

Researchers

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Timeline

June 2020-November 2020

Sample Size

3,462 recipients (at the household level) of VAT Refund

Research Implemented by IPA

Yes

The Impact of Emergency Cash Assistance During the COVID-19 Pandemic in Colombia

Abstract

Cash assistance in emergency settings has been shown to assist recipients in mitigating resulting economic fallout, for example through increased food security. The VAT Compensation, a new unconditional cash transfer in Colombia, assists 1 million low-income households in navigating the economic crisis as a result of the COVID-19 pandemic. Researchers conducted a randomized evaluation to measure the effects of the transfer on recipients' physical and mental health, food access and security, financial security, parental investment in their children's education, political attitudes, and other outcomes. The transfer had positive (albeit modest) impacts on household well-being in financial health and food access. Moreover, the transfer increased support for emergency assistance to households and firms during the crisis and promoted social cooperation. The study also engaged in qualitative interviews with recipients to explore bottlenecks from rapid mobile money expansion during the pandemic.

Policy Issue

The impact of cash transfers as a poverty-alleviation tool is well-documented. Cash transfers are direct payments, often from governments, made available to groups of people based on

defined eligibility criteria or behaviors, or on an unconditional basis. For example, previous research finds that providing unconditional cash grants to low-income households can lead to various benefits for recipients, such as increased income, improved psychological well-being, and greater empowerment for women.¹

A growing body of research on the impact of cash transfers in emergencies and humanitarian contexts² further suggests that cash-based approaches can maintain household food security among food-insecure populations. 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. Research on the short-term impacts of new and expanded social assistance programs will allow policymakers to more effectively plan for needed long-term economic recovery.

Context of the Evaluation

The COVID-19 pandemic and national emergency in Colombia have resulted in widespread economic fallout along with ongoing heightened health risks. As part of its suite of responses to mitigate adverse economic impacts, the Colombian government expanded existing social benefits programs and launched new cash transfers for vulnerable households country wide.

The VAT Compensation (Compensación de IVA) 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 transfer consists of 75,000 Colombian Pesos³ distributed every 5-8 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 digital platform, with increasing use of the digital platform over time. To inform future policies, DNP and DPS were interested in understanding how the transfer assists beneficiaries in navigating the economic crisis.

Details of the Intervention

The research team partnered with DNP to design a randomized evaluation that measured the immediate impacts of the unconditional cash transfer program on beneficiaries' health, livelihoods, and household protective behaviors (e.g. maintaining quarantine and social distance) to mitigate the spread of COVID-19 during the pandemic.

Researchers assembled a nationally representative sample of households who receive Familias en Acción and whose SISBEN score⁴ places them under the extreme poverty threshold. From this sample, 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.⁵ 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 all 3,400 households. IPA also conducted 35 qualitative interviews in October to understand users' experiences, in particular, around the rapid expansion of digital payments

The team assessed whether there are different effects of the transfer's impact among recipients (e.g. urban/rural households), as well as whether the channel (digital or cash redemptions) impacted user behavior. For example, the study considered whether the head of household had been working in the month before the national quarantine, including the industry and whether he/she was employed in the formal sector. The survey asked respondents about their individual and household behaviors to determine whether the transfer impacted decisions made during the national emergency.

Specifically, 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, migration decisions during the pandemic, 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 highlights the devastating effects of the COVID-19 pandemic 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, and 58 percent reported having less to eat during the quarantine. The transfer had positive (albeit modest) impacts on household well-being in financial health and food access.⁶ The program also ushered in a record expansion of mobile money, with the use of the digital platform almost doubling between the first and second transfers and roughly 75 percent of recipients reporting use of the platform in November 2020. Nevertheless, there were many bottlenecks during the rollout, including delays with the app and connectivity issues.

- **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. Beneficiaries were also more likely to invest in their children's educations, and this effect was higher in urban areas.
- **Food Security:** Despite an increase of 6.1 percent in the likelihood of recipients purchasing food, researchers did not find that this translated 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 to their community through work (though not money) to support their community.
- **Household health behaviors:** Regardless of transfer modality, beneficiaries were 24

percent more likely to leave their home during quarantine to collect payment, which qualitative interviews suggest was driven by a need to “cash out” the payments and misunderstandings around how to retrieve the funds.

The VAT Compensation highlights the importance of developing digital payment ecosystems to facilitate easy deployment and efficacy of cash assistance during crises, such as improving infrastructure to improve connectivity in remote areas. In addition, results from the evaluation drive home the need for clearer communications about the program and financial education and literacy resources for newly banked clients.

Sources

¹Haushofer, Johannes, and Jeremy Shapiro. 2016. “The Short-Term Impact of Unconditional Cash Transfers to the Poor: Experimental Evidence from Kenya.” *The Quarterly Journal of Economics*. 131 (4): 1973-2042.

²Doocy, Shannon, and Hannah Tappis. 2017. “Cash-Based Approaches in Humanitarian Emergencies: A Systematic Review.” *Campbell Systematic Reviews* 13, no. 1 (2017): 1-200. <https://doi.org/10.4073/csr.2017.17>.

³This amount is equivalent to 8 percent of the minimum wage and the approximate amount beneficiaries pay in Value Added Tax on a bi-monthly basis.

⁴ SISBEN is Colombia’s proxy means test system used to assess households’ economic well-being and assist with targeting for social assistance programs.

⁵ The December 2019 reform created the VAT Compensation program and included a RCT as part of its evaluation strategy. 1,732 households eligible for the VAT Compensation were randomly assigned to control and their assignment to control status holds constant during the pandemic. The government is planning on expanding VAT Compensations from 1 million households in 2020 to include more households in 2021, likely including control households.

⁶ Such modest impacts are consistent with findings of small cash transfers being associated with small impacts. See Bastagli, F., J. Hagen-Zanker, L. Harman, V. Barca, G. Sturge, and T. Schmidt, “Cash Transfers: What Does the Evidence Say?,” July 2016.

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