Poverty and Distributional Impacts of COVID-19

Potential channels of impact and mitigating policies

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Potential channels of impact of COVID19 on welfare (or well-being)
COVID19: welfare impacts are wide-ranging and uncertain, since the size and duration of the economic shock are highly uncertain

**Impact on labor income**
- Lost earnings due to illness or the need to attend to sick family members
- Indirect effect of demand and supply disruptions:
  - ↓ in hours of work, employment
  - ↓ in wages
  - ↓ in incomes of self-employed

**Impact on non-labor income**
- ↓ in remittances (international and domestic)
- ↓ in private transfers due to economic stress
- ↑↑ in public transfers?

**Direct impact on consumption**
- ↑ in prices and shortages of basic essentials
- ↑ in out-of-pocket cost of healthcare
- But ↓ in prices of oil and other commodities

**Service disruptions affecting welfare**
- Student retention, learning, nutrition
- Saturation of health system – inadequate care for NCDs
- Mobility disruptions due to reduced transport services

Moreover, potential long run impacts on economic growth, economic mobility, and movements in and out of poverty
- Even temporary income losses or disruptions in services can significantly affect long-term outcomes of next generation
- Largescale destruction of micro and small enterprises, including many who were productive and would have survived a smaller shock, will affect job-creation during recovery
Welfare impacts can vary across different groups and over time (short vs medium term) in the same country

- **Age.** Children and youth (service interruptions), working adults (employment loss), elderly (higher health risks)

- **Gender.** Women have vulnerabilities, due to where they work, their role at home, likelihood of domestic violence
  - But men appear to be more vulnerable than women to suffer serious effects of the coronavirus infection

- **Socio-economic status.** Vulnerable groups (e.g. migrants, refugees, ethnic minorities) and more households with lower levels of income and education face greater challenges in accessing services

- **Household composition.** Households with children, and elderly or sick members are more vulnerable

- **Type of economic activity.** The vulnerable are more likely to be engaged in: (a) self-employment rather than salaried employment; and (b) informal rather than formal sector

- **Sector of economic activity.** The earliest impacts are in the service sector, e.g. in transport, retail sales, entertainment, tourism, and including those engaged in the gig economy; and in export-oriented industries
  - Secondary impacts are likely to spread to other parts of both formal and informal economy

- **Location.** The immediate impacts are likely to be higher in metro and other urban areas than rural areas
  - Rural areas can be increasingly impacted as the impacts of falling demand and mobility disruptions are felt widely
Impact on the poor and the vulnerable would likely be related to:

- **Where they live**
  - The poor in urban areas, living in congested settlements with low quality services, are exposed to the highest risk of being infected
  - Poor in rural areas have lower initial exposure to the disease, but also have limited access to health services that adds to their risk
  - Many rural households receive domestic remittances from urban migrants, which is adversely affected by urban economic closures

- **Where they work**
  - The poor are usually self-employed or working for small informal firms; those in the urban informal service sector are likely to bear the most severe initial impacts
  - Many of the vulnerable non-poor are increasingly employed in the gig economy, particularly in middle-income countries
  - Those in agriculture may be able to cope initially, but are likely to be more affected by a decline in demand in urban areas over time

- **High dependence on public services, particularly in health and education**
  - The poor have limited access to quality health services, which can have devastating impact in the event of an illness in the family
  - School closures can lead to lack of nutrition among children of poor families who frequently rely on school feeding programs
  - The effects of long school closures, disruptions to ECD and school nutrition programs, and overstretched health facilities are much higher on long-term outcomes of children in poor families – in education, health and earnings as adults

- **Limited savings and lack of access to insurance**
  - In the absence of adequate safety nets, the poor are forced to rely on coping strategies with potential long-lasting negative effects, such as the sale of productive assets or lower investments in human capital
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<tr>
<th>Impact on labor income</th>
<th>Countries can be classified into three broad categories based on the structure of the economy</th>
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<td>• Many LICs, where a large share of the vulnerable population depends on small-scale farming that requires migrant workers during the harvest and access to local markets, where any interruption can endanger the next harvest</td>
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<td>• MICs with large informal service sectors in urban areas; such as Kenya, India, Indonesia, Thailand, and many small island nations</td>
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<td>• Economies exposed to international commodity price movements, of natural resources like oil (Nigeria, DR C), cash-crops like coffee, soy beans, or cotton, (Brazil, Guatemala, Burkina Faso) or commodities (Indonesia, Vietnam, Mexico)</td>
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<td>• International remittances account for a large share of GDP in countries like Nepal (25%), Ethiopia (7%), Guatemala (12%), Moldova (10%), Sri Lanka (8%), Tunisia (5%). A sharp fall in remittances can increase the likelihood of families to fall into poverty</td>
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<td>• In countries like Bangladesh and India, domestic remittances are often sent by urban informal sector workers to their families in rural areas</td>
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<th>Direct impact on consumption</th>
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<td>• Food consumption accounts for the largest share of household spending for low-income households in many countries—e.g., &gt;60% in rural areas in Mozambique, and 66-75% of the poor and vulnerable in Indonesia.</td>
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<td>• Countries that rely heavily on food imports could experience supply disruptions; e.g. currently the Kyrgyz-Kazakh border is closed and food exports from the Russian Federation are limited due to COVID-19</td>
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<td>• Rise in out-of-pocket health expenditures can affect the ability of households to afford other necessities; e.g. in Sudan, out-of-pocket expenditures cover as much as 80% of the cost of treatment</td>
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<td>• Health services are strongly correlated with economic growth and population density. E.g. Burundi has 0.8 hospital beds per 1000 inhabitants and Rwanda has 1.6/1000, compared to 5.6/1000 in European Union</td>
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<td>• In countries such as Rwanda, Mozambique and Honduras, school closures also interrupt other programs for children that are delivered through the school system, such as deworming and school meals</td>
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<td>• In Pakistan, limitations to public transport and long distance commuting can affect the ability of poor people to access services</td>
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Policies for mitigating the welfare impacts of COVID and spurring the post-crisis recovery

Compensating for labor and non-labor income losses

- Expand safety net programs to provide larger transfers to existing beneficiaries; increase coverage to new beneficiaries; make program benefits portable to cover returning migrants; and suspend group activities and conditionalities for safety net programs
- Target one-off payments to specific vulnerable groups of workers (e.g. in the tourism sector)
- Impose temporary bans on eviction and moratoria in the payment of (public) utility bills
- Provide waivers for financial fees for domestic and international remittances.
- Utilize public works, but with social distancing or only in the post-pandemic phase or temporarily convert into cash transfer programs to avoid social gathering.
- Employ fiscal policy tools: (i) delay or cancellation of specific taxes or contributions; (ii) tax cuts and subsidies for basic commodities; (iii) universal (or quasi) transfers, simpler to administer but unaffordable for many LICs and MICs that are already in fiscal stress.

Mitigating the effects of food price rise and shortages, and medical cost rises

- Continue provision of targeted meal programs, modifying the mode of food distribution as needed
- Mitigate the impact of unexpected medical costs through, for instance, waivers
- Public procurement and distribution of basic food items, with private sector/CSO actors

Mitigating the effects of widespread disruptions to public service delivery

- Scale up public health diagnostic and care capabilities in underserved areas
- Compensate for the loss of months of learning at school: e.g. expansion of distance education; help for children without access to ICT; providing additional schooling during summer of 2020

Supporting firms and workers to protect jobs and facilitate recovery

- Policies to support firms: wage subsidies; tax exemptions, delays or waivers targeted to small firms; soft loans and grants
- Active labor market programs to facilitate the transition of workers into training or new jobs.
- Facilitate entry in “contactless” service economy among the self-employed and those displaced from micro, small and medium enterprises

Designing effective policies will require:

- Estimating welfare impacts of crisis and policies using simulations on past data
- High-frequency monitoring of impacts, through phone surveys and mobilizing all available big data (e.g. admin, mobile, satellite, social media)
### Mitigating the welfare impacts of COVID and spurring the post-crisis recovery

#### Compensating for labor and non-labor income losses

- The ability of countries to expand benefits will be limited by fiscal and targeting constraints, e.g.
  - In Bangladesh, many of the social protection programs suffer from weak targeting, and less than one percent of the urban population currently benefit from such programs.
  - In Bolivia, a one-time lump-sum cash transfer will be given to households with children in primary and pre-school public institutions; it will reach 46% of the population, but not 37% of the poor.
  - Due to fiscal constraints, short-term funding for expanding cash transfer and health insurance for the poor could come from reallocation from the bread subsidy in Jordan.
  - Guatemala is adopting policies that are less costly in the short-run such as the deference of utility payments, along with loans with soft conditions to SMEs.

#### Mitigating the effects of food price rise and shortages, and medical cost rises

- Colombia has guaranteed the provision of its flagship school feeding program, PAE, to each child benefitting from it prior to the closing of schools.
- In Afghanistan, the government and development partners could utilize community development programs to support the distribution of food and other necessities at the community level.
- Brazil has temporarily removed import tariffs and industrialized products taxes for relevant medical supplies.

#### Mitigating the effects of widespread disruptions to public service delivery

- In Mozambique, where 99% of students will not have any home-based learning, policies (e.g. increasing the coverage of school lunch programs, suspending school fees, bonus payments to teachers) must be designed to encourage students to go back to school after they reopen.

#### Supporting firms and workers to protect jobs and facilitate recovery

- In the Dominican Republic, affected firms will receive a subsidy per formal worker.
- In Albania, the government has deferred the tax return submission deadline, rescheduled corporate income tax payments, and proposed a credit guarantee scheme for SMEs to pay wages.

### Examples of what countries are doing