, compared with cash transfers delivered in person. This outcome arose because women spent less time traveling to receive the transfer. This finding is consistent with emerging literature that shows that the impact of noncrisis cash transfers is affected by who in the household receives the transfer.

Regular cash transfers to households, provided as part of regular fiscal policy, not emergency support, also helped protect household welfare during the early stage of the pandemic. The additional regular income from cash transfers protects a household's standard of living when risks materialize, protecting consumption and assets. Two papers highlight that households receiving regular transfer income were better able to protect their food security than households that did not receive transfers (Abay et al., forthcoming; Bottan, Hoffmann, and Vera-Cossio 2021). This finding is consistent with the existing evidence that evaluates the impact of regular cash transfers in a crisis (de Janvry et al. 2006; Knippenberg and Hoddinot 2019; Pega et al. 2017).

Timeliness

Support was announced quickly, but it took time to arrive

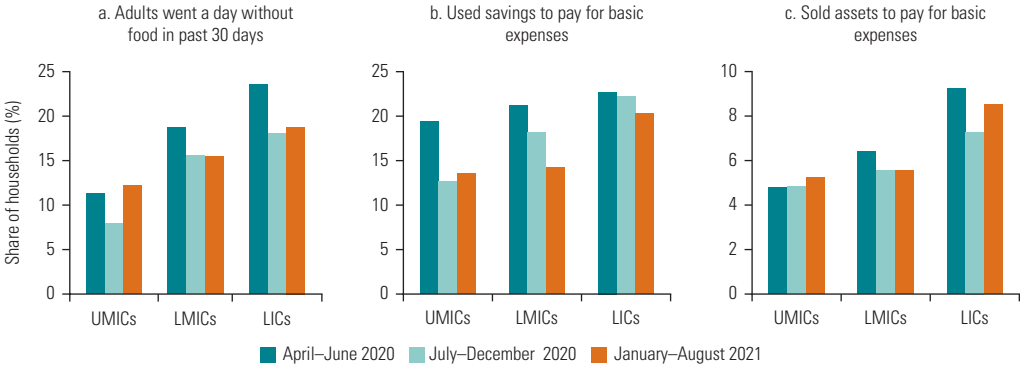
The impact of the pandemic was felt most acutely during its first three to four months, from March to June 2020, when many countries implemented nationwide lockdowns in the face of uncertainties about the pandemic. According to the HFPS and BPS, employment and income losses were widespread from April to June. Households tried to cope by using their assets and savings, but food insecurity was disturbingly high during this period of many lockdowns (figure 4.7). A result of this use of assets and savings is that the financial position of many households is now weaker. This pattern of widespread losses experienced immediately at the start of the crisis is borne out in data collected in national surveys at the country level (such as World Bank, forthcoming a, c). The HFPS data reveal improvements in late 2020 but that food insecurity increased again in 2021 without the same levels of job loss. This finding may reflect food price inflation in 2021 (see box 1.4 in chapter 1), poorer job quality in the immediate period of recovery (as documented in chapter 2), households reaching their coping capacity, or the premature withdrawal of government support.

At the outset of the pandemic, countries quickly announced that households and businesses would receive support to keep them afloat. By June 2020, 52 percent of the total spending on the pandemic fiscal response had been announced, including 1,145 social protection measures in LICs and middle-income countries (MICs) and many measures supporting firms (figure 4.8). This support was in part financed by US$125 billion from multilaterals (IMF, World Bank Group, regional development banks, and the United Nations system), 70 percent of which was committed by July and 40 percent disbursed by then (Yang et al. 2021). By many accounts, this response was historically quick and compares well with the speed of response in other crises (Yang et al. 2021), although there was variation across countries, with LICs slower to announce support.

Although some countries were able to implement these measures quickly, often against the odds, in many countries implementation proceeded more slowly, as indicated by the financing data. Financial transfers from the multilateral system directly to government budgets were disbursed quickly, but other financial transfers that were financing specific projects were disbursed much more slowly. Only 13 percent of funds committed to projects by the multilateral system was disbursed by July 2020 (Yang et al. 2021). On average, countries began implementation

FIGURE 4.7

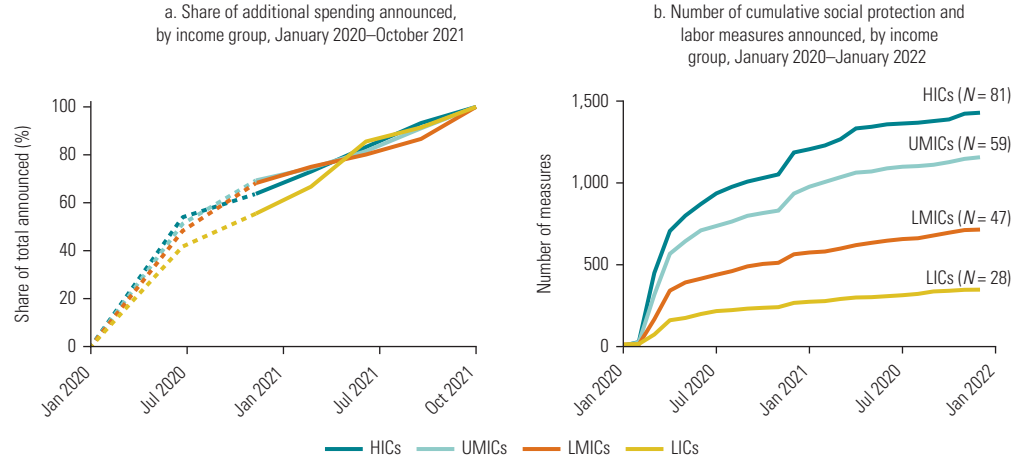
Households quickly employed coping strategies in response to lower labor incomes



Source: Original estimates based on data from World Bank COVID-19 high-frequency phone surveys.
Note: The figure shows the share of households in each income group experiencing food insecurity (panel a), using savings (panel b), and selling assets (panel c) for three periods during the pandemic. To account for the fact that the sample of economies with observations changes for each period, the numbers presented are the predicted values from a regression with time dummies and country-fixed effects (taking the average of the country-fixed effects for each income category within each period). The sample includes 37 countries in panel a, 34 in panel b, and 35 in panel c, Economies are weighted equally. LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

FIGURE 4.8

Countries announced fiscal support quickly at the outset of pandemic

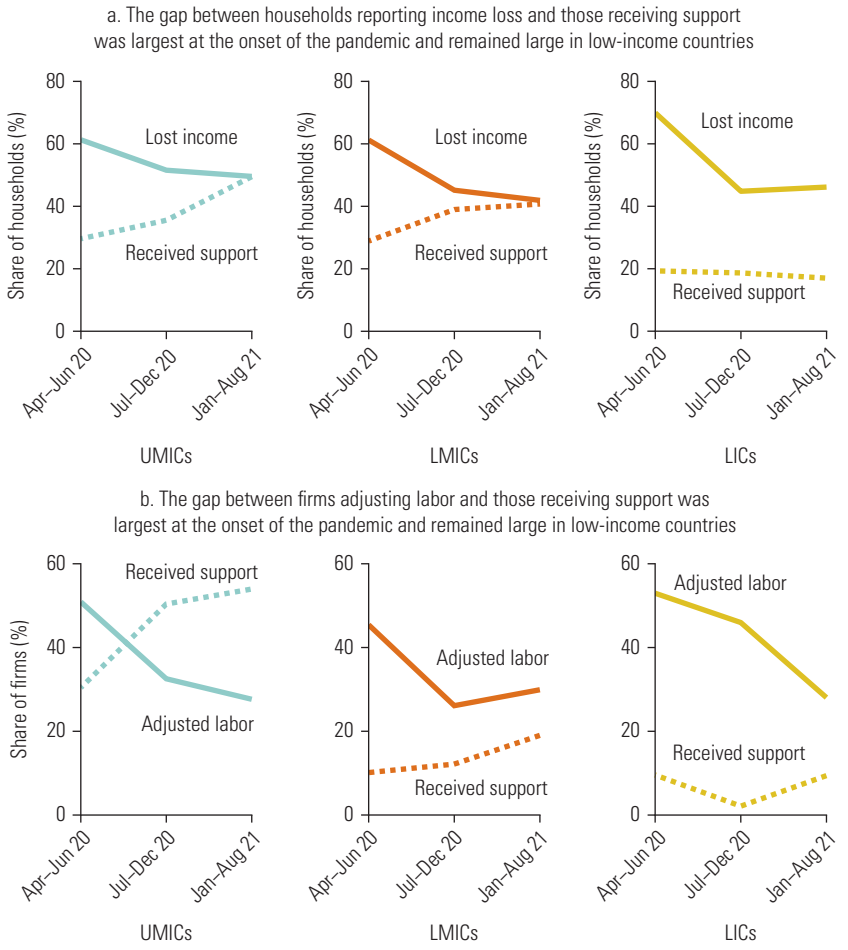


Sources: Original estimates based on data from International Monetary Fund, Database of Fiscal Policy Responses to COVID-19, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19; and Gentilini et al. 2022a.
Note: Panel a shows announced additional spending or forgone revenue as a share of total spending announced up to October 2021 in each income group. The dotted lines reflect that data for June 2020 are available for fewer economies. The sample includes a 175-economy panel from October 2020 to October 2021. Panel b shows the cumulative number of social protection and labor measures planned or implemented in each income group. The sample includes 215 economies. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

of a support measure about a month after announcing it (Gentilini et al. 2022a), but there is a large variation across countries and measures. In an analysis of cash transfer programs in 53 LICs and MICs, Beazley, Marzi, and Steller (2021) find that beneficiaries received payment 83 days, on average, after the first day of stay-at-home orders (which prompted many of the income losses). This payment period, however, varied by region. The East Asia and Pacific and the Middle East and North Africa regions were the quickest to disburse (on average, 25 and 28 days, respectively), followed by Latin America and the Caribbean and South Asia (60 and 65 days, respectively). The average for Sub-Saharan Africa was 132 days.

FIGURE 4.9

Fiscal support often arrived after needs emerged



Sources: Original estimates based on data from World Bank COVID-19 high-frequency phone surveys and COVID-19 Business Pulse Surveys.
Note: Panel a shows the share of households in each income group that lost income and the share of households that received support across three periods during the pandemic. Lost income = total income decreased relative to before the pandemic. Panel b shows the share of firms in each income group that adjusted labor and the share of firms that received support across three periods during the pandemic. Adjusted labor = firm fired workers, reduced hours, or cut wages in the past 30 days. To account for the fact that the sample of economies with observations changes for each period, the numbers presented are the predicted values from a regression with time dummies and economy-fixed effects (taking the average of the economy-fixed effects for each income category within each period). The sample includes 21 economies in panel a and 34 economies in panel b. Economies are weighted equally. LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

The result was that many households and firms did not receive support during the period they needed it most—at the start of the pandemic (figure 4.9). Twenty-nine percent of households in UMICs and LMICs reported receiving support before July 2020, but only 19 percent of households did so in LICs. This amount increased to 36 percent in UMICs and 39 percent in LMICs in the period July–December 2020. The pattern for firms is similar (figure 4.9, panel b), with support increasing over time, particularly in UMICs.

COVID-19 fiscal support was withdrawn prematurely in some countries, followed by a weak response to the ensuing food and energy price crisis

In view of the length of the crisis, the weak recovery of the labor market (documented in chapter 2), and the compounding effects of higher food and energy prices, it appears that fiscal support was withdrawn prematurely in some countries. The average duration of announced social assistance programs was 4.5 months, but again there is wide variation across countries. The majority of programs lasted for less than three months, and nearly half of new programs were one-off transfers. Gentilini et al. (2022a) estimate that 21 percent were still active as of February 2022. As of July 2022, most programs had been discontinued. Only 16 percent of programs were extended over the period 2020–21, although there was an additional surge of social protection measures announced in the first half of 2021 (figure 4.8, panel b).

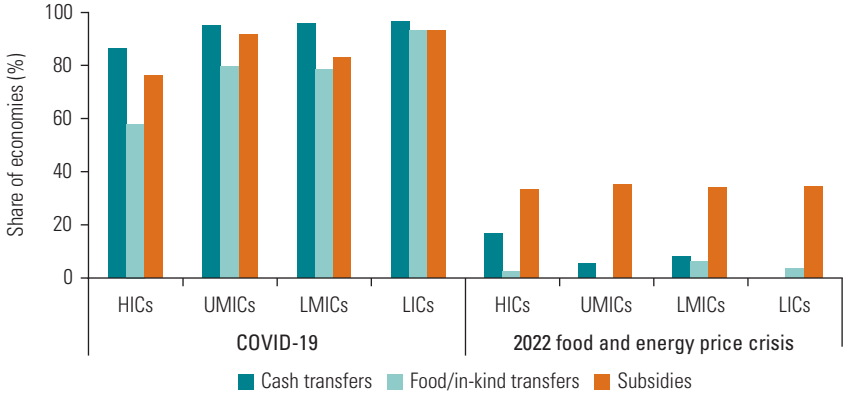
In Brazil, the incomes of the poorest 40 percent fell by about 9 percent from August to October 2020, when the amounts of emergency transfers were cut in half. From 2020 to 2021, further reductions in the coverage and benefits of the emergency programs, combined with a labor market that had not yet fully recovered, resulted in an increase in poverty of almost 6 percentage points, although still below 2019 levels (World Bank 2022a). In Indonesia, although a second round of fiscal support measures was introduced in 2021, reaching more households than the support provided in 2020, the size of the transfers in most programs was less generous, and so the impact on poverty was more muted than if the 2020 transfer levels had been maintained (World Bank, forthcoming d).

In 2022, governments began implementing new measures to help households manage the impact of the food price shock. Many of the same households—the urban poor and vulnerable—that were affected most by the COVID-19 crisis were also those hit the hardest by higher food and energy prices (see chapters 1 and 2). Governments often turned to unorthodox policy measures, such as large food purchases and export restrictions (USDA 2022), to try to manage food price impacts, while also adopting fiscal policy measures largely used to protect household welfare.

The impacts of these measures on household welfare will have to be assessed in due course, but many observers suggest that these fiscal responses are significantly more productive than protectionist trade policies (Glauber and Laborde 2022). However, the data on policy trackers point to two clear patterns in the type of support provided that cause concern: (1) the number of countries implementing measures targeting households and the number of measures implemented are much lower than during the early part of the COVID-19 pandemic; and (2) cash or in-kind transfers are much less likely to be implemented than early on in the pandemic (figure 4.10). Lessons from the pandemic and analysis of cash transfers and subsidies (see chapters 5 and 6) suggest this support method may result in quicker delivery of support, but that support will have less impact and be less well targeted to poor and vulnerable households.

FIGURE 4.10

In 2022, the fiscal response to rising food and energy prices was much smaller and focused on subsidies



Sources: Original estimates based on Gentilini et al. 2022a and Gentilini et al. 2022b.
Note: The figure shows the share of economies in each income group that provided each type of support in response to COVID-19 or the 2022 food and energy price crisis. Estimates for the 2022 price crisis are based on the first version of Gentilini et al. 2022b (April 2022) and thus only include measures implemented before then. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

Targeting

Many countries provided universal support during the pandemic, but often using inefficient means

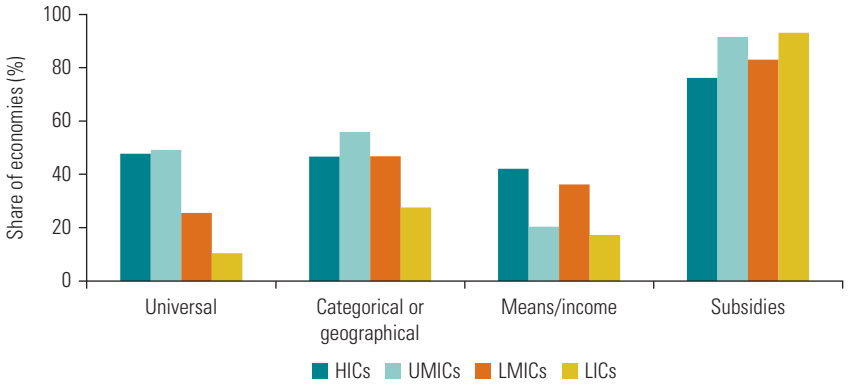
Great uncertainty surrounded how the pandemic would evolve and affect households and firms. This uncertainty may have encouraged broad coverage of support rather than attempts to anticipate losses and target those who were vulnerable. Strong political considerations encourage the provision of broad support as well: it can be hard to secure enough political support for narrowly targeted programs, even during a crisis. Perhaps for that reason, many countries chose to provide support to all households through universal transfers or subsidies instead of directing support by means of categorical or means-tested targeting (figure 4.11).

When countries provided universal support to households, subsidies were favored over universal transfers (figure 4.11). Subsidies were used across all country income groups, but more so in LICs (93 percent) than in HICs (76 percent), with UMICs and LMICs falling in between. Universal transfers were implemented in almost half of HICs and UMICs, but in only a quarter of LMICs and a tenth of LICs. Because support had to be delivered quickly at a time when social interactions were limited, governments tended to use existing delivery systems to support households. This meant using suspensions of tax and utility payments and subsidies in countries with limited social assistance delivery systems whose small programs target the chronically poor. However, other countries such as Togo (box 4.1) and South Africa (box 7.3 in chapter 7) that had very limited social transfers before the crisis innovated to rapidly expand the coverage of targeted cash transfers.

A cost is incurred in providing support to more people than needed, but, because of the widespread work and income losses arising from the pandemic and the challenge of targeting beneficiaries accurately, the cost may have been worthwhile. However, because universal support largely took the form of subsidies, the cost of covering more people than necessary was

FIGURE 4.11

Countries implemented more broad-based support than targeted support during COVID-19



Source: Gentilini et al. 2022a.
Note: The figure shows the share of economies in each income group that adopted at least one measure in response to the COVID-19 crisis using the targeting method indicated. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

BOX 4.1

COVID-19 cash transfers in Togo

Togo's Novissi cash transfer program used a digital platform to quickly register people, target beneficiaries, and deliver support during the COVID-19 pandemic. Before the crisis, all social protection and labor programs covered only 3 percent of the population of Togo, based on the latest survey.[a] By the end of April 2020, the Novissi enrollment and payment system, developed by the government within weeks of the onset of the crisis, had delivered mobile money to 12 percent of the adult population (450,000 people). By mid-2021, transfers had reached almost a quarter of the adult population (Lawson 2022).

Digital identification was possible thanks to the population registry from the February 2020 election. Because of recently updated voter information and mandatory voting, approximately 93 percent of adults were included in the electoral database (Lawson, Bakari, and Vasconcellos 2021). Voter information included name, address, occupation, and a stamped security code (NSF number). These could be cross-checked during enrollment and used to identify informal workers in specific locations.

Voters could register on basic mobile phones with 2G network coverage using Unstructured Supplementary Service Data (USSD) codes, an offline technology already widely used for mobile payments in Togo. To register, applicants dialed *855# and entered the information on their voter card. The first payment was made immediately if they met the eligibility criteria, and a mobile money account was automatically created if none existed. A radio campaign and in-person post office agents helped to reduce program exclusion by assisting those who did not have a mobile phone or needed help registering.

Targeting by the Novissi program evolved over the pandemic. Initially, cash transfers were rolled out to informal workers in districts experiencing strict lockdowns. In mid-2020, curfew measures began to be implemented in smaller geographic areas (cantons), and the eligibility for Novissi transfers was updated accordingly and expanded to include some formal workers (Debenedetti 2021).

In October 2020, the government expanded Novissi to the poorest cantons of the country. Without a detailed social registry, it relied on machine learning methods to target the poorest beneficiaries, partnering with GiveDirectly and academia (University of California at Berkeley,

(continued)

BOX 4.1

COVID-19 cash transfers in Togo *(continued)*

Innovations for Poverty Action, and Northwestern University). It began by identifying the poorest cantons from satellite data (and other big data) using algorithms trained on household surveys (Chi et al. 2022). Information collected in a representative phone survey in September 2020 was then matched to mobile phone call detail records and used as a ground truth to train algorithms to estimate consumption for all 5.7 million active mobile numbers in Togo from patterns of phone use (Aiken et al. 2022). The poorest individuals based on these consumption estimates (subject to a budget constraint) in the poorest 200 cantons were eligible for transfers.

In an ex post evaluation, Aiken et al. (2022) found that the phone-based targeting method reduced exclusion errors by 4–21 percent relative to the geographic targeting options available to the government for the rural expansion of Novissi. In addition, the authors simulated a hypothetical nationwide transfer program to the poorest. The phone-based targeting method again excluded fewer eligible beneficiaries than the most feasible alternatives (50 percent exclusion errors), except for assigning transfers to the poorest occupation category (48 percent). Hypothetical targeting methods that require an up-to-date comprehensive social registry such as an asset index or perfectly calibrated proxy means test resulted in better targeting in this simulation (46 and 37 percent exclusion errors, respectively), but no such registry existed in Togo. Among mobile phone subscribers, the machine learning approach did not systematically exclude women or specific ethnic groups, religions, age groups, or types of households. Novissi highlights how innovative methods and data could complement traditional social protection systems, particularly in a crisis when existing social registries are insufficient or outdated.

a. World Bank, Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE) database, https://www.worldbank.org/en/data/datatopics/aspire.

particularly high. Subsidies are costly because better-off households receive the largest share of the benefits of subsidies, and they are likely neither poor nor vulnerable to falling into poverty (chapter 5). The extent to which this is true depends on the nature of the subsidy. More than three-quarters of countries implemented subsidies or waivers related to housing rents, water, electricity, heating, and telecommunications; and more than half of countries implemented waivers on mortgage and loan repayments—see Gentilini et al. (2022a) on the types of subsidies implemented. Subsidies for food—something consumed more equally across the income distribution—were much less common. There is evidence that much of the benefit of these types of subsidies went to nonpoor households. For example, Berkouwer et al. (2021) find that during the pandemic in Ghana electricity subsidies benefited richer households more than poor households.

Subsidies are also more costly because they do not have the long-run growth benefits of transfers (see chapter 6 for a fuller discussion). If universal support must be provided for political reasons, it is much less costly to provide it in the form of universal transfers than costlier universal subsidies.

Targeting the new poor for support was challenging

Assessing whether targeted fiscal support went to the right people and firms is challenging. One reason is that support distributed during the crisis was multipurpose. For households, support was sometimes intended to meet the needs of those affected the most, to protect the poor and vulnerable, or to provide the financial support people needed to stay home. For firms, support may have been intended to aid viable, productive firms that needed to be kept afloat

to avoid economic scarring—or firms in sectors experiencing large losses or those employing many workers.

Significant data challenges further complicate the task of assessing the quality of targeting. The HFPS and BPS highlight which households and firms were experiencing losses, but not the size of losses or whether the losses made it difficult for households to meet basic needs or for firms to stay afloat. The data on support received likely capture social assistance and insurance, but not necessarily subsidies, exemptions, or wage supports provided to their employers.

Given these constraints, this section does not offer a comprehensive assessment of the quality of targeting during the crisis. Instead, it looks at the extent to which countries used targeted instruments and the degree to which countries reached people who reported income or employment losses or reached firms that reported cutting back on workers or wages.

Programs that have built-in automatic stabilizers, such as unemployment insurance or self-targeting employment guarantee schemes, automatically target those affected or in need through self-selection. However, unemployment insurance formed a very small part of the response across countries. In Brazil, it contributed just 7 percent of the overall poverty impact of the fiscal response (Cereda, Rubiao, and Sousa 2020). In Ecuador, unemployment insurance payments increased income by less than 1 percent in the lowest decile, compared with COVID-19–related benefits, which increased income by 13 percent (Jara, Montesdeoca, and Tasseva 2021). Analyses of a range of countries in Africa found that automatic stabilizers had negligible effects (Lastunen et al. 2021). Public works were used by households in need, but often at later stages of the crisis, when social distancing restrictions had eased and aversion behavior had abated. For example, in one survey of poorer households in India, 16 percent reported working on the Mahatma Gandhi National Rural Employment Guarantee Act (MG-NREGA) program in May 2020, compared with 54 percent in September 2020 (Gelb et al. 2022). Supply constraints also limited the degree to which employment guarantee schemes were able to act as an automatic stabilizer.

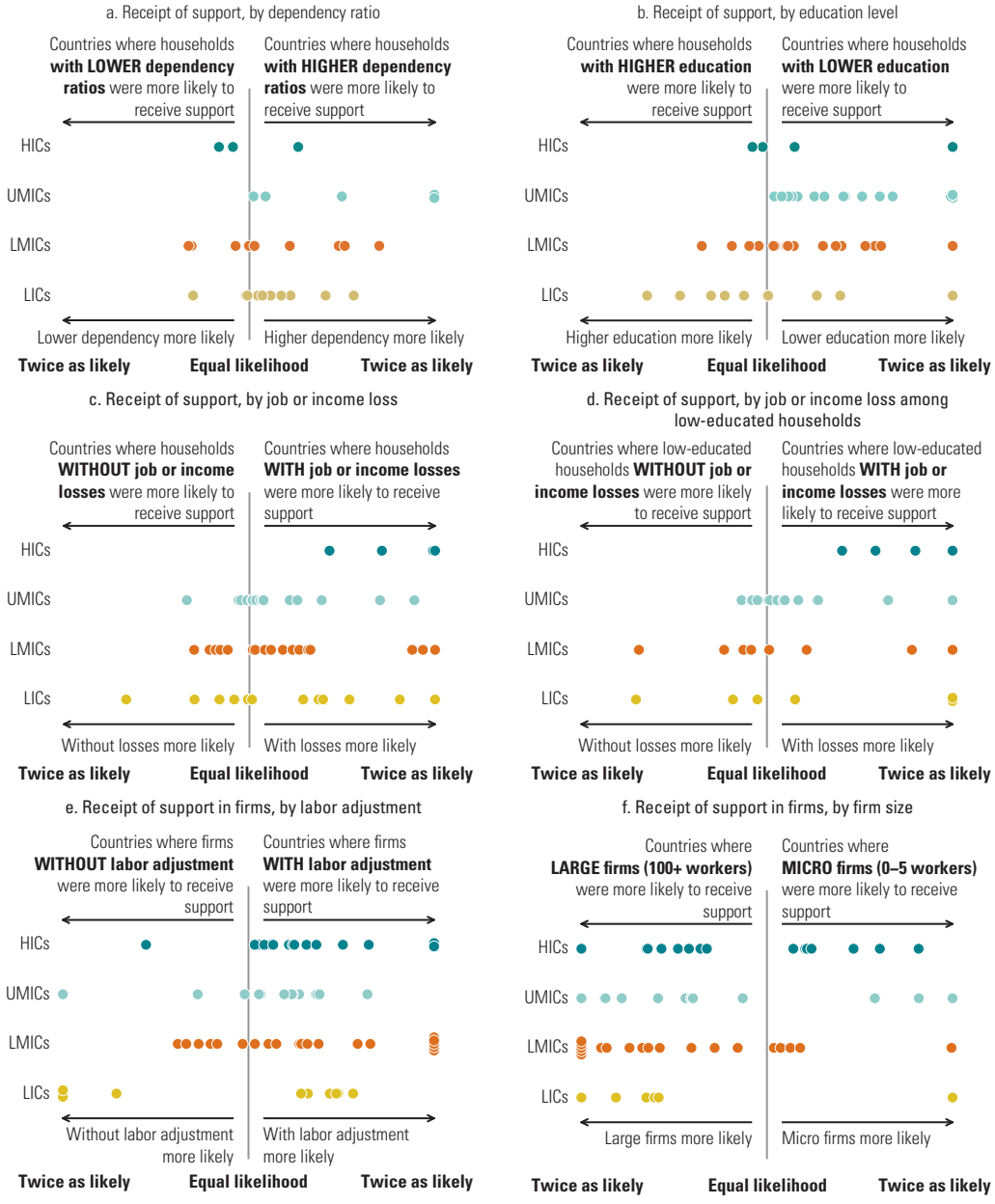
Lower-income countries were most likely to implement programs targeted to specific categories of people (such as those living in a certain place or working in a specific profession), whereas higher-income countries were more likely to use means-tested programs (figure 4.11). Although some targeted social assistance programs increased support to existing beneficiaries, most were new or were existing programs expanding to include additional beneficiaries.

The HFPS data indicate the types of households that received support. Figure 4.12, panels a and b, depict how much more likely households were to receive support if they had characteristics that are typically highly correlated with being structurally poor (having a higher dependency ratio and having lower education). Each dot represents a country. Households receiving support were generally more likely to have characteristics associated with being poor: they had higher dependency ratios, were less educated, and were more rural (results for rural not shown). In many countries, existing social assistance programs are targeted to households that were structurally poor before the crisis—often rural, agricultural households.

Poor households were not necessarily those affected most by the COVID-19 crisis. The most affected were more likely to be urban than rural and to work in services or manufacturing than in agriculture (see chapter 2)—that is, those who would have been considered vulnerable, but not poor, before the crisis. Figure 4.12, panels c and d, show how much more likely all households and low-educated households that experienced income or job losses were to receive support. In most but not all countries, households were more likely to receive support if they reported income or job losses, but few countries saw a difference in the share of households receiving support larger than 10 percentage points. Bigger differences are documented for higher-income countries, suggesting they were better able than lower-income countries to target support to those experiencing losses.[12] This finding may reflect the increased use of automatic stabilizers in these countries or better data systems that allow targeting based on need. The challenge of

FIGURE 4.12

A breakdown by country income group reveals it was challenging to direct support to need



Sources: Original estimates based on data from World Bank COVID-19 high-frequency phone surveys (HFPS) and COVID-19 Business Pulse Surveys (BPS).
Note: The figures show the difference in the share of households (or firms) receiving support between two groups. Each dot represents one economy. Panel a shows the difference between the share of households with high dependency ratios that received support and the share of households with low dependency ratios that received support. High dependency ratios are defined as higher than the country median, and low dependency ratios are lower than the country median. The x-axis scale ranges from 0 percent at the center line, indicating equal likelihood, to 100 percent at the limit on both sides, indicating twice the number of households received support relative to the other group. Values are truncated at 100 so that countries where one group was more than twice as likely to receive support are shown using vertically stacked dots at the limits of the x-axis. Panel b shows the difference between those with higher or lower education. Lower education is defined as primary or less in LICs and LMICs, and secondary or less in UMICs and HICs. Panel c shows the difference between those that lost a job or income and those that did not. Panel d shows the same difference as panel c, but restricts the sample to low-educated households using the same definition as panel b. Panels e and f show the same measure for firms with labor adjustment and large firms, respectively. In panel e, firms with labor adjustment either fired workers, reduced hours, or cut wages in the past 30 days. In panel f, large firms have more than 100 workers and micro firms have 0 to 5 workers. Mid-size firms are excluded from the sample. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

targeting need in a crisis is not unique to COVID-19. Few studies examine the quality of targeting of disaster response, but one study does show that it can be challenging in a crisis to target the neediest using objective criteria (Broussard, Dercon, and Somanathan 2014).

Country analyses highlight the challenge in reaching the new poor through delivery systems designed to reach the existing poor. For example, Battacharya and Sinha Roy (2021) investigate how India's social protection response was able to reach a large share of households by using existing systems—nearly 85 percent of rural households and 69 percent of urban households received food or cash support—and the challenges it faced in providing cash transfers to urban poor who were not in existing programs. A third of the urban poor were able to access cash transfers, compared with more than half of the rural poor. The authors also highlight that the broad reach of food and cash assistance resulted in the adequacy of the transfers being limited relative to the size of consumption losses (about 5 percent for each of the food and cash transfers, compared with the 45 percent losses in consumption being recorded). In this report, the case studies for Togo and South Africa detail how challenging it was to provide transfers to a group of households quite vulnerable during the crisis, but never before recipients of direct government support, and how these countries overcame these challenges (see boxes 4.1 and 7.3). Regional analyses highlight the same challenge. For example, two studies of the fiscal response in the East Asia and Pacific region show that support to households in the region has, in general, been pro-poor, but it has been difficult to reach informal workers and middle-class households facing large losses and vulnerable to falling into poverty (Mason et al. 2020; World Bank 2022c).

At the firm level, support received correlated well with the losses reported, but larger firms were much more likely to receive support in the majority of countries with data. According to figure 4.12, panel e, firms reporting cuts in employment were more likely to receive support, suggesting that the means of targeting to losses worked well.[13] However, larger firms were more likely to receive support than smaller firms, and in LICs there was a bigger gap in receiving support between smaller and larger firms (figure 4.12, panel f). These findings correspond to those from the literature: government support often went to firms that did not need it to survive (Gourinchas et al. 2021). Moreover, less productive and larger firms, regardless of their precrisis innovation, received government support during the crisis, thereby reducing competition and productivity growth (Bruhn, Demirgüç-Kunt, and Singer 2021).

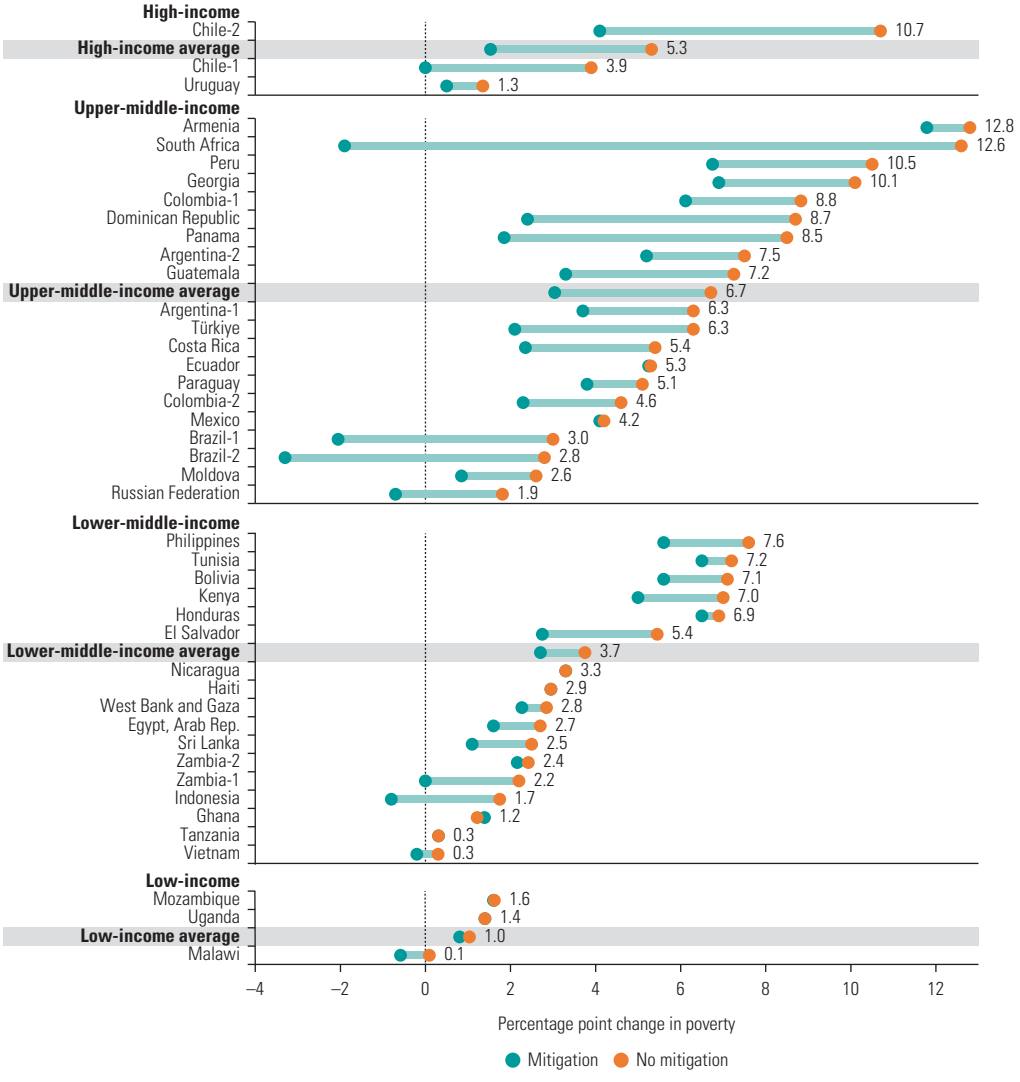
Summary: An unprecedented response was more limited in poorer countries

The overall finding in this section is that fiscal support for firms and households has made a difference during the COVID-19 crisis, and some countries have indeed been able to stave off the worst effects of the pandemic by using fiscal measures. However, in most cases the fiscal response probably was not adequate because it did not reach many households and firms when they needed it, given the scale and speed of the losses experienced.

The question of overall impact can be assessed by reviewing microsimulations of the impact of the crisis and the degree to which the fiscal response mitigated this impact. These studies have been collated, concentrating on those of low- and middle-income countries, but also including studies conducted by the World Bank in HICs.[14] Results from reviewed microsimulations (those published or produced by World Bank teams) are summarized in figure 4.13 using the national poverty line for each country or, if not available, the international poverty line relevant to the country based on its income class. Microsimulations of the impacts of the crisis and fiscal response on poverty reveal that the estimated impacts of the crisis on poverty increased with country income level. Households in UMICs were

FIGURE 4.13

In simulations, fiscal policy reduced the impact of the COVID-19 crisis on poverty but less so in poorer economies



Sources: High-income: World Bank 2021b (Chile-1, Uruguay); Ricci et al. 2021 (Chile-2). *Upper-middle-income:* World Bank 2021b (Argentina-1, Costa Rica, Ecuador, Guatemala, Mexico, Panama, Peru); Lustig et al. 2021 (Argentina-2, Brazil-2, Colombia-1, Colombia-2); World Bank 2020 (Russian Federation); Cereda, Rubiao, and Sousa 2020 (Brazil-1); World Bank 2021d (Moldova); Canavire and Granados Ibarra 2021 (Paraguay); Nebiler, Celik, and Baez 2021 (Türkiye); CTP 2021 (Dominican Republic); Davalos, Julieth, and Manuel 2021 (Colombia-1); Fuchs 2020 (Georgia); Barnes et al. 2021 (South Africa); Fuchs et al. 2020 (Armenia); *Lower-middle-income:* World Bank 2021b (Bolivia, El Salvador, Haiti, Honduras, Nicaragua); Ali and Tiwari 2020 (Indonesia); Gansey, Genoni, and Helmy 2022 (Arab Republic of Egypt); Hoogeveen and Lopez-Acevedo 2021 (Tunisia, West Bank and Gaza); Pape and Delius 2021 (Kenya); Belghith, Fernandez, and David, forthcoming (Philippines); Lastunen et al. 2021 (Ghana, Tanzania, Zambia-2); World Bank 2021a (Vietnam); Kim and de Silva 2021 (Sri Lanka); Boban Varghese et al. 2021 (Zambia-1). *Low-income:* Magalasi 2021 (Malawi); Lastunen et al. 2021 (Mozambique, Uganda).
Note: The figure shows the results of two simulations from each economy study: one showing the increase in poverty that would have occurred had no fiscal response been present (no mitigation), and one showing the increase in poverty taking into account the fiscal response (mitigation). The increase in poverty is measured against the national poverty line or the global poverty line appropriate to the economy income category. For some economies, more than one study is available, as indicated by the use of "1" or "2" after the economy name in the figure. Full details of the data used are in online annex 4A, table 4A.1.

expected to fare much worse than households in LMICs and LICs, with much larger anticipated impacts on poverty.

Microsimulations find that in many countries the fiscal response successfully mitigated the impact of the crisis on poverty. Some notable examples are Brazil, Chile, Indonesia, South Africa, Uruguay, and Zambia—all countries expected to ameliorate nearly all of the impact of the COVID-19 shock on poverty (in at least one set of simulations available). Many other countries halved the expected impact of a large shock through fiscal measures. Examples are Guatemala, Paraguay, Sri Lanka, and Türkiye.

However, fiscal policy was anticipated to be more effective in mitigating the impact in higher-income countries. The fiscal response offset three quarters of the impact of the crisis on poverty in the two HICs included in the review,[15] which is consistent with the broader literature. Stantcheva (2022) reviews microsimulations for HICs and finds that the fiscal response was able to offset the rising inequality caused by the pandemic in most HICs, resulting in significant inequality reductions in 2020. A Eurostat analysis finds that, although the poorest quintile experienced earned income losses of about 10 percent, disposable income increased by 2 percent (Eurostat 2020). In the United States, the early fiscal response reduced poverty (Han, Meyer, and Sullivan 2020).

In UMICs, although there was still a sizable increase in poverty—7 percentage points, on average—fiscal policy was able to reduce the impact by about half. Fiscal policy was less effective in LMICs and LICs. In LMICs, although the poverty impact of the crisis was estimated to be, on average, 4 percentage points, fiscal policy was able to bring that down to 3 percentage points. The impact of the fiscal policy response was estimated to be negligible for two of the three LICs included in the review and fully mitigated for the third (Malawi), but the impact of the crisis was also estimated to be much smaller, increasing poverty by, on average, 1 percentage point.

Factors that influenced the impact of fiscal policy

Three broad factors determined the scale and effectiveness of a country's fiscal response to the pandemic: its ability to borrow, the structure of the economy, and the nature of the existing fiscal benefit system. Although less quantifiable, case studies also bring out the importance of leadership and communication around transfer eligibility and amounts (Beazley, Marzi, and Steller 2021; Gentilini 2022).

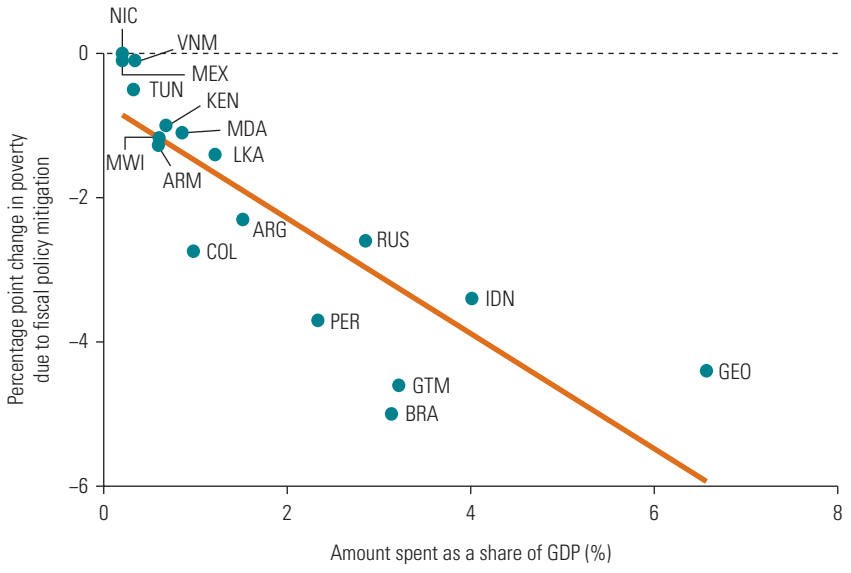
The scale of the response, largely driven by access to external finance, determined impact

The scale of the response was a large determinant of the size of the mitigated poverty impact. Sixteen of the microsimulation reports provided data on the cost of the fiscal response simulated. The reduction in poverty resulting from this spending and the amount spent as a share of GDP are plotted in figure 4.14 and show a strong correlation between the size of the impact and amount spent (correlation, 0.70).

An emerging literature has assessed what drove the scale of fiscal responses and highlights the importance of a country's ability to take on new debt. According to this literature, countries with cheaper access to financing, reflected in a higher sovereign credit rating, achieved a larger fiscal response. Figure 4.15 shows the unconditional correlation between sovereign credit rating and (1) the COVID-19 fiscal response and (2) the growth in external borrowing from 2019 to 2020 for low- and middle-income countries. The correlation between spending and a country's sovereign credit rating holds for different time periods, country groups, and controls (Apeti et al. 2021; Benmelech and Tzur-Ilan 2020). Table 4.1 reports the results of these regressions, and also shows that this correlation holds when considering updated IMF data on above-the-line spending as a share of GDP for LICs and MICs only.

FIGURE 4.14

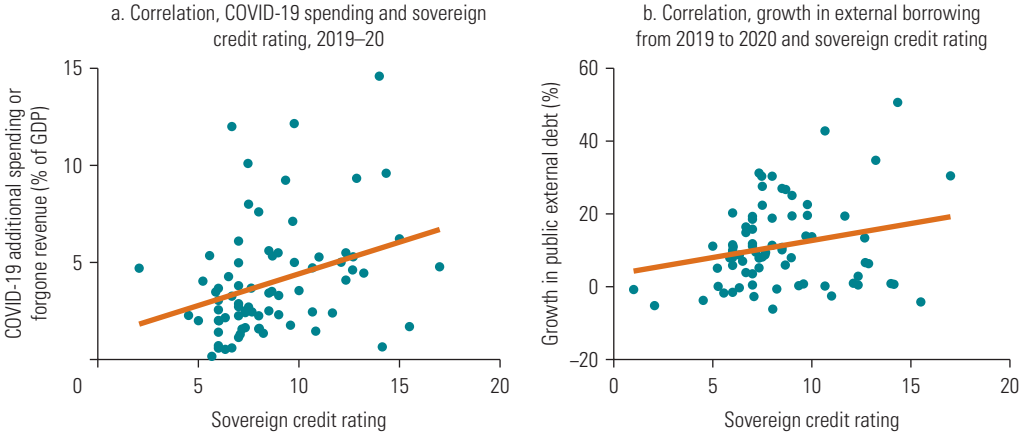
Fiscal policy reduced poverty more when more was spent



Sources: Percentage point change in poverty and cost estimates are based on the same reports used as sources in figure 4.13.
Note: The figure shows the correlation between the percentage point change in poverty due to fiscal policy mitigation and share of GDP spent on mitigation, based on the same microsimulation studies as figure 4.13 (see online annex 4A, table 4A.1).

FIGURE 4.15

A higher credit rating was correlated with a larger fiscal response and increased external borrowing



Sources: Original estimates based on data from International Monetary Fund, Database of Fiscal Policy Responses to COVID-19, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19; Kose et al. 2022; World Bank, International Debt Statistics, https://www.worldbank.org/en/programs/debt-statistics/ids.
Note: The figure shows cross-country correlations between 2019 sovereign credit ratings (Kose et al. 2022) and COVID-19 fiscal response (panel a) and external borrowing (panel b). Sovereign credit rating is the 2019 average of foreign currency long-term sovereign debt ratings by Moody's, Standard & Poor's, and Fitch Ratings converted to a numerical index from 1 (worst) to 21 (best). External borrowing is measured using the percentage growth in public and publicly guaranteed external debt stocks from 2019 to 2020, based on World Bank, International Debt Statistics. The sample includes low- and middle-income economies.

TABLE 4.1

Cross-country correlations highlight the importance of access to external borrowing

Covariate	Benmelech and Tzur-Ilan (2020)	Apeti et al. (2021)			World Bank estimates
Credit rating	0.267***	0.5871***			0.5479***
	(0.090)	(0.1235)			(0.1903)
Debt to GDP (log)	0.015		0.1054		0.3996
	(0.012)		(0.8621)		(0.7473)
Government expenditure to GDP	–0.079**				0.0707
	(0.038)				(0.0532)
Debt-to-tax ratio (log)				–1.6920**	
				(0.6765)	
GDP per capita (log)	1.262**	–0.1547	1.6153***	1.6661***	–0.8260
	(0.490)	(0.5246)	(0.5409)	(0.5286)	(0.6082)
Countries	79		107		66
	(few LICs and LMICs)				(LICs and MICs)
Time period	April–June 2020	April–September 2020			April 2020–October 2021
Dependent variable	Fiscal spending (excluding guarantees) as a share of GDP	Fiscal stimuli as a share of GDP (above-the-line measures and liquidity support)			Fiscal spending (above-the-line measures) as a share of GDP
Other covariates	Population, COVID-19 cases	Infection fatality rate,[a] democratization index,[a] population density, inflation			Infection fatality rate[a]

Sources: Apeti et al. 2021; Benmelech and Tzur-Ilan 2020. World Bank estimates based on data from the International Monetary Fund's Database of Fiscal Policy Responses to COVID-19, October 2021, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.

Note: In the World Bank estimates, measures of government effectiveness were added, but none was significant. These results show specifications without these measures included. GDP = gross domestic product; LICs = low-income countries; LMICs = lower-middle-income countries; MICs = middle-income countries.

a. These other covariates are significant.

*$p < .05$ **$p < .01$ *** $p < .001$.

Other evidence also points to the importance of access to external finance in the crisis response. Although these cross-country regressions alone do not provide causal evidence that access to external finance was an important determinant of the scale of the response—and there are indeed many other dimensions of fiscal space (Kose et al. 2022)—it is consistent with a pattern found in other crises historically. An existing literature points out that fiscal procyclicality stems in part from an inability to access external financing during downturns (see, for example, Frankel, Vegh, and Vuletin 2013; Gavin and Perotti 1997; Kraay and Serven 2013). Moreover, in a survey of country governments reported in *World Development Report 2022* (World Bank 2022d), access to external financing was cited as a constraint, particularly by countries in income groups that had the smallest fiscal response—LICs and LMICs. Policy makers in these countries were most concerned about access to foreign aid (94 percent and 84 percent, respectively) and access to external borrowing and debt sustainability (83 percent and 61–65 percent, respectively). UMICs were more concerned about access to domestic borrowing and debt sustainability than access to external borrowing or foreign aid.

Many LICs had limited access to external borrowing and relied on donor aid and concessional lending. The median ratio of multilateral funds (grants and loans) committed as part of the COVID-19 response relative to the announced fiscal response of governments was 50 percent for UMICs, 73 percent for LMICs, and 95 percent for LICs. This finding suggests that for LICs little fiscal response was provided beyond what was funded by the IMF, development banks (the World Bank Group and regional banks), and the United Nations.[16] Moreover, going into the crisis, more than half of the low- and lower-middle-income International Development Association (IDA) countries (38)

were in debt distress and so could not borrow much. Their main source of external finance was highly-concessional flows from multilateral development banks.

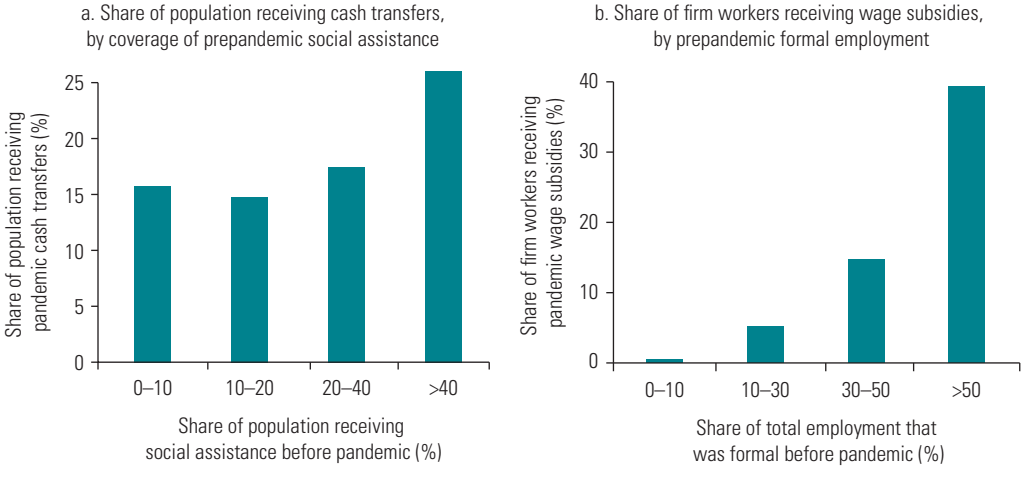
The type of financing available is a factor in the speed of the response. Access to domestic financing, if available, can facilitate quick disbursement because it is often quick to operationalize and is directly under the government's control. For example, in Albania budget reallocations were used to quickly finance an early response in 2020.[17] An analysis of implementation of cash transfers highlights the importance of access to domestic financing in allowing countries to respond more quickly. This finding could reflect other factors that are correlated with access to domestic financing (such as capacity to implement). However, the case studies in Beazley, Marzi, and Steller (2021) often identify access to domestic financing as an important aspect of quick implementation.

The type and impact of support depended on the structure of the economy

During the pandemic, the type and impact of the fiscal support provided depended on the structure of the economy—that is, the nature of consumption, employment, and production. Countries with large informal sectors found it difficult to protect firms and jobs. The share of workers in firms in both LICs and MICs receiving wage subsidy support was larger in countries with a greater share of formal workers in the economy before the crisis (figure 4.16), even when controlling for the overall level of spending and GDP per capita. This finding is worrisome because of emerging evidence suggesting that spending to protect jobs may have had more impact in hastening economic recovery, increasing employment, and reducing

FIGURE 4.16

Support reached more households in formal economies and in countries with high prepandemic rates of social assistance



Sources: Original estimates based on data from World Bank, Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE), https://www.worldbank.org/en/data/datatopics/aspire; Gentilini et al. 2022a; International Labour Organization, ILOSTAT database, https://ilostat.ilo.org/data/; and World Bank COVID-19 Business Pulse Surveys.
Note: Panel a shows the average coverage of the largest COVID-19 cash transfer program for different levels of prepandemic social assistance coverage. The sample includes 77 low- and middle-income economies. Panel b shows the average share of firm labor reporting the receipt of support in surveys for different levels of prepandemic formal employment. The sample includes 45 low- and middle-income economies. Economies are weighted equally.

poverty than income support measures (see Demirgüç-Kunt, Lokshin, and Torre, forthcoming; World Bank forthcoming c).

The type of response provided to households was also influenced by the degree of formalization of the labor market. Few LICs and MICs have widespread automatic stabilizers in place, and the share of workers covered by unemployment insurance is low (Asenjo and Pignatti 2019). Contreras-Gonzalez et al. (2022) find that countries that had limited use of unemployment insurance before the crisis were less likely to use that insurance to support households during the crisis. As a result, unemployment insurance benefits were only a small part of the fiscal response in most countries. Instead, countries targeted informal sector workers not covered by insurance or wage subsidies in new social assistance programs (Kamran et al. 2022).

The impact of transfers also depended on the structure of the economy. This interplay of shocks, policy impact, and poverty is well illustrated by Aminjonov, Bargain, and Bernard (2021). They consider worker mobility (based on smartphone data) in both higher- and lower-poverty regions in a sample of 43 low- and middle-income countries. A combination of lockdowns and private aversion behavior drove a dramatic reduction in mobility to and from workplaces at the start of the pandemic. However, the reductions in mobility were larger in the lower-poverty regions (region- and date-fixed effects are included in the analysis). These were areas better able to accommodate a stay-at-home order in part because of the prevailing nature of work and so a higher prevalence of households better able to afford to stay at home. Regions that received income support also saw lower rates of workplace mobility because these transfers allowed more households to afford to stay at home. As a result of this dynamic, income support policies had a larger impact on mobility in areas with higher poverty rates than in those with lower poverty rates.

Detailed analysis of the United States confirms the importance of economic structure in determining the impact of the fiscal policy response. Chetty et al. (2020) compile and analyze a unique set of data to assess the impacts of the pandemic and the policy response on rich and poor neighborhoods in the United States. They find that the fiscal stimulus received by households increased spending more in poorer neighborhoods than in rich ones. As a result, there was an increase in small business revenue in low-rent neighborhoods at the time stimulus payments were made, whereas stimulus payments had no impact in high-rent neighborhoods. This finding corresponds with those in the broader economic literature on local and fiscal multipliers. Economies in which spending is liquidity-constrained (as a result of chronic poverty or temporary crisis conditions) have a higher local multiplier from fiscal transfers.[18]

Speed and targeting were easier where benefit systems were well developed

The crisis highlighted the importance of the foundational elements of a social protection system in facilitating a fast response. The number of beneficiaries in newly announced social assistance programs was strongly correlated with the size of the existing social protection system before the crisis (figure 4.16). The speed of response was also influenced by the nature of the precrisis benefit system (see, for example, World Bank 2022c). Scaling up to existing recipients of government transfers (vertical expansion) happened quickly (54 days from stay-at-home order), but establishing a new system or expanding an existing system to new households took much longer (83 days for setting up a new scheme or 128 days for adapting an existing scheme to new beneficiaries)—see Beazley, Marzi, and Steller (2021). However, considerable variation in the speed of implementation cannot be explained by this factor (Gentilini et al. 2022a).

Gentilini (2022) provides a detailed analysis of what lessons can be learned from the COVID-19 response for investing in crisis delivery. A couple of key points are noted here. Countries in which existing social registries or databases were used to identify beneficiaries were

able to implement horizontal scale-ups and new programs more quickly (Beazley, Marzi, and Steller 2021). In the five cases in which social registries were used to identify new beneficiaries, scaling up was faster than in cases in which other databases or forms of enrollment were used (Gentilini et al. 2022a). However, more detailed case studies underscore the importance of complementing the use of existing databases with on-demand registration and programs with alternate targeting approaches because existing databases inevitably leave out some newly poor people. As described in box 4.1, Togo used voter registration data to identify beneficiaries. Countries with larger formal economies and an ability to link multiple databases were able to use multiple sources of data (for example, personal income tax databases) to identify beneficiaries (Gentilini 2022 and box 7.3 in chapter 7).

Finally, during the crisis, when transfers were made using a digital payment system, implementation was quicker—51 days, compared with 84 days from stay-at-home orders to first payment (Gentilini 2022). This method of transfer was also highlighted in case studies that examined speed of implementation (Beazley, Marzi, and Steller 2021). Togo demonstrated that focusing on digital systems, even in a setting in which the social protection system was limited going into the crisis, allowed quick targeting and payments (box 4.1).[19]

Conclusion

Fiscal support to firms and households protected welfare during the COVID-19 crisis. Some countries were able to stave off the worst effects of the pandemic by using fiscal measures, but in many countries the response did not reach many households and firms when they needed it because of the scale and speed of the losses experienced. Among the lessons from this global stress test on fiscal crisis response systems are recognizing the importance of a country's ability to borrow for a fiscal response; overcoming the challenges of reaching households and protecting jobs in informal economies; and providing delivery systems that can identify the needs of vulnerable people (not just the chronically poor) and provide support quickly. Without systems that can identify need and reach households quickly, a crisis response has to rely on blunt instruments such as transfers targeting the chronically poor, who may not be those most affected by the crisis, or untargeted support measures such as subsidies. Subsidies were used frequently in response to the COVID-19 crisis and even more as countries turn to food and energy subsidies, which are often not well targeted to those most in need. Although HICs have financing available to provide more generous crisis support, this approach is hard to sustain in most LICs and MICs.

These lessons have implications for how to prepare fiscal systems for a crisis response. Addressing debt, preparing contingent financing, and developing delivery systems to deliver in a crisis will increase the protective power of fiscal policy. Chapter 7 lays out policy priorities based on the findings in this chapter. The chapter also includes a reality check on the limits of the protection afforded by fiscal policy for many poor households in the near term. For that reason, as described in chapter 7, there is a need to support other instruments to build the capacity of poor households to protect their welfare in a crisis.

Notes

1. The response includes measures for implementation in 2020, 2021, and beyond.
2. International Monetary Fund, Database of Fiscal Policy Responses to COVID-19, October 2021, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.
3. Automatic stabilizers are components of the tax and benefit system that adjust automatically to cyclical changes in the economy without discretionary government action. Stabilizers include unemployment insurance (on the expenditure side), social security, and income taxation (on the revenue side). Because the size of automatic stabilizers tends to be correlated with the size of an economy, they are larger in

high-income countries. But they are smaller in the United States than in Europe, where generous unemployment insurance played a key role in absorbing household income shocks during the global financial crisis (Dolls, Fuest, and Peichl 2012).

4. International Monetary Fund, Database of Fiscal Policy Responses to COVID-19, October 2021, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.
5. Although detailed information on health expenditure for most low- and middle-income countries is yet to be published, there is some indication that the COVID-19 health sector response reflects at least some repurposing of other funds. For example, 20 percent of countries that participated in a May 2020 World Health Organization (WHO) country survey reported that government funds had been reallocated from noncommunicable diseases (NCDs) to non-NCD services. About a third of countries did not know whether such a reallocation had occurred at the time of the survey. About 94 percent of countries reported that all or some NCD health staff had been reallocated to support COVID-19 efforts, which led to widespread disruptions in health care during the pandemic (WHO 2020, 2021b). In the Democratic Republic of Congo, the share of reprogrammed funding had risen from 6 percent in April 2020 to 33 percent by October 2020 (WHO 2021b).
6. The share of health expenditure fell in 15 of 22 countries considered by WHO (2021a) and in 33 of 56 countries for which government expenditure data for 2020 were available in the IMF's Expenditure by Functions of Government (COFOG) database at the time of writing (https://data.imf.org/?sk=ca012d95-6151-4a84-a89b-3914d718b878&hide_uv=1).
7. International Monetary Fund, Database of Fiscal Policy Responses to COVID-19, October 2021, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.
8. World Bank, COVID-19 High-Frequency Monitoring Dashboard, https://www.worldbank.org/en/data/interactive/2020/11/11/covid-19-high-frequency-monitoring-dashboard; World Bank, COVID-19 Business Pulse Survey Dashboard, https://www.worldbank.org/en/data/interactive/2021/01/19/covid-19-business-pulse-survey-dashboard.
9. Answers to "loss of income or employment" for households, for example, are collected only from a "yes" or "no" response providing no information on the size of the losses or the degree to which those losses push a household into poverty. Similarly for firms, "loss of sales or reductions in employment" is only collected as a "yes" or "no" response. In the household survey, "support received from the government" does not distinguish between regular support that would have been received regardless of the crisis and additional support received as part of the government's fiscal response. The wording of the questions may also make it unlikely for data to include support received through subsidies and tax or payment exemptions. The Business Pulse Survey collects information about "support received" from national or local governments, although firms may also be reporting access to new credit or loans that may not be necessarily the result of explicit fiscal measures. This challenge is addressed by focusing on those categories of support that could only be provided by governments (for example, wage subsidies).
10. International Monetary Fund, Database of Fiscal Policy Responses to COVID-19, October 2021, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.
11. World Bank, COVID-19 Business Pulse Survey Dashboard, https://www.worldbank.org/en/data/interactive/2021/01/19/covid-19-business-pulse-survey-dashboard.
12. This is also true when examining percentage differences and when looking only at employment losses or at food insecurity as a measure of those affected.
13. Targeting was often sectoral. See, for example, Köhler and Hill (2022) for South Africa.
14. Microsimulations of the likely impact of the crisis and the impact of the fiscal response were conducted for other countries by World Bank country poverty teams and researchers outside of the World Bank in the early months of the crisis. These microsimulations use macroeconomics data on sectoral losses to model which households would lose

income and by how much (based on the sectors in which they worked). Multiple studies for a single country may be reported if studies were both undertaken by the World Bank and published by external researchers. For some countries, World Bank estimates were available as part of country-level projections and regional projections. Because regional projections may make some assumptions requiring harmonizing data across the region, regional estimates are presented only when there is no country study. The microsimulations also use policy announcements of fiscal support to identify what the likely benefits of the fiscal response would be across households based on which support they are modeled to receive. The fiscal simulations included cash transfers but sometimes other support such as in-kind transfers and unemployment benefits. For studies where various estimates are provided, the summary captures the worst scenario for a country. Survey data from Colombia and the Dominican Republic suggest that the microsimulation models are accurate in predicting both the impact of labor income losses—which would have increased poverty by 9.0 percentage points and 8.1 percentage points, respectively, at the national poverty line—and the effectiveness of transfers in reducing the increase. Comparisons of the Brazil and Costa Rica results also show that the models perform quite well (although the impact of transfers was larger than simulated in Brazil and the labor income losses larger than simulated in Costa Rica). In Indonesia, microsimulation results also correspond quite well to official survey data, although official survey data show a more modest rise in poverty than projected.

15. Although this is true in only one set of the microsimulation results for Chile.
16. Calculated using multilateral funds committed (as recorded by the Centre for Disaster Protection) and announced fiscal response from the IMF.
17. Total spending comprises spending by line ministries, debt repayment, and transfers to local government. These reallocations were not costless, because they represented cuts to other spending. In fact, the estimated value forgone due to the budget reallocations was US$113 million, or 0.76 percent of GDP. Preparation of the eurobond was already under way, which helped the government borrow quickly and prevent larger budget cuts.
18. See, for example, Egger et al. (2019); Gechert and Rannenberg (2018); Pennings (2021); also see chapter 6 for a fuller discussion on the multiplier effects of cash transfers.
19. Although less quantifiable, case studies bring out the importance of leadership and communication around transfer eligibility and amounts (Beazley, Marzi, and Steller 2021; World Bank 2022b).

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