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# The impact of the COVID-19 pandemic on low – and middle – income countries

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April 2020

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## Authors

Mark Henstridge

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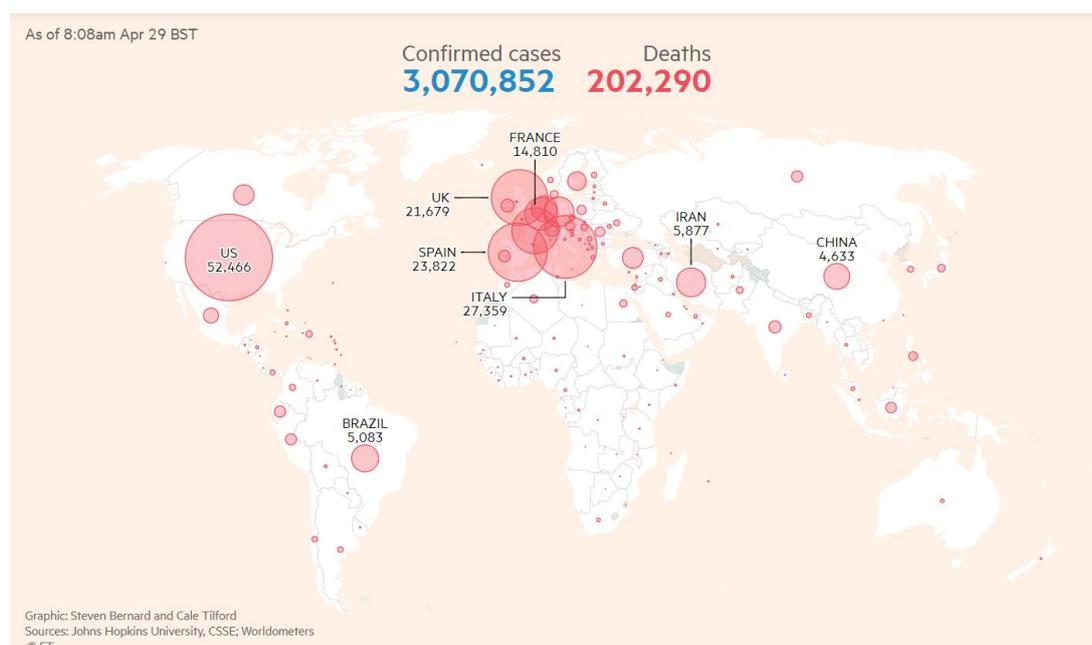
## Summary & key messages

- **There is a global pandemic.** The data tracking infection and death are unreliable. But even allowing for that, in contrast to the impact of the coronavirus 'COVID-19' in Europe, a number of countries in Asia and sub-Saharan Africa have so far recorded remarkably few cases or deaths.
- **Yet there has been an extraordinarily uniform policy response: a 'lockdown'** – despite the pandemic being different in different countries. Lockdowns limit infection by limiting social interactions, and they stop economic activity.
- **In many countries the direct impact of COVID-19 is much smaller than the impact of the lockdowns** – this is an economic and social crisis, not just a health crisis.
- **The impact of both virus and lockdown are on people in their households, and on their lives as part of the economy.** That framing also allows us to set out some dimensions of the challenges to public policy and public finances. In the short-term, revenue is down because the economy has been hit, mainly by lockdown; at the same time the pressures to spend to strengthen health and social protection systems has sharply increased to ameliorate the impact of the pandemic and the lockdown.
- **In the short-term:** the big question for public policy is to navigate the trade-off between the risks of an infectious and potentially lethal virus, and the widely borne economic and social costs of lockdown.
- **In the medium-term:** the big questions will be on an emerging agenda for reform. The need to restart economies will be accompanied by the need to resuscitate domestic revenue mobilisation and secure the financial system. This may come with shifts in the political economy of taxation that could offer space for reform for a more efficient and fairer tax system.
- **This could then be part of a new social contract for which the other part would be strengthened systems for the delivery of public services:** social protection and also health and education systems.
- **It will not be possible to go back to business as usual. At the same time there is a potential opportunity for reforms that are not only necessitated by the crisis but enabled by it as well.**

# 1 Introduction

**There is a global pandemic which is killing many people.** The total number recorded as having died goes up each day, and was over 200,000 worldwide at the time of writing, with over 3 million cases having been recorded, so far.<sup>2</sup> Figure 1 shows the available data on the scale and extent of the pandemic across the world on 29<sup>th</sup> April.

**Figure 1: Mapping the coronavirus outbreak**



**The ‘novel’ coronavirus ‘COVID-19’ is highly infectious and spreads fast.** It can be lethal for some people – particularly those who are old or have an underlying health condition – but mild for others. It has some distinctive symptoms, such as a persistent dry cough, but has been found in people who have not presented any symptoms, yet they could have transmitted the virus to others unwittingly. Scientific understanding of this virus is work in progress. Including, critically, whether those who have been infected have durable immunity.

**Nonetheless, a number of facts about the virus are clear.** It is ‘novel’ because it’s RNA is new to human immune systems. This has helped it spread fast before natural immunity, or a vaccine, can slow it down. The virus is transmitted by aerosol: the tiny droplets when people cough or sneeze; and by people touching surfaces where it has been deposited. Being in

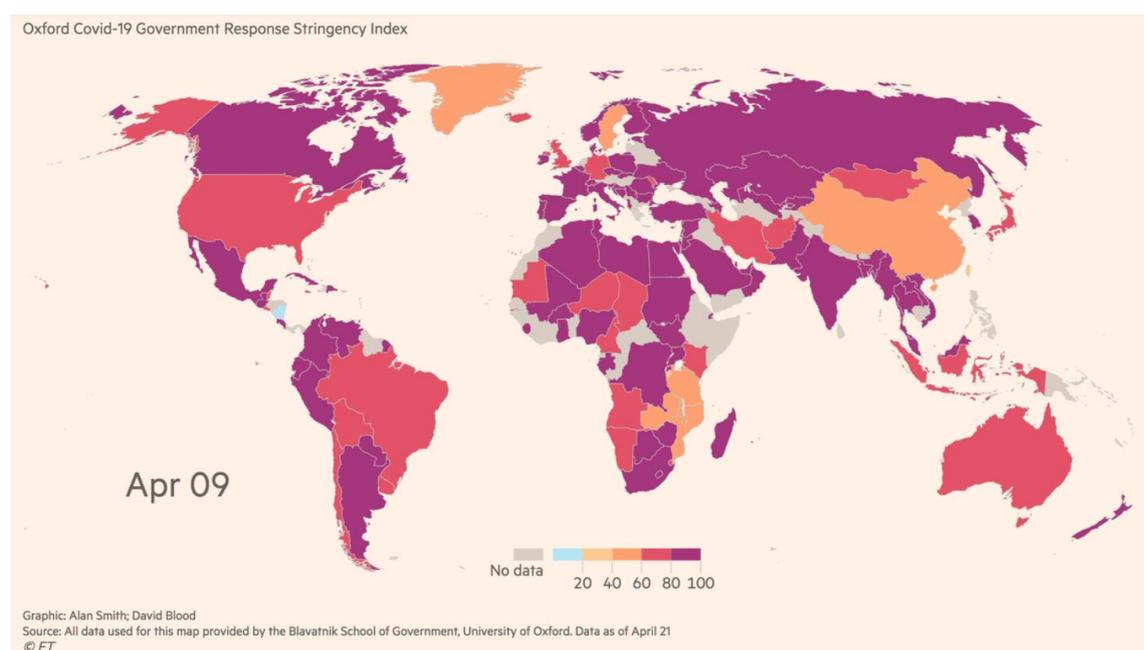
<sup>2</sup> See: <https://www.ft.com/coronavirus-latest>; for the source data: <https://www.ecdc.europa.eu/en/COVID-19-pandemic>

close proximity to others facilitates its spread. Its success in infecting so many people so fast also implies that it has had little evolutionary need to mutate – which would mean that it is likely to have essentially the same characteristics everywhere it is spreading.

**The immediate impact of the pandemic arises from the consequences it has on people when it makes them ill or kills them.** In the face of a risk of appalling loss of life, many countries have responded with dramatic measures to slow the spread of the virus.

**The other main source of impact on lives across the world comes from those public health measures aimed at slowing or halting infections.** Almost all countries have a ‘lockdown’ aimed at widening ‘social distance’ which reduces the chance of transmission and infection by limiting social interaction among people. It also limits economic interaction. Figure 2 shows a map of the stringency of government responses to the pandemic around the world.

**Figure 2: Government response ‘stringency index’**



**This note sets out a framework for organising public policy analysis and response to the pandemic across low- and middle-income countries.** I set out a straightforward and flexible framework which encompasses the impact on people and households, on the economy, and hence on the space for public policy responses – and by association donor engagement.<sup>3</sup>

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<sup>3</sup> Accordingly, this is a framework which is highly adaptable to specific country circumstances.

**This framework provides a broad context for analysis that formalises the short-term trade-offs across different channels of human impact of the pandemic and the immediate public policy responses.** The linking between epidemiological and economic models by Stevan Lee at OPM is a thoughtful example of such work.<sup>4</sup>

**To look more closely at the immediate impact of the pandemic and the policy response, I then examine the data from countries currently most affected.** The experience of such countries could have provided advance warning of a pattern of infection, illness, and death for those still to confront the pandemic, but instead the data shows a wide range in the representativeness of the information on cases and deaths. The variation across the UK, Italy, Germany, and the US shows that no data on cases and deaths should be taken at face value: for example, the data on cases reflects the resources put into testing by each country, the protocols followed in allocating those resources, and the way the numbers are collated.

Therefore, to think rigorously about the impact of this lethal pandemic, the impact of the public health measures, and to size up what follows for reform in the medium term in low- and middle-income countries depends on a careful evaluation of the underlying virology, careful and specific calibration of formal models, and the considered evaluation of the human and economic trade-offs of the range of policy responses.

**The framework presented in this paper also offers a way to organise policy analysis of what follows after the immediate impact of the pandemic passes. In the medium-term: the big questions will relate to the emerging agenda for reform.** The need to restart economies will be accompanied by the need to resuscitate domestic revenue mobilisation. This imperative may come with shifts in the political economy of taxation that could offer space for reform for a more efficient and fairer tax system. This could then be part of a new social contract for which the other part would be strengthened systems for the delivery of public services: social protection and also health and education systems.

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<sup>4</sup> See: "Recruiting Epidemiological Models to Estimate First Round Economic, Welfare and Public Finance Effects of COVID 19 Strategies", OPM working paper, forthcoming at: [www.opml.co.uk](http://www.opml.co.uk).

## 2 A framework for the impact of the pandemic and the policy response

**The pandemic has two main impacts. One from the virus itself, which is highly infections and kills people. The second impact is from the policy measures put in place to try to limit the spread of the infection,** most often taking the form of a lockdown, which is intended to reduce how much people move around, and to increase ‘social distancing’, so as to reduce transmission of the virus, but it also limits social and economic interactions.

**These impacts are on people in their households on the one hand, and on the economy more broadly, on the other.** The aim of putting a broad framework around these impacts is to provide some structure for policy analysis in response to those impacts, and to show how different parts of public policy link up: in particular across the public finances, and across different systems of government from tax collection to public service delivery systems.

**Households will be impacted by the virus, especially if it kills people.** The broader impacts on households and the economy are linked: people get employment and income from their work. The extent of these impacts will depend in part on how many people are making a living in the informal economy and how many run household businesses, such as small kiosks and market vendors, and how many are service providers – for example taxi or matatu drivers and touts in East Africa.

**The limits on social and economic interactions shrink the economy** because they reduce the ability of people to be consumers, and the ability of firms to produce. Households are then hit by loss of jobs and earnings.

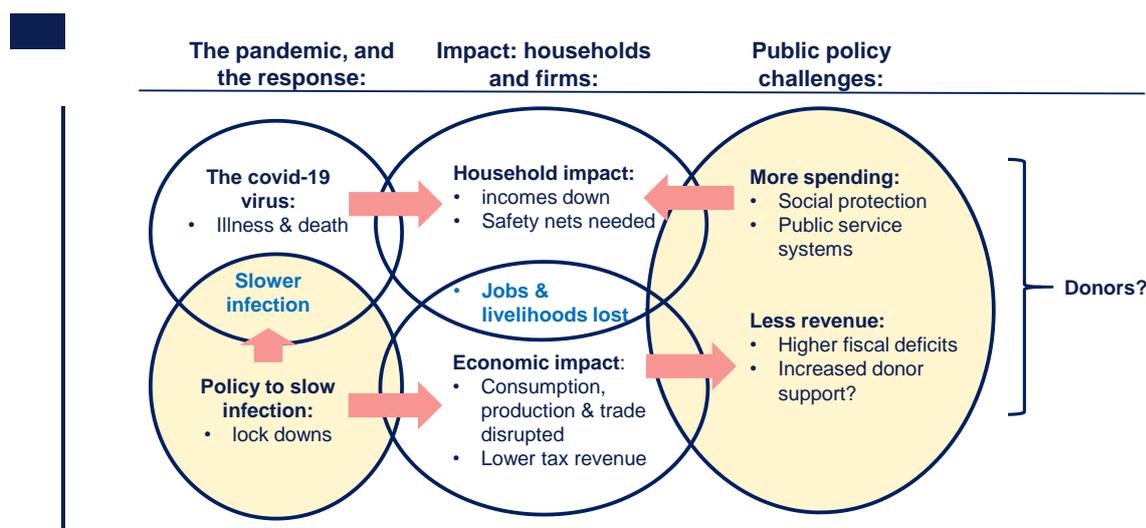
**Because the economy shrinks, the governments gets less revenue** from taxing transactions – through VAT, sales taxes, import or excise duties – and from taxing personal and corporate income.

**At the same time, there is a pressing need for government to spend more, perhaps most importantly on social protection to sustain incomes, consumption and hence welfare.** But also on easing the pressures on cashflow as firms face a liquidity crunch – support to working capital helps preserve firms and jobs through the economic shock.

**A net result is that there is a mix of public policy challenges and, all else equal, a sharply widening fiscal deficit and an array of financial and monetary policy challenges as prices and the intensity of transactions in the economy shift.**

A framework that sets out these impacts is shown in Figure 3.

**Figure 3 The impact of the pandemic and policy response**



**Walking through this framework helps pull into sharper focus some of the array of issues for gauging the impact, and organising analysis for policy responses.**

Starting from the left: the virus has an impact through infection, illness and the risk of death. As illustrated in the next section, the data so far available are fundamentally weak: revealing as much about the numbers of tests being conducted, and the priorities reflected in testing protocols, as it shows about the spread of infection through this pandemic. Nonetheless, the virus has a direct impact.

The impacts of the virus and the policy to slow infection are then categorised as falling on households as incomes and welfare fall, and on the economy more broadly. The two are inextricably linked in the sense that the loss of jobs and lower welfare more broadly fall in the intersection between households and firms in the economy.

But the distinction helps when mapping across to the right-hand side where the array of public policy challenges can be thought of as running through the public finances: pressure

to spend, especially on social protection has risen sharply (discussed below) while revenues are reduced from the impacts on economic activity.

Public policy can also be viewed through the perspective of the pressures on systems for revenue collection and public service delivery – not just social protection but also health and education services. Part of the pressure is immediate, but much may be more medium-term.

Finally, if donors engage with government then a key interface will be through the public finances where financial support is involved, or through the strengthening of systems for public administration.

Not all donor responses have gone through government systems, however; in Uganda some donors are supporting cash transfers and food supplies to the urban poor hit by lockdown through NGO networks.

When thinking about the impacts of the pandemic in light of this framework, the differences across countries is clear. The impact on OCED countries is most starkly visible in the numbers falling critically ill and being hospitalised, often for intensive care treatment. Those facilities barely exist in many low-income countries: there are few health systems with the capability to provide a response.

However, one key public health policy response is strikingly uniform across countries, almost regardless of their position on the epidemic curve, and it mainly involves variations of lockdowns intended to slow infection.

For example, the UK has been locked down since 23<sup>rd</sup> March in response to rising numbers of cases, deaths and hospital admissions of patients critically ill with COVID-19. The policy objective was to reduce infection rates and the risk of death and to avoid swamping the National Health Service. As at 17<sup>th</sup> April, the UK had recorded over 21,000 deaths, but it had also been estimated that the numbers who had died from COVID-19 was significantly higher.<sup>5</sup>

In contrast, Uganda had an initial two weeks of a lockdown, extended for a further three weeks to 5<sup>th</sup> May. Uganda has 79 confirmed cases, with recent increases coming from testing truck drivers arriving at the border, and no deaths.<sup>6</sup> The objective of the lockdown is to prevent infection from spreading at all – and has been combined with some contact

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<sup>5</sup> See: <https://www.ft.com/content/0ed8ea34-ebc5-4425-b86a-7a29447de57b>

<sup>6</sup> [https://www.newvision.co.ug/new\\_vision/news/1518344/live-museveni-deliver-12th-address-COVID-19](https://www.newvision.co.ug/new_vision/news/1518344/live-museveni-deliver-12th-address-COVID-19)

tracing and limits on travel into Uganda. There are limits on domestic travel, a curfew, and efforts to ensure social distancing in markets, as illustrated in Figure 4.

**Figure 4: 'Social distancing' and lockdown in Kampala**



Source: 'New Vision' online, and a private source

**The logic of lockdown to slow infection in Uganda is primarily to stave off the pandemic.** That approach has been reflected in an array of other countries in sub-Saharan Africa and in Asia, such as Nepal, where lockdown has a different purpose from those in the OECD and has been timed differently in relation to the epidemic curve.

However, there is not a health system that can provide intensive care at any scale in Uganda and many other countries. The risk remains, however, that if the virus has not yet arrived in a country, it is a matter of when not if, given how quickly and easily it can spread. Current news reports from other countries in Africa suggest that the impact of the pandemic may be lower than has been feared – but it may also be too soon to tell.<sup>7</sup>

Given the variation in experience across the OECD countries with high numbers of cases and deaths (as illustrated below) it is hard to draw out lessons learned, but it looks plausible that acting earlier and decisively is associated with a reduced impact on people from the virus.

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<sup>7</sup> In particular this article by David Pilling in the FT: <https://www.ft.com/content/e9cf5ed0-a590-4bd6-8c00-b41d0c4ae6e0>

**The main impact of the pandemic on people in those countries with few reported cases is not from falling ill with a risk of death, but from the challenges of sustaining life under a lockdown.** The impact on the economy comes from people not being able to interact: to work together, to meet, to buy and sell. The consequences are potentially harsh for people no longer able to make a living. In addition, when the economy shrinks, the tax base is smaller, and public finances are squeezed.

The impact of a lockdown on households has had some offsetting measures in many countries. These are principally social protection measures, but also include some measures to support businesses facing a liquidity squeeze.

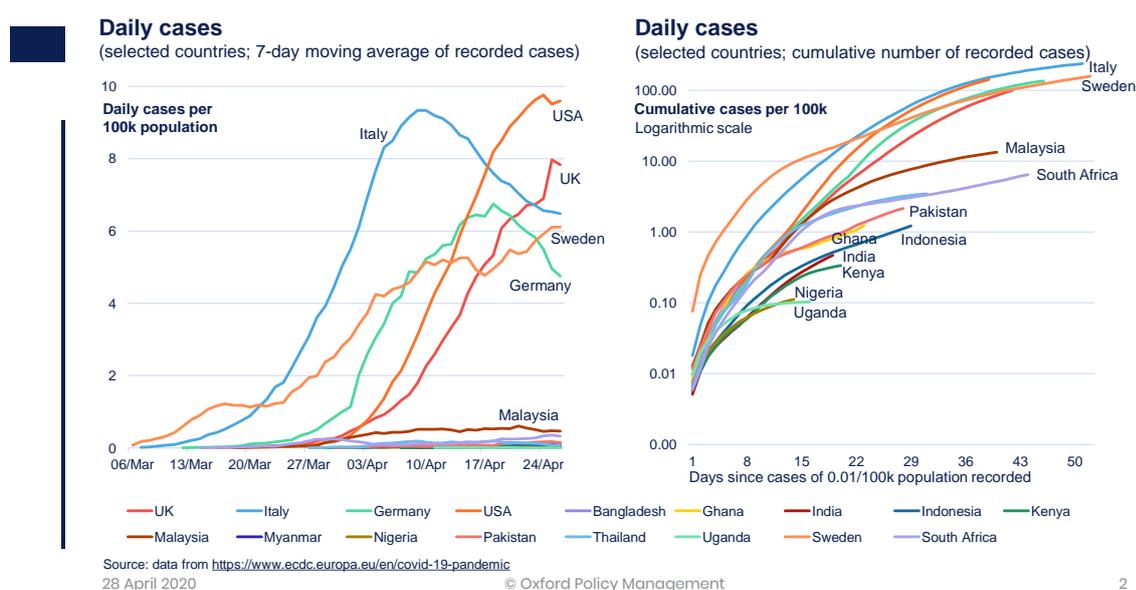
Before turning to the available information on policy responses across countries, and the efforts to mitigate impacts, I first examine what can be gleaned from the data on those countries which have so far been hit hardest by the pandemic.

### 3 The global data

To gauge whether there is anything to learn from the progress of the pandemic, this section examines data from a selection of countries across the world: four in Europe and the USA, which have recorded high numbers of cases and deaths, and a selection from Asia and sub-Saharan Africa.

The scale and sequencing of cases is illustrated in Figure 5, which shows the daily number of cases recorded in each country in the left-hand panel, and the cumulative number of cases in the right-hand panel. Both are scaled relative to 100,000 people in the population. In the right-hand panel the starting point for recording cumulative cases is pulled to the first day when cases were equivalent to 0.01 per 100,000 people – while the dates against which cases were recorded are shown in the left-hand panel.<sup>8</sup>

**Figure 5: Daily and cumulative cases of COVID-19**



The data presented in Figure 5 shows that in mid-April there were fewer than 100 recorded cases of COVID-19 in several sub-Saharan African countries. When scaled by population there are, broadly fewer cases recorded in Asia than in the OECD, and fewer still in sub-Saharan Africa.

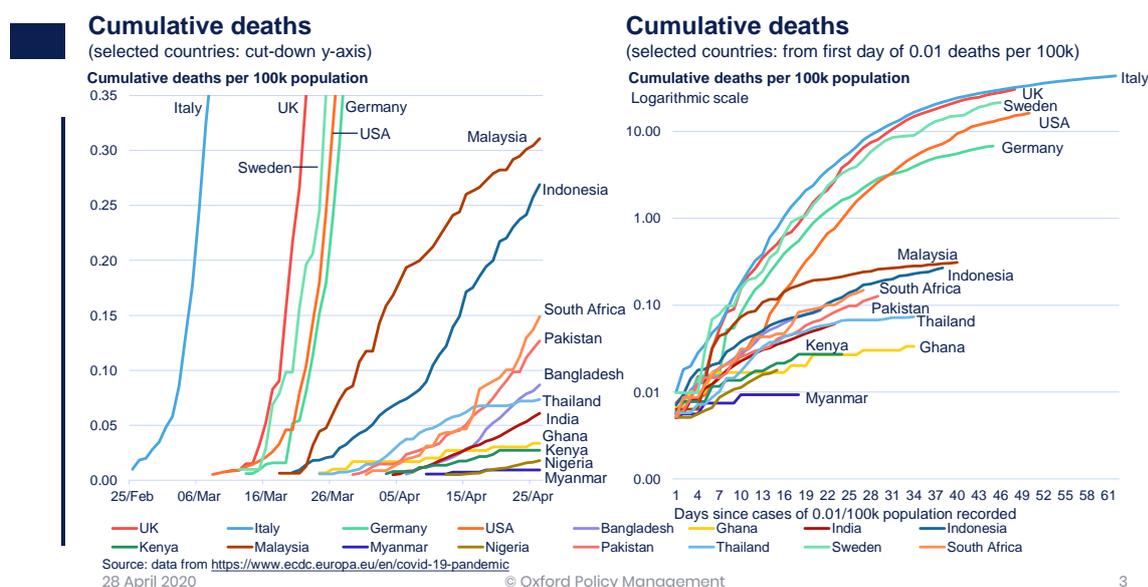
<sup>8</sup> The data in the charts in this section run up to 26<sup>th</sup> April, and have been smoothed with a seven-day moving average, as is the data presented on the FT website.

Given that infections are caused by the same virus in every country, the wide range in the level of cases and the rates of infection reveals variation in the underlying ‘data-generation process’: the variation in the resources put into testing, the protocols on who gets tested, the variation in social circumstances, and especially the timeliness of the policy response, among other things. The contribution of each of those factors to this variation in the progress of the pandemic is yet to be nailed down.

**It is the data on deaths which matter: the problem caused directly by the virus is that it kills people.** Most people who are infected by the virus recover. Some are barely aware of the infection, others can be seriously ill, and in some cases it is fatal. It seems particularly lethal for older people or those with an underlying health condition.

The data in Figure 6 show cumulative deaths recorded as being due to COVID-19, again scaled by population. The y-axis scale in the left-hand chart is changed to pull out the very much smaller level of recorded deaths in the non-OECD countries reviewed here.

**Figure 6: Cumulative numbers of deaths per 100k population**



**In some of these countries, at the time of writing, the number who have been recorded as dying from the virus is zero: Mozambique, Nepal, and Uganda have not recorded a single death.** In Ethiopia, Ghana, Kenya, Myanmar, Tanzania and Thailand, the cumulative number of recorded deaths from COVID-19 is in single or double digits. The range of cumulative deaths per 100,000 people is highlighted in the right-hand panel with the log scale illustrating the range of differences in orders of magnitude across different countries,

even with the normalisation of time to the point when cases amounted to 0.01 per 100,000 people.

**Table 1**

	Population (millions, 2018)	Urbanisation (per cent, 2018)	Population aged 65, or older (per cent, 2018)	Cumulative covid-19 deaths (recorded deaths per 100k population, at 26th April)
Germany	83	77	21.5	6.8
Italy	60	70	22.8	43.7
Sweden	10	87	20.1	21.5
UK	66	83	18.4	30.6
USA	327	82	15.8	16.3
Bangladesh	161	37	5.2	0.1
Ethiopia	109	21	3.5	-
Ghana	30	56	3.1	0.0
India	1,353	34	6.2	0.1
Indonesia	268	55	5.9	0.3
Kenya	51	27	2.3	0.0
Malaysia	32	76	6.7	0.3
Myanmar	54	31	5.8	0.0
Nepal	28	20	5.7	-
Nigeria	196	50	2.7	0.0
Pakistan	212	37	4.3	0.1
South Africa	58	66	5.3	0.1
Tanzania	56	34	2.6	-
Thailand	69	50	11.9	0.1
Uganda	43	24	1.9	-

Source: The World Bank databank: <https://databank.worldbank.org/source/population-estimates-and-projections#>

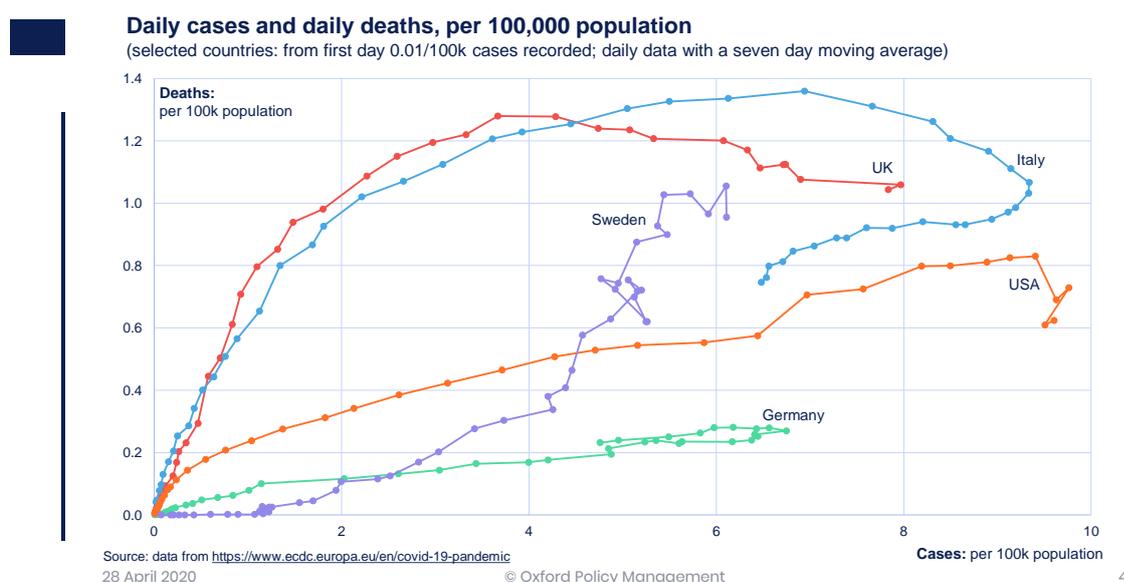
**The high-level summary data in Table 1 provides an illustration of some of the factors which may condition the rate of infection and risk of death across different countries.**

The facts so far established about the virus is that it is highly infectious by aerosol transmission or by touching infected surfaces and then touching one's face. The logic of social distancing is that it increases the distance between people and makes it harder to transmit the virus. A loose proxy for proximity to other people is the extent to which people live, work, and move around in urban areas. The levels of urbanisation in the industrialised countries picked up for illustrating in the charts in the paper is in contrast to that in other countries. Across this sample of countries there are five times as many people living in the developing countries, but only just over twice as many living in urban areas.

**The COVID-19 virus has most sharply visited death upon older people.** The proportion of populations over the age of 65 is sharply higher in the industrialised countries, shown in Table 1, compared to the others, perhaps apart from Thailand. Yet, despite having just one fifth of the number of people, in absolute numbers, the industrialised countries have two-thirds the numbers over 65 compared to the other countries shown here.

The cross-plot of daily cases and daily deaths in Figure 7 provides a further illustration of the variation in the trajectory of the pandemic across the five OECD countries shown in the charts in this section. The broad pattern is that deaths go up with a lag to the increases in cases, then the number of daily cases of new infections drops back while the level of deaths persists for longer. But there is variation in the progression of cases and deaths in these data.

**Figure 7: Daily data on cases and deaths from COVID-19, scaled by population**



**The conclusion is that the published data are only roughly helpful in tracking the pandemic as it has swept across the world.** More detailed understanding of transmission, infection, and immunity needs other locally specific data. This point is underscored by recent comparisons of expected deaths in a number of countries with tight enough systems for recording causes of death and models of mortality in the population.

Analysis of deaths above the expected rate for this time of year reported in *The Economist*, indicated that the number of deaths due to COVID-19 may be around twice as high as the data have shown.<sup>9</sup> A similar point was made with respect to the numbers of deaths over normal rates of mortality for the time of year in the *Financial Times*, with an estimate that the death toll from the virus could be 60 per cent higher than that reported.<sup>10</sup>

<sup>9</sup> See: <https://www.economist.com/graphic-detail/2020/04/16/tracking-COVID-19-excess-deaths-across-countries>

<sup>10</sup> <https://www.ft.com/content/6bd88b7d-3386-4543-b2e9-0d5c6fac846c>

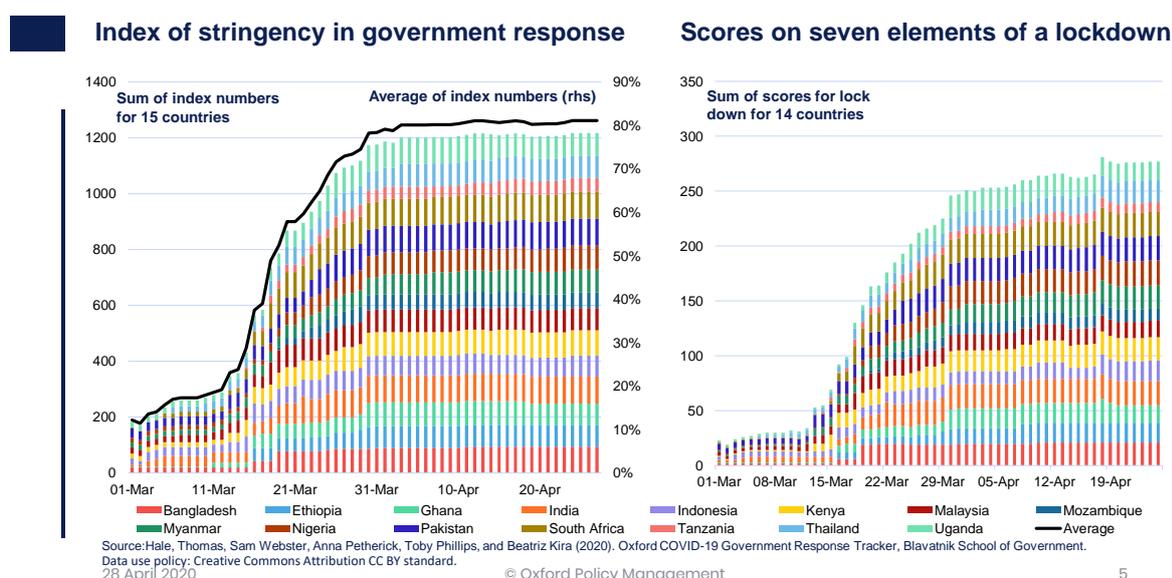


## 4 The public policy response: lockdown

There is a wide range in the recorded infections and deaths across countries, even allowing for relatively little testing the numbers across South Asia, parts of South-East Asia, and sub-Saharan Africa are very low – and strikingly so compared to the numbers from Europe and the US.

Yet the public policy response is remarkably uniform: nearly every country has put in place a lockdown. This is a key part of the index of stringency in the government measures mapped in Figure 2, above. Figure 8 shows the index of stringency for most of the countries reflected in the charts showing data on cases and deaths in the left-hand chart.

Figure 8: stringency in government response and lockdown



The right-hand chart shows which have instituted the eight distinct elements of a lockdown which contribute to the overall index.<sup>11</sup> The scoring ranges from 0 to 1, 2, 3, or 4, depending on how each element of the lockdown is graded, and sums to a maximum of 25 for complete lockdown.<sup>12</sup> Across 15 countries then, the maximum for complete and compulsory lockdown

<sup>11</sup> The eight elements of lockdown are: school closure; work places closing; cancelled public events; restrictions on gatherings; closed public transport; stay at home requirements; internal travel restrictions; and limits on international travel. See: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>

<sup>12</sup> The details of the scoring on lockdowns and the other data which make up the 'stringency of government response' index are set out here: <https://www.bsg.ox.ac.uk/sites/default/files/2020-04/BSG-WP-2020-032-v5.0.pdf>

on every one of the eight elements, would be 25 for each country; meaning for fifteen countries the maximum sum of lockdown scores would be 375. By April 26<sup>th</sup> the sum was 277 – meaning across all these countries there was an average of 74 per cent of a complete lockdown. Those scoring more than 80 per cent were: Bangladesh, India, Kenya, Myanmar, Nigeria, Pakistan, South Africa, and Thailand. Of the rest, only two – Mozambique and Tanzania – were reported at less than 50 per cent full lockdown.

**There is then a wide variation in the level and rate of infection, and in deaths caused by COVID-19 around low- and middle-income countries, and a remarkably uniform public health policy response.** Lockdowns in Europe were in response to rapidly rising mortality. Lockdowns in other countries are to prevent infection in the first place: there would have been little scope for political gain in not taking dramatic action when other countries have done so, and then to find a relatively higher impact – and even if that was the *ex ante* rationale, the *ex post* justification will be that it was prescient and prudent to have locked down. Quite how this will play out for Sweden in comparison with other OCED countries is unclear. In any case, for developing countries lockdowns have extraordinary economic costs.

#### 4.1.1 Mitigating the impact of lockdown

**As of 23<sup>rd</sup> April a total of 151 countries have planned, introduced or adapted 684 social protection measures in response to COVID-19.**<sup>13</sup> This is a ten-fold increase in measures over a month – since 20<sup>th</sup> March.

Social assistance transfers are the most widely used class of interventions (60 per cent of global responses, or 412 measures). Cash transfer programmes remain the most widely used safety net intervention by governments. Overall, cash transfers include 222 COVID-related measures representing one-third of total COVID-related social protection programmes.

About half of cash transfers are new programmes in 78 countries, reaching 513 million people, while one-fifth are one-off payments. The average duration of transfers is 2.9 months. Cash transfers are being adapted to COVID-19 response in three main ways: expanding coverage, increasing benefits, and making administrative requirements simpler.

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<sup>13</sup> Developments in social assistance and social protection are being tracked by Ugo Gentilini here: <http://www.ugogentilini.net/>, from which the data in these paragraphs was taken; and the latest edition of the regularly updated living paper is here: [https://www.ugogentilini.net/wp-content/uploads/2020/04/Country-SP-COVID-responses\\_April23-1.pdf](https://www.ugogentilini.net/wp-content/uploads/2020/04/Country-SP-COVID-responses_April23-1.pdf).

All combined, those adaptations benefit over 1.36 billion people. The average duration of cash transfer programs is 2.9 months. Most programs have a duration of three months, with several monthly one-off schemes and some longer programs in a few other cases.

In-kind transfers also adapted considerably, especially school feeding programs. These include 20 measures, which have been leveraged in creative ways. With school closures, 368 million children are missing school feeding meals around the world.

**Nonetheless, in many countries, as with the health system, there is not the state capability or systems for public service delivery that can be smoothly scaled up.** Even where there are social protection systems, where they depend on physical interaction, such as handing over cash as opposed to using mobile money systems, they are compromised by limitations on 'social distancing' and physical interaction.

Measures aimed at sustaining jobs are more limited, especially in sub-Saharan Africa. While the UK has a substantial 'job retention scheme' providing, for a period, firms with 80 per cent of the costs of employment, up to £2,500 ceiling, for staff who are then furloughed, to be administered through the tax system.

By way of a comparison, in Uganda the measures that have been taken by the tax authorities are largely deferrals on tax payments. For example, a two-month extension on filling corporate income tax return, and a 15-day extension on VAT, PAYE, Local Excise Duty, Withholding Tax, and Taxes on Lotteries and gaming.

Such administrative mechanisms do not reach all the economic activity which is informal and unregistered with the tax authorities. For them, the amelioration is through social protection, rather than through measures aimed at businesses.

The consequences of the limitations on economic activity will be felt by households as jobs and livelihoods are squeezed, but also by the government as revenue is reduced. This comes at a time when the demands for additional spending on measures to sustain social assistance and social protection are increasing.

## 5 Short- and medium-term public policy challenges

### 5.1.1 Short-term: immediate policy challenges and trade-offs

**The short-term impact of an infectious virus is on health, and there is a short-term impact from efforts to limit the spread of infection and lower the risk of death.**

Lockdowns are a broadly universal response. In countries that have low rates of infection, it seems that an early lockdown may have limited the risks of illness and death – but the data remain difficult to interpret.

**At the same time, people are already suffering the consequences of lockdowns.** There are the direct consequences for access to food, and for jobs and livelihoods, for which some forms of social protection can help. But the bulk of the response to ameliorate lockdowns come through strengthening or broadening existing systems.

**There is also an immediate impact on the economy from lockdown.** As highlighted above when framing the impacts, households are hit by the loss of earnings and livelihoods; people can't spend, and firms can't produce. While these impacts will vary across different countries, and by the extent to which many people make their living in the informal sector – in many countries the majority of firms are household or very small enterprises and they are fragile and informal – overall each economy will shrink.

Accordingly, governments will get less revenue from taxing transactions – through VAT, sales taxes, import or excise duties – and from taxing personal and corporate incomes. At the same time, there is a pressing need for government to spend more, most urgently on social protection.

There is also a broader economic impact from the international economy on the balance of payments for low- and middle-income countries. As well as a global recession there will be a mix of impacts from global lockdowns. For example from tourism stopping; the impact on exports by air of fresh food and flowers from cargo space on aircraft being sharply reduced owing to international passenger flights stopping; and the drop in the price of tea in India as exports become harder, are just three ways in which value chains will transmit the economic impact of lockdowns.

A further hit to the balance of payments will come from sharply reduced remittances from overseas. The World Bank has projected that receipts of remittances will be around 20 per cent lower across most developing country regions, amounting to some US\$ 100bn lower remittances in 2020 compared to 2019.<sup>14</sup>

In addition, commodity exporting countries will lose export receipts and government revenue as international commodity prices, most dramatically oil, have fallen as so much of the world locks down and demand for commodities as an input to manufacturing, and for oil for powering transport, has dropped sharply.

The net result is that there is a mix of public policy challenges and, all else equal, a sharply widening fiscal deficit and an array of financial and monetary policy challenges as relative prices and the intensity of transactions in the economy shift. Among these will be challenges for banks as their understanding of credit risk is challenged.

One way to link the immediate public policy challenges is through the public finances. The pandemic and the lockdown will simultaneously reduce revenue and increase pressures for higher spending. The pandemic and the policy response to it has caused an economic and social policy crisis.

Lockdowns are beginning to be lifted: the immediate costs on livelihoods and welfare have been high. But the risks from the pandemic remain. There is a mix of alternatives which could limit the risks of transmission of the virus, while still allowing people to make a living.

For example, 'social distancing' is intended to use the gap between people to limit infection. If that is unsustainable, significant improvements in practices of hygiene when coughing or sneezing combined with increased and more thorough washing of hands with soap could provide an alternative approach to behaviour change, with a different balance of costs and benefits for the population at large.

In recently reviewing guidance to people in Uganda, President Museveni highlighted means to prevent, or at least limit, transmission of COVID-19 such as: (i) do not sneeze or cough in the midst of a group without blocking using a hand; (ii) do not go out into the public when you are coughing or sneezing; (iii) sanitize regularly frequently touched surfaces; (iv) wash your

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<sup>14</sup> See: <https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history>

hands with soap and water; (v) do not touch your face. These are measures amenable to public health information campaigns,<sup>15</sup> and to immediate donor support – such as massive increases in availability of soap for washing hands – which would also have broader public health benefits, and which could mean that the lockdowns can be eased.

This fundamental trade-off is amenable to modelling, using the foundation of an epidemiological (“epi”) model combined with estimates of the economic costs and impacts of alternative public health policy responses. Work of this sort has been started already by Stevan Lee at OPM. For example, alternative scenarios can be modelled against the six criteria published by the WHO for relieving lockdowns.<sup>16</sup>

### **5.1.2 Medium-term policy challenges: reforms and resilience**

The medium-term challenges for public policy include: (i) re-starting the economy; (ii) the connected challenge of re-building the revenue base for domestic revenue mobilisation; and (iii) reinforcing the systems for public service delivery – both to avoid those hardest hit by lockdowns sliding into deeper poverty, vulnerability and disadvantage, and to strengthen the contribution of systems for public health, education and social protection for greater resilience to future shocks.

Restarting the economy is tough everywhere. In those countries, such as the UK, which have been able to use the tax system to administer the job retention scheme, and which have the fiscal space to borrow hard and fast, the possibility of finding ways to relieve firms of a payments and liquidity crisis is relatively straightforward. The problem of re-starting a high rate of flow of transactions in a high income and high expenditure economy can be thought of as a large-scale collective action problem. There is a broadly shared social risk that individuals will not be able to solve that collective action problem through individual actions. The longer people get bogged down in lockdown, the less trust people can have that the rest of the economy will still be functioning. Creative ways to provide a credible basis for trust that everyone can engage in economic activity and that the economy will work as a result are part of public policy in the UK.

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<sup>15</sup> See, for example, this from Sierra Leone: <https://www.youtube.com/watch?v=Gr5t1rqSXrl>.

<sup>16</sup> See: [https://www.who.int/docs/default-source/coronaviruse/COVID-strategy-update-14april2020.pdf?sfvrsn=29da3ba0\\_6](https://www.who.int/docs/default-source/coronaviruse/COVID-strategy-update-14april2020.pdf?sfvrsn=29da3ba0_6).

That is less the case elsewhere, mainly because the systems for the administration of collectively sound solutions to individual problems, such as the job retention scheme in the UK, do not exist. The medium-term agenda could then include the imperative for a more resilient economy by having those systems functioning well.

**In the meantime, there may be alternatives in some countries where there has been innovation in mobile money and mobile credit.** East Africa has pioneered mobile money transfers, starting with M-Pesa in Kenya. Further innovation provides short-term credit to finance working capital, for example to small businesses such as market traders. This then provides scope for a potential initiative that could deliver re-start-up grants for those who have established some minimal credit scoring for mobile credit.

There will also be challenges for banks in managing changes in the quality of their loan portfolios if the lockdown pushes liquidity squeezes into bankruptcies.

**The combination of a short-term recession and a wider fiscal deficit will push the public debt dynamics into a vicious cycle in a number of low- and middle-income countries.** International support will be critical in the short-term. The agenda for fiscal policy reform after the shock of a pandemic and lockdown will need careful modelling.

**In the medium-term, to strengthen the fiscal position in low- and middle-income countries implies strengthening the systems for the administration of tax revenue, which generally do not work well.** They are characterised by high marginal rates of taxation, many leakages and exemptions, poor quality data and systems, weak compliance, and low shares of revenue collection in GDP.

**The systems for the delivery of public services are also weak** – with many of the same issues. To give one example, most children in most countries go to school. Most of them do not learn much. Lockdowns have closed schools in many countries. Going back to business as usual is not only unlikely, it is undesirable. But the challenge of ensuring that an education system is coherent for learning remains a hard problem. And it is not clear whether re-booting an education system makes it easier.<sup>17</sup>

There will be similar challenges for health and social protection systems; if not harder ones: they have been the instruments of policy for tackling the initial impacts of the virus. The idea

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<sup>17</sup> See, for example, the work of the RISE education research programme: <https://www.riseprogramme.org/>

that they should be reformed to be more robust in the medium-term would not be unwelcome. The question then is how to reform and strengthen those systems?

**Policy reform is hard at the best of times, but more often than not a crisis unblocks change.** There are two broad points to make when seeking to look beyond the pandemic. First, that the world will change: going back to ‘business as usual’ as it was is unlikely. Second, that in any case business as usual would not have been a good outcome for countries with ineffective domestic revenue mobilisation efforts, and weak systems for delivering public services.

In particular, there will be changes in the configuration of interests that can shape or block successful reform. Careful application of ‘thicker’ public policy diagnostics can identify where, and in which countries, the space for change is opening up. The experience of the pandemic and the lockdown will be different across different countries. The application of the framework introduced in this paper, and a framework for ‘thicker’ public policy diagnostics will need to be tailored.<sup>18</sup>

Nonetheless, the areas that may be ripe for a renewed reform effort are those which will have been impacted by the experience of the pandemic. They will include the systems for the delivery of public services in social protection, health, and education. That the current systems are thin and ineffective may be clearer as a result of their having been put under pressure, and that can support the case for reform and for increased financing. And the observation that revenue collection systems are weak will also have been put into sharper focus through this crisis.

The combination can be thought of as re-writing the ‘social contract’ with a new emphasis on better and more equitable public services, improved revenue mobilisation and taxation, and a renewed commitment to integrating economic and social development.

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<sup>18</sup> See: <https://www.opml.co.uk/files/Publications/td-working-paper-final.pdf?noredirect=1>; and: <https://www.youtube.com/watch?v=hAqbM9V-OuM>

