The Impact of Emergency Cash Assistance in a Pandemic

Researchers:

Juliana Londoño-Vélez

Pablo Querubin

Sector(s): Finance

Sample: 3462 households

Target group: Families and households

Outcome of interest: Food security and nutrition Household finance

Intervention type: Cash transfers Unconditional cash transfers

AEA RCT registration number: AEARCTR-0005970

Research Papers: The Impact of Emergency Cash Assistance in a Pandemic: Experimental Evidence fr...

During the Covid-19 pandemic, numerous governments implemented unconditional cash transfers (UCT) to alleviate the impacts of income, health, and consumption shocks. Researchers conducted a randomized evaluation in Colombia to assess the effects of emergency cash assistance on the well-being of households. Recipients of the UCT experienced improved financial health, food access, and psychological well-being. Colombia's newly implemented mobile money system allowed for quick fund disbursement, but its effectiveness for vulnerable populations may have been weakened by nascent digital systems.

Policy issue

Covid-19 affected the lives of millions of people globally, especially those in low-income countries. Governments across the world scrambled to help their citizens cope with the welfare impact of lockdown policies while facing budgetary constraints and limited capacity. Emergency cash transfers, delivered via digital payment systems such as mobile money, provided a means to support recipients while allowing them to adhere to social distancing mandates. For the most vulnerable and those experiencing income, health, or consumption shocks, even small amounts of cash could have significant impacts. Many governments specifically utilized these digital systems to deliver unconditional cash transfers (UCT), thereby minimizing physical contact and enhancing compliance with social distancing guidelines .

The Covid-19 pandemic has precipitated an acute economic emergency that disproportionately threatens the livelihoods of vulnerable populations worldwide, necessitating timely and comprehensive policy responses, with particular consideration of the varying effects of cash transfers in emergencies.[1] During global emergencies, supply chain and market disruptions may reduce the effects of interventions such as cash transfers. Research on the short-term impacts of new and expanded social assistance programs may allow policymakers to more effectively plan for needed long-term economic recovery. Can UCT improve recipient welfare in emergencies, and what are the bottlenecks governments may face when rapidly deploying digital payment systems for UCT?

Context of the evaluation

The initial case of Covid-19 in Colombia was identified on March 6, 2020; unfortunately, the first death related to the virus occurred on March 16. As a precautionary measure, the country declared a quarantine with mobility restrictions beginning on March 24 through September 1. Before the pandemic, Colombia had two programs aimed at providing financial assistance to low-income households: Familias en Acción, a conditional cash transfer program, and Colombia Mayor, a noncontributory pension scheme. During the pandemic, these additional payments benefitted 4.4 million low-income households. In response to the pandemic, the government introduced two new UCT programs: VAT Compensation (Compensación del IVA) and Ingreso Solidario. The Ingreso Solidario program specifically aimed to support individuals who were not previously covered by any pre-existing programs. This study focuses on the VAT Compensation. This study focuses on the VAT Compensation.

The VAT Compensation is an unconditional cash transfer initially managed by the National Planning Department (Departamento Nacional de Planeación; DNP) and currently managed by the Department of Social Prosperity (Departamento de Prosperidad Social; DPS) that benefits nearly 1 million households living in poverty. Launched on March 31, 2020, the VAT transfer consists of US$19 or distributed every five to eight weeks to beneficiaries of two existing social welfare programs benefitting low-income families and senior citizens: 700,000 households in Familias en Acción (FeA) and 300,000 households enrolled in Colombia Mayor (CM). The transfer was delivered via cash and a digital platform, with increasing use of the digital platform over time. To inform future policies, DNP was interested in understanding the medium to long-term impacts of VAT.

On average, recipients studied during the evaluation were predominantly female and unmarried, resided in municipalities where 35.4 percent of residents are low-income, and 43% are registered victims of the internal armed conflict.

Details of the intervention

The research team partnered with DNP to design a randomized evaluation that measured the immediate impacts of the UCT program on beneficiaries' health, livelihoods, and household protective behaviors, such as maintaining quarantine and social distance, to mitigate the spread of Covid-19.

Researchers assembled a sample of households who received Familias en Accion and lived under the national extreme poverty threshold, excluding the poorest quartile. From all households placed in this pool, a subset of 3,462 households in 53 randomly selected municipalities forms this study's sample, with 1,730 households that were randomly assigned to receive the VAT compensation. To assess the impact of the program, researchers compared households that received the transfer with those that did not. A few weeks after the second transfer was made, in June 2020, the research team conducted a telephone survey of 2,052 out of the 3,462 households sampled, achieving a contact rate of 59.3%.

The government and the research team were interested in understanding households' perceptions and actions related to consumption and food security, virus mitigation health behaviors, physical and mental health, parental investment in children's learning, financial resiliency, domestic violence, internet access, trust in government, and attitudes towards government responses to the coronavirus. The team also assessed bottlenecks in the delivery of the transfer to inform policy recommendations for future digital social assistance programs.

Results and policy lessons

The study highlighted the impacts the Covid-19 pandemic had on households. For example, 57 percent of individuals who worked before the pandemic no longer had a job or remunerated activity by the time they were surveyed in June. The transfer had positive albeit modest impacts on household well-being in financial health and food access. The program also ushered in an expansion of mobile money, with the use of the digital platform almost doubling between the first and second transfers. Roughly 75 percent of recipients reported use of the platform in November 2020. Nevertheless, there were bottlenecks during the rollout,

including access due to cell network availability and blocked accounts when switching numbers.

- **Financial security**: Beneficiaries of the VAT compensation were 15.5 percent less likely to sell their belongings to cover necessary expenses, and more than 90 percent of beneficiary households used the funds for food. Those receiving benefits had an increased tendency to invest in their children's education, particularly in urban settings where the effect was greater. Finally, an overall index measure of participants' financial health showed a modest improvement for recipients over the comparison group.
- **Food security**: Over 90 percent of households reported using the transfer for food expenses. Additionally, despite an increase of 4.4 percentage points (from a base of 72 percent) in the likelihood of recipients purchasing food, the transfer did not translate to increased food security.
- **Public opinion and community cohesion**: The transfer increased support for emergency assistance to households and firms during the crisis and promoted social cooperation. Specifically, beneficiaries were 7.4 percent more supportive of the government's social protection response to the pandemic and were 3.4 percent more likely to contribute work to support their community.
- **Household health behaviors**: Irrespective of the payment method, beneficiaries were 24 percent more likely to leave their home during quarantine to collect payment. Qualitative interviews indicate that this behavior was primarily motivated by the necessity to withdraw the payments, given the limited acceptance of mobile money by a small number of merchants and the associated additional adoption costs.
- **Use of digital payments**: About 20% of participants mentioned facing delays or challenges in obtaining VAT Compensation, and this percentage is twice as high for mobile money compared to cash transactions. Rural users found it challenging to use the app due to unstable cellular connections. Furthermore, many individuals mentioned the expenses and inconvenience associated with cashing out, including travel costs.

This study shows that while implementing new payment technologies in response to emergencies could speed up the distribution of funds to disadvantaged households, findings indicate that it may also compromise their effectiveness in areas with inadequate digital payment systems. This emphasizes the importance of creating digital payment ecosystems to enable the smooth delivery and impact of financial aid during emergencies.

---

1. World Bank. 2020. "Protecting People and Economies: Integrated Policy Responses to COVID-19." World Bank. https://www.worldbank.org/en/topic/covid-19.