Pandemic Relief Policies Need More Resources, Better Design

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Pandemic relief measures in developing countries have been limited by modest resources, fear of financial market discipline and policy mimicry. COVID-19 triggered not only an international public health emergency but also a global economic crisis, setting back decades of uneven progress, especially in developing countries.

Struggling to Cope

The economic and social consequences of the pandemic disproportionately affected countries with lower and middle incomes (LMICs). The World Bank estimated that the pandemic pushed 119 million to 124 million more people into extreme poverty in 2020.

The Bank also reported disproportionately larger business impacts in terms of closures, drop in sales, greater corporate debt and financial fragility. Meanwhile, households in poorer countries saw greater food insecurity as well as income and educational losses.

It also found that public debt had surged in many developing economies because a rising number of LMICs had greater difficulties in servicing official debt. Facing sharp falls in tourism and export earnings, access to foreign credit for many has deteriorated.

Urgent Financing Needs

LMICs must address various urgent needs and other short-term problems. They need to finance emergency contagion containment and relief measures for those most adversely hit by the pandemic.

This would include at least the costs of diagnostic testing, personal protective equipment for 'frontline' personnel, medical treatments for those infected and urgent vaccination to mitigate further infections.

While liquidity support, including low-interest loans and wage subsidies, can be crucial for the survival of businesses and workers, it has predominantly favored larger, more influential enterprises in most countries.

Policy and fiscal space as well as policy design are key elements in influencing the implementation of economic measures to cope with COVID-19 recessions. These require understanding the specific nature of recessions and options available, as distinct from simply following what others have done or recommend.

COVID-19 Recessions Different

What made the pandemic economic shocks different? First, SARS-COV2 is a highly contagious aerosol-borne virus with rapidly evolving variants and mutations, with mixed, uneven, even deadly, effects. COVID-19 affected most countries, albeit with varying and unequal economic consequences.

Second, the pandemic brought about predominantly adverse effects through both supply and demand shocks. It directly impacted people's ability to work, earn, and spend. Simultaneously, containment measures adversely affected production, supplies, and incomes, resulting in reduced demand, spending, and incentives for firms to invest.

Third, the shocks worsened existing disparities and other inequalities. Fourth, they especially hurt LMICs, which typically lack fiscal resources and relevant governance capacities to better cope with a pandemic.

Government As 'Payer-Of-Last-Resort'

Misreading the COVID-19 shocks and expecting brief V-shaped recessions, some novel fiscal and monetary measures were hastily introduced to assist businesses and workers. These typically emulated the measures adopted in developed economies, including temporary tax relief, low-interest loans, cash transfers and wage subsidies.

Many high- and upper-middle-income governments have served as '[payers-of-last-resort](#)', helping 'suspended' businesses to continue paying their involuntarily idle employees instead of firing them.

Large firms were also able to get governments to help settle some of their unavoidable bills, to cover their overheads and maintenance costs—such as rent, utility and other payments—during 'stay in shelter' lockdowns.

Such 'payer-of-last-resort' programmes successfully complemented effective contagion containment measures, enabling the early resumption of economic activity. While high, such costs can remain manageable if governments can secure sufficient fiscal resources and space.

Policy Blind Spots

There is not enough consideration of country-specific circumstances or social, economic, cultural and institutional circumstances. Thus, large informal sectors, crowded slums and limited social protection in developing countries are largely overlooked, or worse, ignored.

Unsurprisingly, most financing disbursed via various official channels did not reach most in the informal sector. These resources did not provide much relief to small and micro enterprises, let alone the self-employed.

However, much of what was offered to large firms was not used due to uncertainty and reduced domestic spending options. Meanwhile, significant resources 'leaked out' of many developing countries, including via corruption as well as tax and other incentives for foreign investors.

Such failures in policy responses and poor design greatly impaired prospects for quick and equitable COVID-19 containment and recovery. They also exacerbated various inequalities within and among countries.

Diverging Recoveries

The International Monetary Fund (IMF) projected divergent so-called K-shaped recoveries, which left many LMICs and the vast majority in most societies further behind. With ongoing vaccine apartheid and nationalism, early hopes of quickly addressing the crises in LMICs faded.

Vaccinations in these countries were much delayed, while donor countries such as the UK cut aid significantly. Thus, economic crises in LMICs are far from over, delaying recovery with often disastrous consequences.

IMF Managing Director, Kristalina Georgieva, even warned that uneven global recovery would 'ricochet' as 'poorer countries are faced with the risk of interest rates increasing while their economies aren't growing, and may find themselves "really strangled" to service debt, especially if it's dollar-denominated'.

Appropriate Relief Measures

All governments must try their best to prevent protracted recessions from becoming extended depressions. Policymakers also need to ensure that temporary short-term liquidity problems do not become full-blown solvency crises. Measures are needed to change contracts and other obligations to enable firms to better cope with the involuntary suspension of business operations. Much more is needed to address the specific challenges that face small family businesses.

Income-maintenance policies can help those who are losing some, if not all, of their income. Often unable to earn their livelihoods from home, lowly paid and casual workers are more likely to be displaced by lockdowns. Typically, they have much less in savings to ride out temporary earnings losses.

Social protection has been poorly institutionalised, if at all, in most developing countries. Instead, temporary 'social safety nets' in response to crises have been recommended and deemed adequate by influential foreign agencies.

Such 'one-off' relief measures, typically involving targeting, usually miss many of the deserving as they strive, often at great cost, to prevent opportunistic 'undeserving free-riders' from abusing such chances to secure benefits.

Recovery Threatened

Appropriate design and efficient implementation of adequate relief measures are also vital for enabling robust and equitable recovery. These can be crucial to the survival of businesses—especially micro and small ones—as well as safeguarding vulnerable people.

The absence of sufficient relief measures can strengthen the vicious circle of business failures and job and income losses. Declining aid inflows, more capital flight and inadequate relief for high government debt, even before the pandemic, have prevented most developing countries from deploying the bolder measures needed.

Facing financing constraints, many low-income countries have even cut spending! Out of fear of facing punitive market reactions and potential long-term issues, numerous governments in developing countries have been hesitant to increase their borrowing. The urgent challenge now, however, is to enable them to spend more, wisely and equitably.

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