

Cash transfers in response to the COVID-19 crisis: comparing Russia and China experiences in a global context.

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The economic crisis caused by the global epidemic has led to a sharp decline in the incomes of the population. The full extent of the crisis losses is not yet clear or complete, but preliminary estimates of the World Bank showed that at least 60-150 million people in the world will find themselves in a state of extreme poverty¹, but the real deterioration of the situation can be much more acute, as detailed in some country projections.²

In itself, increasing poverty and inequality is a social problem. Even more so, the long-term effects of worsening living standards can be extremely dangerous for the future³. Coming up with a response to this challenge has therefore become a global imperative. Most countries, introducing public health measures to combat the epidemic, are simultaneously taking steps to mitigate the impact of falling economic activity on real incomes and protecting the poor from slipping deeper into poverty.

The depth and rate of decline in real incomes of the population is so severe that existing social support measures often are failing to cope with the increased demands. Mitigation requires active adaptation of social protection systems. To date, 190 countries have already introduced social protection and labor market measures specifically designed to overcome the negative social consequences of the crisis.⁴ This is a clear case of emergency and such measures have demonstrated the responsiveness of social protection and its role in the new more uncertain world.

Russia is no exception, and multiple Government's decisions⁵ have expanded the scope of the existing social protection instruments. However, discussions continue as to whether these measures are sufficient, whether they are adequate and who most need support.

This brief note is motivated by such debates and builds on an earlier post by Renaud Seligmann, World Bank Country Director for Russia⁶, which analyzed both the consequences of crisis to poverty, inequality and social welfare in Russia, and discussed how country's responses to crisis compare to the global picture of fighting with pandemic. This note updates it and provides greater detail on cash transfers. It

¹ As estimated by the DEC: <https://blogs.worldbank.org/opendata/impact-covid-19-coronavirus-global-poverty-why-sub-saharan-africa-might-be-region-hardest> - confirmed by Brookings Institution <https://www.brookings.edu/blog/future-development/2020/05/06/turning-back-the-poverty-clock-how-will-covid-19-impact-the-worlds-poorest-people/> later analysis by Norman Loayza from the World Bank Research Groups points to much larger magnitude of impacts based on prolonged macroeconomic crisis and increase in inequality: <http://documents.worldbank.org/curated/en/799701589552654684/pdf/Costs-and-Trade-Offs-in-the-Fight-Against-the-COVID-19-Pandemic-A-Developing-Country-Perspective.pdf>

² E.g. in Indonesia, Philippines, Turkey, etc. (World Bank country teams communication).

³ In particular for human capital accumulation and utilization- a critical factor of equitable development: <http://documents.worldbank.org/curated/en/879461587402282989/pdf/Protecting-People-and-Economies-Integrated-Policy-Responses-to-COVID-19.pdf>

⁴ <https://socialprotection.org/discover/publications/social-protection-and-jobs-responses-covid-19-real-time-review-country>

⁵ <http://www.kremlin.ru/events/president/news/63342>

⁶ <https://www.worldbank.org/en/country/russia/brief/covid-19-response-poor-vulnerable-russia>

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compares Russia's approaches to dealing with the crisis with China's social policy responses and puts it in the context of fast evolving international experience⁷. China's emerging recovery from the COVID-19 and its attempts to use social protection to stimulate the economy are informative for planning Russia's pathway towards economic recovery. Comparing two countries with a rapidly changing global response helps to draw some conclusions and suggest directions for further analysis.

Most of the measures taken both in Russia and China fall into the category of cash transfers. This is the most effective form of support for people's incomes, and as the world experience shows, it is the most common. To combat the consequences of the crisis, 121 countries have so far introduced new cash benefits or amended existing cash payment programs to adapt them to the crisis (104 countries). This adaptation of cash benefit programs to the new conditions goes in four directions:

1. Easier access to cash assistance (administrative rules for assigning benefits or terms of their payment and use of technical/IT solutions to facilitate and streamline it),
2. Expanding coverage by incorporating new groups into existing payments or launching new temporary programs alongside expanded ones,
3. Increase payments to existing recipients,
4. Combination of all above.

More than 1 billion people have benefited from such social protection expansion worldwide.⁸ The latter, 4th group (52 countries) offers a comprehensive response, and it is characterized by a certain maturity of social protection institutions, and the availability of many tools to support the incomes of the population. But in the world, such a situation is rather an exception, and many existing payment schemes have very low coverage. Expanding coverage is undoubtedly a step in the right direction, and such countries are accelerating long-term coverage plans.

As the review of the measures introduced by the Russian Federation shows⁹, the country has adopted an approach similar to that of developed countries (the fourth group) - namely, steps have been taken to simplify access to the existing schemes, introduce new ones, expand coverage of the existing ones and increase payments, sometimes substantially. Same can be said about China, which has introduced cash transfers top-ups, temporary emergency schemes and simplification/relaxation of some residency-based rules that limited access to income support. The use of on-line platforms to claim and extend the eligibility has been prominent in both countries.

One of the principles of response to counter the global crisis is to ensure that short-term actions to protect the population from this crisis are congruent with the long-term goals. Many countries devote additional resources to combating the crisis to areas that represent their long-term priorities for the

⁷Main source prepared by Social Protection Practice of the World Bank contains a full stock taking of responses for all countries (Ugo Gentilini et al, version May 22, 2020): <https://socialprotection.org/discover/publications/social-protection-and-jobs-responses-covid-19-real-time-review-country>

⁸Main source prepared by Social Protection Practice of the World Bank contains a full stock taking of responses for all countries (Ugo Gentilini et al, version May 22, 2020): <https://socialprotection.org/discover/publications/social-protection-and-jobs-responses-covid-19-real-time-review-country>

⁹ <https://www.worldbank.org/en/country/russia/brief/covid-19-response-poor-vulnerable-russia>

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social safety net. Countries are making strategic decisions that will have long-term impacts and outlive the pandemic.

For example, Spain has introduced nation-wide Guaranteed Minimum Income transfer scheme, that was on the books for long time, but was blocked for political reasons.¹⁰ This new permanent guaranteed minimum income program will include about 5 million least well-off families. India has used a single electronic database of food aid recipients (over 230 million least well-off households) to transfer one-time cash payments to recipients living in disease-affected areas. This transition from in-kind to cash payments was defined even before the current crisis as a strategic task for the social assistance system.

From this point of view, the Russian program of anti-crisis measures reflects one of the long-term priorities of the State's social policy: support for families with children. Most of the new income support measures are aimed at expanding the coverage of families with children (e.g. new benefits for children from 3 to 7 years of age from low-income families) and a significant increase in payments for existing recipients (one-time payments for the recipient of maternal capital grants and extension of its eligibility rules). This increase in coverage and increased assistance is entirely in line with demographic policies within national priorities.

Notoriously, a significant share of these measures were stated in a special message of the President of the Russian Federation dated January 15, 2020¹¹, before the manifestation of the global crisis in Russia, as a measure of long-term demographic policy. Their re-purposing as crisis mitigation schemes shows adaptability of the system and alignment with longer term objectives.

Implementation of these new cash transfer schemes will increase the total amount of funds allocated to social support for families with children. But at the same time, less attention is paid to another important aspect of reforms: strengthening targeting. Simplifying the terms of application for targeted assistance is one of the right steps in this direction (increasing the coverage by decreasing the cost of application), along with the increase in payments for low-income families with children. But their role is secondary, with a smaller budget compared to universal payments per child (e.g. maternal capital).

Families with children and the unemployed are known to be vulnerable social groups with increased poverty risks.¹² Therefore, policies to increase the share of families with children among the recipients of safety nets are progressive, and indirectly pro-poor. Same is true for easing access and simplifying the application for the unemployment benefits and increasing their value. Preliminary estimates by the World Bank show that the package of measures adopted in the short term will help to avoid an increase in the number of poor.¹³ But such shift should be sustained. It can also be more decisive: now, only one among all announced anti-crisis programs is directly poverty targeted. Thus, the national task of providing social assistance on the basis of needs is underprioritized.

China has also introduced a number of measures that reflect the direction of social assistance reform, but at the same time, like Russia, it has not consistently advanced across the front. Among areas for

¹⁰ Spain has regional schemes that bear little consistency and create inequities, see <https://ec.europa.eu/social/BlobServlet?docId=15304&langId=en>

¹¹ <http://kremlin.ru/events/president/news/62582>

¹² <http://documents.vsemirnyjbank.org/curated/ru/975591545159329955/pdf/133065-WP-P164947-PovertybriefAugRussian.pdf>

¹³ Forthcoming in Russian Economic Report update.

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strengthening social safety nets in China three seem to be regarded as policy priorities: 1) expansion of coverage to include more vulnerable population, 2) increase in the adequacy of social assistance payments, 3) improving access for excluded groups, especially those based on residency restrictions. All these pertain to Di Bao, the key element of the income support system in the country. The program covers 4% of the least disadvantaged population. The package of anti-crisis measures has introduced special compensation payments to cover the increase in the price of basic necessities during the crisis for Di Bao recipients. It also eased the access for migrants to the emergency temporary payments and unemployment benefits. Some localities have introduced special programs for migrants to support their incomes wiped out by lockdowns. All these steps are in line with long term objectives of reforms. But the scheme continues to be run at the local level with large differences across regions in rules and level of support, creating inequities.¹⁴ The automatic indexation with respect to inflation is missing. And the transfer size remains very low, insufficient to cover the needs.

In many countries, additional payments for existing low-income recipients of support measures play a major role in anti-crisis programs. For example, In Turkey, additional funds from the Stabilization Fund were used to increase the budgets of local social care offices to increase payments to various low-income recipients (at the discretion of local communities). In the United States, for example, all taxpayers with incomes below \$75,000 are receiving \$1,200 per adult and \$500 per child per year, whether they were recipients of social assistance before the crisis or not.

Many countries are taking steps to protect pensioners (46 countries in total). Egypt has undertaken an increase in all pension payments, while most countries have made targeted increases in payments to recipients of minimum or social pensions (Serbia, Slovenia, Bulgaria). In other countries pensions were paid upfront a few months in advance as a one-time transfer (Costa Rica, Colombia and Mexico).

Many countries have chosen to target those who have not previously been included in the social protection system because of work in the informal sector of the economy. It is this sector that has suffered the biggest losses due to the crisis. Reaching out to workers in this sector is an important long-term challenge for the universal social safety net. Therefore, many countries have sent additional tools to develop measures for workers in this sector.

For example, the U.S. for self-employed and for electronic platform workers (such as Uber) were eligible for unemployment benefits, although previously they were not subject to Social Security. In Brazil, the main social assistance program ("Bolsa familia"), has increased the number of recipients by 1 million families. Families who had not previously passed the income test and were considered to be insecure, with the source of income being informal employment. All were entitled to monthly payments of \$115 per family member. In Spain, persons providing personal care for children or the elderly were entitled to unemployment benefits regardless of their insurance premiums. In China, significant efforts have been made to help the labor-making world, the basis of the country's informal economy.

Compared to these examples, the Russian system has an almost complete lack of measures to protect workers in the informal economy. With the exception of social security contributions discounts for small and medium-sized enterprises (those who pay such contributions - are they really the informal sector?)

¹⁴ And will limited data available on the schemes performance to guide evidence-based policy response.

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and subsidies to such enterprises for the wage fund, special measures to support informal sector workers (primarily self-employed and individual entrepreneurs) are extremely cautious.

In China, significant efforts have been made to help the labor migrants, the basis of the country's informal economy. In particular it involved active labor market policy, help in re-skilling and transportation. But the rest of the informal sector has garnered only indirect support- through credit or rental regulations, and was not as prominent as the support to the formal sector.

Relative inattention to the support of workers in the informal economy can turn into a problem for Russia and for China in terms of stimulating economic growth and overturning the crisis post COVID-19. The promotion of economic growth is a new policy direction that should be considered in more detail. From this point of view, the overall size of the anti-crisis package is of paramount importance, as well as its composition.

The cost of additional social protection in both China and Russia is comparable in terms of cost compared to GDP. In China, the preliminary estimate of a set of social protection measures based on the World Bank's analysis is about 0.68% of GDP. In Russia, the cost of the package of measures announced in January 2020 amounted to 500 billion rubles or about 0.4% of GDP. Additional temporary support measures of the population coming later roughly double this amount. Thus, the total expenditure on additional social protection measures is 0.6-0.8% of GDP, less than the global average (1% of GDP), and significantly less than average cost of incomes support in some developed countries (5.9% of GDP in G-7 countries¹⁵). According to the well-known economist Martin Ravallion, who devoted most of his work to the study of poverty, income support measures less than 2% of GDP will not allow to prevent a sharp increase in poverty.¹⁶ For all the concern about the cost of paying the population, this might be a cost-effective part of the anti-crisis measures. They are also significantly inferior in scope to other anti-crisis interventions such as credit expansion or direct enterprise support, which are at least 4 to 5 times larger than the income support of the population.

It should be noted that spending not supporting the income of the population can prove to be an effective method of stimulating the economy. Numerous studies ¹⁷ have demonstrated a significant multiplier effect as a result of payments to the poor: the real incomes of the population grow at least 1.5 - 2.2 times for every dollar spent as a result of such transfers. Yet, such estimates reflect normal functioning of the economy, and may not be applicable in the context of the global crisis observed now. Closer monitoring of the economic effect of the adopted measures will be needed to assess their impact.

Because of the decentralized nature of social assistance in both countries, fiscal support for local social assistance spending from the central budget is an important part of the response. The speed of deploying regional social assistance response is key to successfully implementing measures to protect the population from the economic consequences of the crisis and to stimulate economic recovery.

Some countries or territories have resorted to hand out money to the entire population or a large part of the population in hope to promote recovery. For example, Hong Kong and Singapore have introduced

¹⁵ International Monetary Fund (2020b) Fiscal Monitor, April 2020. IMF, Washington.

¹⁶ Ravallion, M. (2020). On the virus and poor people in the world. Blog Post. Economic & Poverty. <https://economicsandpoverty.com/2020/04/02/on-the-virus-and-poor-people-in-the-world/>

¹⁷Summarized in : <https://openknowledge.worldbank.org/handle/10986/15578>

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a one-time payment to all citizens in substantial amounts (about \$1,000 and \$120 respectively). South Korea has introduced a lump sum payment for 70% of households. Of course, the pandemic has affected all segments of the population that have suffered some degree of loss. Proponents of "helicopter money" or unconditional basic income (UBI) see in this crisis the possibility of finally realizing fully their vision of social protection of the 21st century. It also indicates the ability to stimulate aggregate demand.

On closer inspection, however, such programs are far from the concept of UBI. As shown in a recent World Bank publication¹⁸ UBI assumes permanent payments not limited to a certain period of time, and are set at the level of providing a living wage sufficient to cover subsistence needs. Anything introduced during the pandemic remains far from such case.

As economic theory and practice show, one-time or temporary payments are an unreliable tool to stimulate demand. Most of these transfers usually are added to savings rather than being spent. The experience of China is particularly informative in this regard. China's GDP shrank 6.8 percent year-on-year in Q1 2020. Reflecting labor dislocation and wage pressures, real household disposable income fell by 3.9 percent yoy in Q1, leading to an even sharper cut in household consumption by 12.5 percent yoy in the first quarter. Hence, facing uncertainty, households increased their precautionary savings, damping any impact of income support measures on aggregate demand. Hence, China in search of a more reliable way to encourage demand has introduced electronic coupons or vouchers that have an expiration date (issued by retailers, but subsidized by local Governments). Such a system was found to have some effects in stimulating consumer demand, but tends to benefit the wealthiest.

Finally, with all the diversity of reactions to the pandemic, what do we know about the generosity of these measures worldwide? Among the revenue support measures set across the world is 0.6% of global GDP, but in many countries the size of such programs is larger. The average payout is \$44 per capita, in developed countries - \$99 a month. When compared to the poverty line for developed countries, these are small, but most of the poor are already covered by generous payments in existing social assistance schemes. Countries can therefore "afford" minimum direct payments to those most in need and focus basic resources on employment and business support.

Other aspects of response – including experience with wage subsidies to maintain employment, temporary forgiveness of social security contributions, subsidized credit support etc. are covered in the posts of Renaud Seligmann and other sources covered in this note. Both Russia and China have introduced such measures on a very limited scale. It is impossible not to admit that such targeted assistance to enterprises has a large untapped reserve.

To conclude, comparing Russia and China with global benchmarks reveals interesting similarities in their emergency response. Both countries have responded by building on their institutional strengths and made the response aligned with some of long-term development goals. Both countries have made the right choice by targeting their responses to most vulnerable (families with children in Russia, labor migrants in China), aiming at reducing the impact of COVID-19 on poverty. One needs to conduct further research to estimate the impacts of these measures, using the simulations and new survey data. But

¹⁸ Universal Basic Income: Concepts, Facts and Practice, edited by Hugo Gentilini, Margaret Grosh, Jamele Rigolini and Ruslan Yemtsov, <https://www.worldbank.org/en/topic/socialprotection/publication/exploring-universal-basic-income-a-guide-to-navigating-concepts-evidence-and-practices>

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even now one can say that had they had a better targeted system ex ante (that is wider coverage in China, and higher adequacy of poverty targeted transfer in Russia and China), they could have achieved the same outcome in terms of limiting poverty increase with less spending.

The global upheaval induced by COVID-19 is too big of a crisis not to use it in the interest of those who need support in the long term. The crisis in both countries exposed weaknesses of income support provided to the poor and vulnerable in their pre-crisis systems. Spending a significant amount on untargeted measures left fewer resources available for other objectives. Future direction in both countries point to move towards **adaptive** social protection system capable to flexibly boost the support to the poor and act as countercyclical instrument.