FEBRUARY 2024

Research for Policy and Practice Report
Covid-19 Responses for Equity (CORE)

Fiscal measures to support post-pandemic resilience

Foreword

Now that the dust has begun to settle on the Covid-19 pandemic, it is time to reflect on and draw lessons from country experiences in pandemic response, in relation to fiscal management and reform. The experience of Southeast Asia provides interesting insights, not just for the global South but for any country trying to handle a major crisis under binding constraints. The three most populous countries of the region are the Philippines, Indonesia and Vietnam. These countries share many of the challenges and constraints faced by countries elsewhere in the global South, such as having to manage the pandemic with limited fiscal resources, a weak healthcare system, and inadequate infrastructure that affected the management of mobility restrictions and the distribution of financial assistance and vaccines.

However, the three countries employed different approaches to managing the pandemic with varied outcomes as a result. The Philippines responded to the initial outbreak by imposing one of the world's longest and most stringent general lockdowns. This resulted in the largest fall in gross domestic product (GDP) amongst Southeast Asian countries, with a 9.5 per cent economy contraction in 2020 according to the Philippine Statistics Authority. Despite the draconian response, the Philippines could not contain community transmission or flatten the infection curve. In contrast, Indonesia resisted a general lockdown, focusing instead on a host of less stringent social distancing measures. As a result, it experienced one of the smallest reductions in GDP in the region. Like the Philippines, it could not contain community spread, but it did avoid a massive recession. Vietnam responded to the initial outbreak with a national lockdown but moved quickly to more targeted and time-bound measures. This approach allowed Vietnam to get through the pandemic without suffering a recession, while also containing community spread with the initial outbreaks.

What lessons can be drawn from the experience of these three countries? There is an apparent trade-off between lives and livelihoods on the one hand, or health and economy on the other, in responding to the pandemic. For the poor who live hand-to-mouth – who still number in the millions in the Philippines, Indonesia and Vietnam – the deprivation of livelihoods through stringent and prolonged lockdowns can lead to a shortening or even loss of life, when public social safety nets are weak or missing. Not only were social safety nets weak in these countries, but many segments of society, such as informal workers and other marginalised groups, were not covered at all. The poor that have shelter but do not have access to basic facilities such as running water may be forced to breach lockdowns simply to survive. Ultimately, limited fiscal resources or mismanagement leads to public investment failures, which results in a lack of access to basic needs, and the ineffective implementation of lockdowns.

A woman receives rupee notes of financial assistance through the governmental Ehsaas Emergency Cash Programme during Covid-19 lockdowns in Peshawar, Pakistan.

PHOTO: ABDUL MAJEED/AFP VIA GETTY IMAGES

It would seem that Indonesia and Vietnam took greater notice of these ground realities in designing their pandemic response than did the Philippines. Nevertheless, all three countries could probably have done more to preserve lives **indirectly** by safeguarding livelihoods, rather than trying to do so **directly** through lockdowns, which had limited success in containing community spread.

In sum, these cases illustrate that prolonged, general lockdowns cannot serve the desired objective of containing community spread if marginalised and vulnerable communities do not have the support they need to survive when required to stay at home. In this context, there is a real possibility that greater harm will result from the loss of livelihoods resulting from lockdowns than the loss of lives attributable directly to increased infection rates had lockdowns been avoided.

However, in order to apply these lessons, countries will require increased fiscal space to enable them to implement social safety nets that help balance the trade-off between livelihoods on the one hand, and health and the economy on the other. What follows in this Research for Policy and Practice Report is a collection of studies supported by the Covid-19 Responses for Equity (CORE) Programme. These studies provide solid evidence from a diverse range of cases, each with varying contexts and constraints, about fiscal policies and macroeconomic reforms that could support crisis response. Improved tax collection and better management of fiscal resources could enable improved social and physical infrastructures, as well as improved social safeguards and safety nets. These considerations should be part of an improved response when the next pandemic hits.

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Building macroeconomic resilience from the shock of the Covid-19 pandemic in sub-Saharan Africa

New evidence details the macroeconomic impacts the Covid-19 pandemic has had on African economies and how it has exacerbated structural economic deficiencies across the continent. It also offers recommendations to policymakers, specifically finance ministries, on how to design equitable fiscal policies in the short- and long-term to support post-pandemic resilience.

During the 2020 socioeconomic crisis in Africa, many governments scrambled to put together fiscal stimulus packages which included injections of funds into public health initiatives, unemployment benefits, company tax breaks, and loan guarantees. The Covid-19 Macroeconomic Policy Responses in Africa (CoMPRA) project generated evidence across six sub-Saharan African countries (Nigeria, South Africa, Tanzania, Uganda, Senegal, and Benin) with the following two objectives:

1. To evaluate the capacity for and effectiveness of fiscal (and monetary) management of the 2020 socioeconomic crisis.
2. To assess the resilience of these economies to recover from exogenous and endogenous shocks.

The study found that all case study countries experienced a socioeconomic crisis of declining real per capita incomes in 2020, save for Tanzania and Benin where growth decelerated sharply. The proximate and unavoidable causes of the crisis were international trade disruptions which directly impacted domestic production and employment. Depending on their severity, interruptions of domestic trade and employment exacerbated welfare losses. The least stringent lockdowns in 2020 were in Tanzania and Benin, and the most stringent in Nigeria and South Africa. The latter two countries suffered the deepest recessions.

The ultimate shock absorbers of these exogenous crises and domestic lockdowns are the urban informal enterprises and workers, who are simultaneously excluded from the benefits of public spending on corporates and unemployed formal sector workers. The extension of grants to the under-employed in South Africa and Senegal, and public works programmes in Nigeria, serve as an attempt to offset this disproportionate welfare loss on the most marginalised.

Despite efforts to fiscally stimulate economic growth, the norm across the cohort was procyclical fiscal responses to both up- and down-cycles. This might be expected to be the result of limited capacity to raise sufficient revenue. However, the two upper-middle income southern African countries with the highest proportions of GDP raised as revenue are also the most likely to yield procyclical fiscal outcomes. Of the three countries to effect countercyclical policies, Nigeria has been negligibly, Uganda weakly, and Senegal moderately likely to do so.

With the exception of Tanzania, the other national governments significantly increased their external debt burdens. The African Development Bank anticipates a medium-term debt crunch until 2025. Rising debt repayments – as well as increased social welfare and primary health care spending – is crowding out expenditure on education and infrastructure investment which is essential for long-term economic growth.

Policy implications and recommendations

- Diversify sources of revenue away from a reliance on trade and resource taxes, royalties, and rents. The replacement of fuel subsidies with carbon, fuel and vehicle taxes can incentivise decarbonisation but these costs will be passed on in the form of fuel and food inflation.
- Progressive corporate and income tax schedules enable (though do not ensure) redistribution towards the poor. Sales taxes are the most broad-based and viable source of additional revenue and could be made more redistributive through lower rates on necessities and higher ones on luxury items.
- Spending prioritisation is important in building resilience and enabling poverty reduction. Public investment spend on infrastructure construction (and maintenance) needs legislated protection against early victimhood from crowding out pressures.
- Debt accumulation limits can be premised on their impact on debt-servicing ratios, which should not be allowed to exceed or crowd-out spending on Sustainable Development Goals 1–4 (social security, education and health). However, the implication of this is that other consumptive components of government spending will bear the costs of revenue volatility.
- Collective action by African continental institutions (of the African Union) in their relationship with established upper-income and emerging upper-middle income powers (for example the G20) should be focused on: (1) Negotiations over the rules of debt accumulation, restructuring and forgiveness, and (2) The commitments to transfer at least 0.7% of GDP to low and lower-middle income countries in the form of Official Development Assistance (ODA). The latter should be directed at catalytic institution-building which improves governance through control of corruption, rule of law, regulatory quality, political stability, voice and accountability, and government effectiveness.
- Further to these complementary global and domestic strategies for improving fiscal resilience, the African Continental Free Trade Area (AfCFTA) should play an important role in promoting trade diversification through increased intra-African trade. This can be achieved by means of progressive tariff liberalisation, standardisation of non-tariff barriers, and promotion of investment partnerships with domestic enterprises to develop regional value chains from mineral extraction and agricultural production.
- Bilateral Economic Partnership Agreements (EPAs) covering trade and investment relations (but also debt accumulation and utilisation of ODA) can serve as pilots or precedents for a common African position on these vital components of building resilience against crises through GDP growth.

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FURTHER READING

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Simulating policy responses and interventions to promote inclusive recovery from the Covid-19 pandemic in Ghana

Learnings are ongoing about the adverse impacts of the Covid-19 pandemic and its effects on various countries globally. The effects of the pandemic were different for men, women, and children, and economic hardship affected both the most vulnerable and the not so vulnerable. New research suggests that governments should improve their targeting of low-income groups to significantly reduce poverty and inequality.

Ghana, like most nations, instituted various containment measures and interventions to stop the spread of coronavirus in order to save lives, protect livelihoods, and ensure economic recovery amid the pandemic. While the measures were essential to reduce the spread of the virus, their effects on people's livelihood and the economy cannot be underestimated.

The large informal sector in Ghana, made up of many daily wage earners with little or no savings, made it very difficult for the government to enforce a total lockdown of the country. For many daily wage earners, a total lockdown implied no work and hence no income, and therefore no access to food or other household necessities. As a result, the government provided economic recovery measures to lessen the impact of the pandemic (including the lockdown) on residents. These included free water for household and commercial use, cooked and uncooked food, and tax holidays.

More than 77 per cent of households in Ghana suffered income losses because of the Covid-19 pandemic, leaving families struggling to meet their basic needs. Low-income and vulnerable members of society were hardest hit by rising unemployment rates, lost wages, and diminished remittances from family and friends living in Ghana and abroad.

As part of its efforts to promote an inclusive pandemic recovery, the Ghanaian government introduced several policies to address the challenges of the pandemic. Research by a team of local researchers from the Partnership for Economic Policy (PEP) has shown that not all policies were successful in reducing poverty.

The team evaluated three of the policies implemented by the government:

1. Providing customers with free water (for nine months), free electricity for lifeline customers (consuming 50 kilowatt hours or less per month), and half-tariff for other electricity customers.
2. Loans for creative sector workers.
3. Tax reliefs for frontline health workers (which included income tax waivers and allowances equal to 50 per cent of their basic salary).

The policies were evaluated based on their effectiveness in reducing poverty and inequality, their cost-effectiveness, and equity – particularly, their ability to reach women and disadvantaged low-income groups.

The results indicate that:

- The reductions in poverty by the three policies were marginal and were not enough to offset the initial increase in poverty seen at the height of the pandemic in the second quarter of 2020. Providing free water and electricity to lifeline customers had the highest budgetary costs but reduced poverty the most. The policy also had the lowest cost per person lifted out of poverty.
- Women experienced the largest decline in welfare (46.8 per cent) due to the pandemic compared to men (37.8 per cent) and children (14.3 per cent) as measured by the decline in remittances, labour income, public transfers, and the household's ability to afford its food and durable purchases.
- In terms of sectors, the largest decline was seen in the education sector which saw school closures that led to layoffs and declined wages. This resulted in a rise in poverty among those working in the sector.
- The tax relief for healthcare workers was the main gender-equitable policy among those evaluated due to the disproportionate number of women working in the sector.

Policy implications

The research shows that the policy options studied can be strengthened to better safeguard the welfare of households. For instance, while poverty reduced marginally, inequalities continued to persist. This suggests that policies must more effectively target low-income groups to reduce inequality. Subsidising essential goods and services was a more cost-effective way to benefit people living below the poverty line. In building resilience and improving the welfare of households after the pandemic, the government needs to consider subsidising water and electricity for lifeline consumers.

However, increases in national debt and fiscal deficit since 2021 have made it difficult for the government to continue to support households and provide subsidised essential goods and services. The debt challenges are partly due to Covid-19-related spending and raises the question of how future crisis spending can be made more resilient and effective without increasing the fiscal deficits beyond normal limits, or exceeding reasonable debt-to-GDP thresholds.

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Assessing fiscal policy responses to the Covid-19 pandemic: The case of Pakistan

In response to the Covid-19 pandemic, national and sub-national governments in Pakistan enacted tax relief measures for individuals and businesses. New evidence explains how fiscal policy changes designed for the manufacturing sector offered the highest gains in real GDP and a reduction in consumer prices. Such evidence generates lessons for policymakers to learn how tax policy and administration can aid pandemic recovery efforts.

Weak economic growth and low tax revenues made it difficult for the Government of Pakistan to maintain social protection measures during the pandemic. While micro-, small-, and medium-sized enterprises (MSMEs) received some tax relief in the fiscal year 2020–2021, continued assistance is vital amid the ongoing global health emergency, which would likely increase government borrowing requirements. Furthermore, the government sought to improve tax relief to ensure that only the most vulnerable receive exemptions and subsidies. With Pakistan subject to an International Monetary Fund (IMF) programme, implementing any tax relief is challenging. Thus, tax relief options must ease the financial shocks experienced by individual taxpayers, small and medium-sized businesses (SMEs), and trading companies, whilst minimising the government's revenue loss.

In 2020–2021, a local team of economists and policy analysts conducted a study for the Partnership for Economic Policy (PEP) to assess the impact of implemented policy options in Pakistan. The team used a Single Country Recursive Dynamic CGE model to simulate the effects of different scenarios on the national economy.

From discussions with key policymakers and other stakeholders, and in light of real data, four main tax relief and subsidy policy options implemented by the government during the pandemic were assessed:

1. A 3.5 per cent reduction in general sales tax (GST) for large-scale manufacturing sectors.
2. A 2 per cent reduction in tariffs on priority agriculture and food items.
3. A 3 per cent decrease in GST on selected services sub-sectors.
4. A production subsidy allowed to the cotton sector, estimated as a 2.5 per cent negative GST rate on cotton sector output.

The impact of manufacturing sector tax reductions on fixed investment is relatively high and will continue to increase, which can help trade firms achieve export gains and boost household consumption. This scenario generated the highest price reduction, almost twice as much as any other simulation.

While government interventions generally lead to positive outcomes, not everyone benefits equally. For example, reducing indirect manufacturing taxes may help all households, but wealthier households in rural and urban areas benefit more than poor households. The concentration of affluent households in manufacturing activities may be a factor.

In practice, the concentration of affluent households in manufacturing may exacerbate income disparities. Wealthier individuals often hold positions in management, ownership, or skilled roles within manufacturing enterprises, which may result in higher income levels compared to those in other sectors. Moreover, it could also lead to potential economic disparities between urban and rural areas. This is because manufacturing activities are often concentrated in specific regions, and these regions may be urban or rural. Wealthier households in both urban and rural areas may benefit more from reduced indirect manufacturing taxes, leading to economic disparities between different geographic areas. Tax relief for services sector firms (option 3) is also an effective policy option. Since services account for a large share of GDP, fixed investment gains are highest when these sectors receive a tax rate reduction. While all fiscal responses led to increases in exports, the impact on net exports or terms of trade can differ. For example, while the reduction in indirect taxes led to increased manufactured exports, import demand in this sector surged during the same period.

Finally, the Covid-19 pandemic may have exacerbated overall food consumption inequalities. While the policy options discussed saw increased consumption levels among all households, the gains were relatively smaller for poorer households. Furthermore, the policy options contributed to increases in wages, but earnings growth was higher for skilled workers than unskilled workers.

Policy implications

These findings offer conclusions that can improve tax policy responses during economic emergencies, such as the one presented by the pandemic:

- Of all fiscal policy changes, those designed for the manufacturing sector offer the highest gains in real GDP and a reduction in consumer prices. The tax relief provided to the manufacturing sector also meets almost all the evaluation criteria. Furthermore, the conclusions of this study indicate that tax and subsidy changes alone are not enough to mitigate the adverse impacts of the pandemic on poverty and inequality. Sustained social protection and adequate social safety nets are necessary.
- There is a dire need for robust and sustained social protection programmes to shield vulnerable populations from the economic shocks caused by the pandemic and natural disasters such as the flash floods of 2022.
- There is a need to develop targeted social protection initiatives that focus on the most vulnerable groups, including low-income households, informal workers, and those affected by the floods. Moreover, it needs to be ensured that social safety nets are designed to address specific challenges faced by different segments of the population.
- The integration of health and social services is imperative to face public health emergencies. This can be ensured by strengthening healthcare infrastructure to provide essential services and respond effectively to health emergencies like the Covid-19 pandemic.

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Ahmed, S.; Ahmed, V. and Abbas, A. (2010) *Taxation Reforms: A CGE-Microsimulation Analysis for Pakistan*, PEP Working Paper Series 2010-12 Nairobi: Partnership for Economic Policy (PEP) DOI: 10.2139/ssrn.1683451

Project list

Covid-19 Macroeconomic Policy Response in Africa

Partner: South African Institute of International Affairs (SAIIA)

Research Partners: Centre for the Study of the Economies of Africa (CSEA)

This project will generate evidence to support policymakers, specifically finance ministries, to promote equitable socioeconomic and sustainable environmental policies and interventions, in the short and longer term. The project will generate evidence and support peer learning and capacity building among targeted policymakers and policy think tanks, for strong pandemic responses on fiscal and monetary measures, financing and programming options to support vulnerable groups, and how they can contribute to climate-resilient, sustainable and inclusive rebuilding of economies.

Further information: **https://c19re.org/project/covid-19-macroeconomic-policy-response-in-africa/**

Simulations and Field Experiments of Policy Responses and Interventions to Promote Inclusive Adaptation to and Recovery from the Covid-19 Crisis

Partner: Partnership for Economic Policy (PEP)

Research Partners: The Center for Distributive, Labor and Social Studies (CEDLAS); The Department of Economics of Université Laval (DEUL); The School of Public Management and Administration (SPMA) of the University of Pretoria; Universidad Nacional de La Plata

This project focuses on the impact of the Covid-19 pandemic and the effectiveness of current and potential policies in 11 developing countries to identify more effective and inclusive policy responses to, and recovery from, the pandemic. In nine countries, the project will use simulation modelling to explore the likely impacts of various policy responses at different stages of the crisis: epidemic and lockdown, gradual re-opening, and full recovery. In two countries, ongoing experimental impact evaluations will be extended to assess specific pandemic-response interventions. The research will be guided by questions relating to the impacts of the Covid-19 crisis on national economies and populations and the results will guide national decision-making.

Further information: **https://c19re.org/project/simulations-and-field-experiments-of-policy-responses-and-interventions-to-promote-inclusive-adaptation-to-and-recovery-from-the-covid-19-crisis/**

Drawing on research from the Covid-19 Responses for Equity (CORE) initiative, this summary highlights key learning from the Covid-19 pandemic on effective fiscal measures to support resilience to pandemics and other crises. Supported by the International Development Research Centre, CORE brings together 20 projects to understand the socioeconomic impacts of the pandemic, improve existing responses, and generate better policy options for recovery. The research is being led primarily by local researchers, universities, thinktanks and civil society organisations across 42 countries in Africa, Asia, Latin America and the Middle East.

This output was published by the CORE Knowledge Translation Programme, led by the Institute of Development Studies (IDS), which supports the translation of knowledge emerging from the CORE initiative. It was written in collaboration with CORE research teams from the South African Institute of International Affairs (SAIIA), the Centre for the Study of the Economies of Africa (CSEA), and the Partnership for Economic Policy (PEP). It was collated by Jessica Meeker, Knowledge Officer (IDS). CORE's knowledge translation goals are to connect the research with policymakers and practitioners. The initiative is identifying synergies between projects and grant-holders, supporting researchers as they exploit influencing and engagement opportunities, and facilitating mutual learning.

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DOI: 10.19088/CORE.2023.021

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