

# COVID-19 and Inequality

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# Motivation

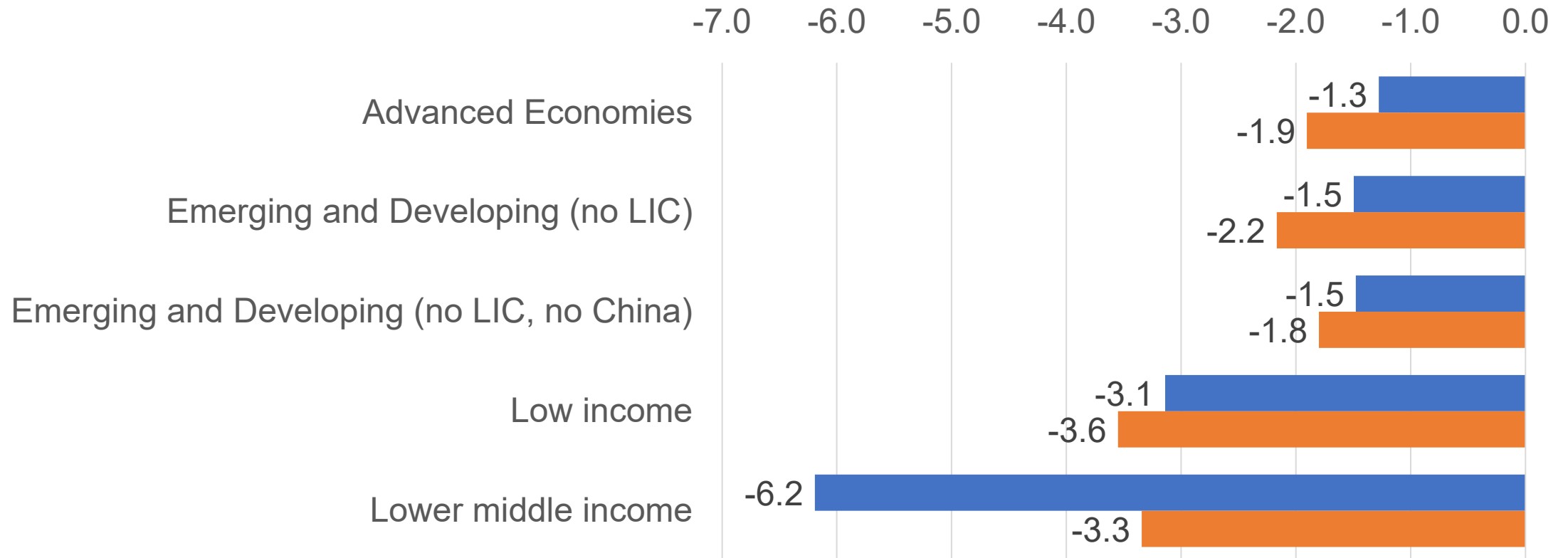
- Initially this study was intended to monitor progress in reducing inequality since the August 2019 G7 meeting, and thus hold accountable G7 leaders.
- The unprecedented impact of the COVID-19 pandemic has, appropriately, shifted G7 and G20 objectives and policies.
- Thus, the focus of this study has shifted to review the impact of the pandemic on inequality between and within countries.
- The findings of this study derive from:
  - the Centennial-Group growth model, to examine the pandemic impact on GDP per capita and poverty by 2030;
  - the Worlds Bank High Frequency Surveys of Households and Firms to assess developments within these countries; and
  - the innovative paper by Nora Lustig et al on the pandemic's impact on income inequality and poverty within countries.



# Inequality between countries through 2030



# Change (%) in GDP per capita PPP by 2030 due to COVID by income group

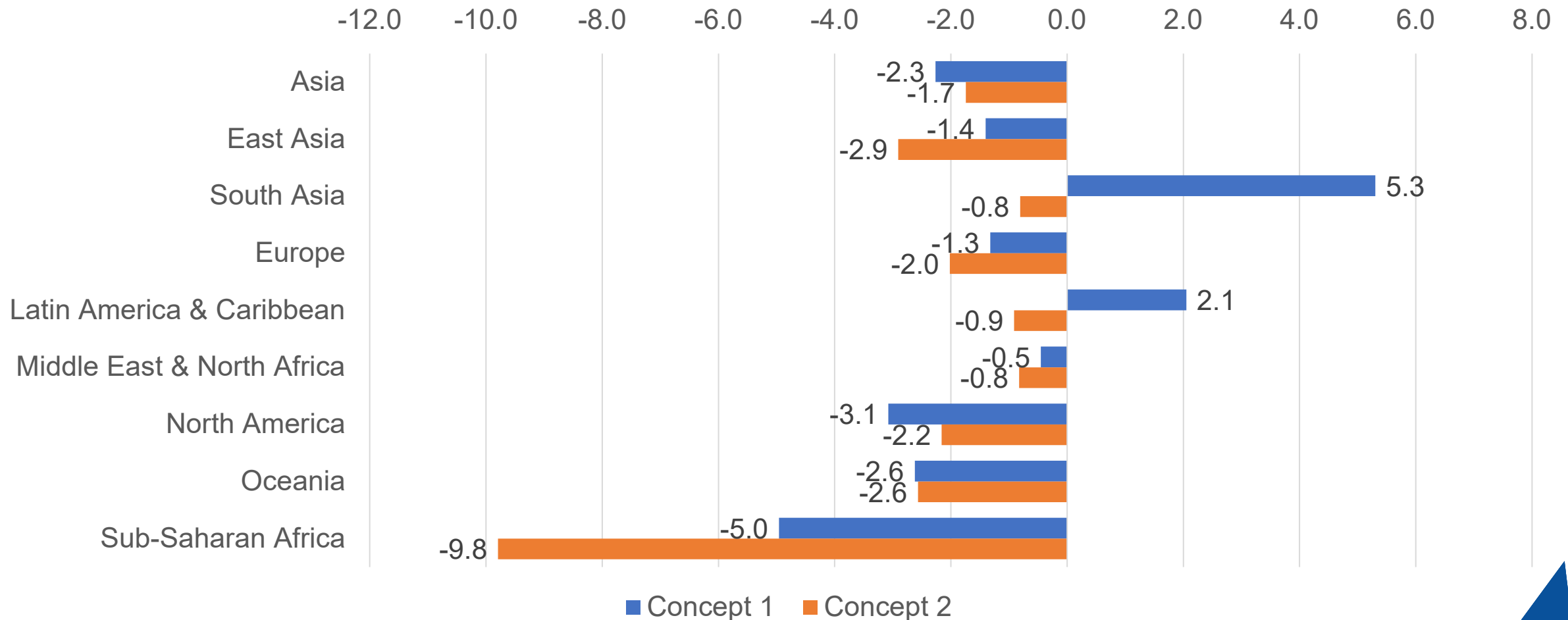


■ Concept 1 ■ Concept 2

Concept 1 = each country as an individual unit    Concept 2 = each country weighted by population



# Change (%) in GDP per capita PPP by 2030 due to COVID



Concept 1 = each country as an individual unit    Concept 2 = each country weighted by population



# Inequality within countries



# Review of World Bank HF Surveys

## Income – Increases in the Urban-Rural Divide

- Rural households were more insulated from the effects of the pandemic – Burkina Faso, Ethiopia, Sierra Leone, and Uganda rural reported fewer instances of job loss.
- In areas with severe, universal lockdown measures, such as South Africa, initial shocks were similar for rural and urban areas, but the recovery took longer for rural areas.

## Income - Differences among income groups

- Informal sectors and low-income households were impacted by work disruptions.
- In Ethiopia and Lao PDR, lower quintiles had a greater and sustained effect.
- In Vietnam, households in the bottom quintiles were more likely to lose jobs at the start of the pandemic, while those in the top quintiles were more likely to see lower wages.
- In Indonesia, MSME firms have difficulty to repay loans, paying rent, utilities, and wages.



# Review of World Bank HF Surveys

## Disruption to schooling

- Rural and lower income households were less likely to engage in learning activities (Chad, Ethiopia, Mali, Nigeria, South Sudan, and Uganda)

## Disruptions to Remittances, particularly for 'poor' households

- Dual effect of decreased mobility limiting the ability of migrant workers to travel and find work and slowdowns abroad limit the capacity to remit home.
- Declines in household domestic remittances averaging between 40-60 percent in Africa.
- Declines in total remittances averaging between 20 and 40 percent in Central Asia.
- In Lao PDR, households with a head of household with secondary education were less likely to report a reduction in both international and domestic remittances.

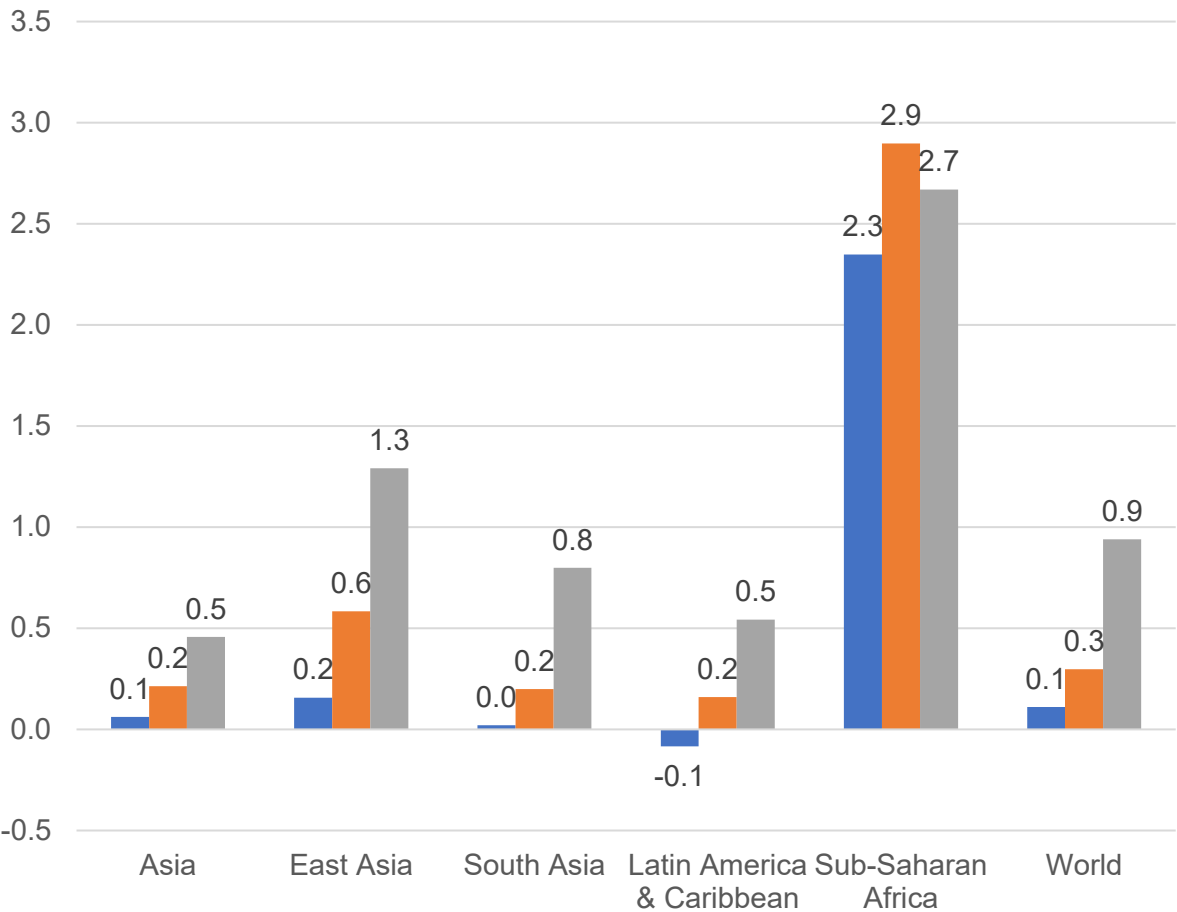
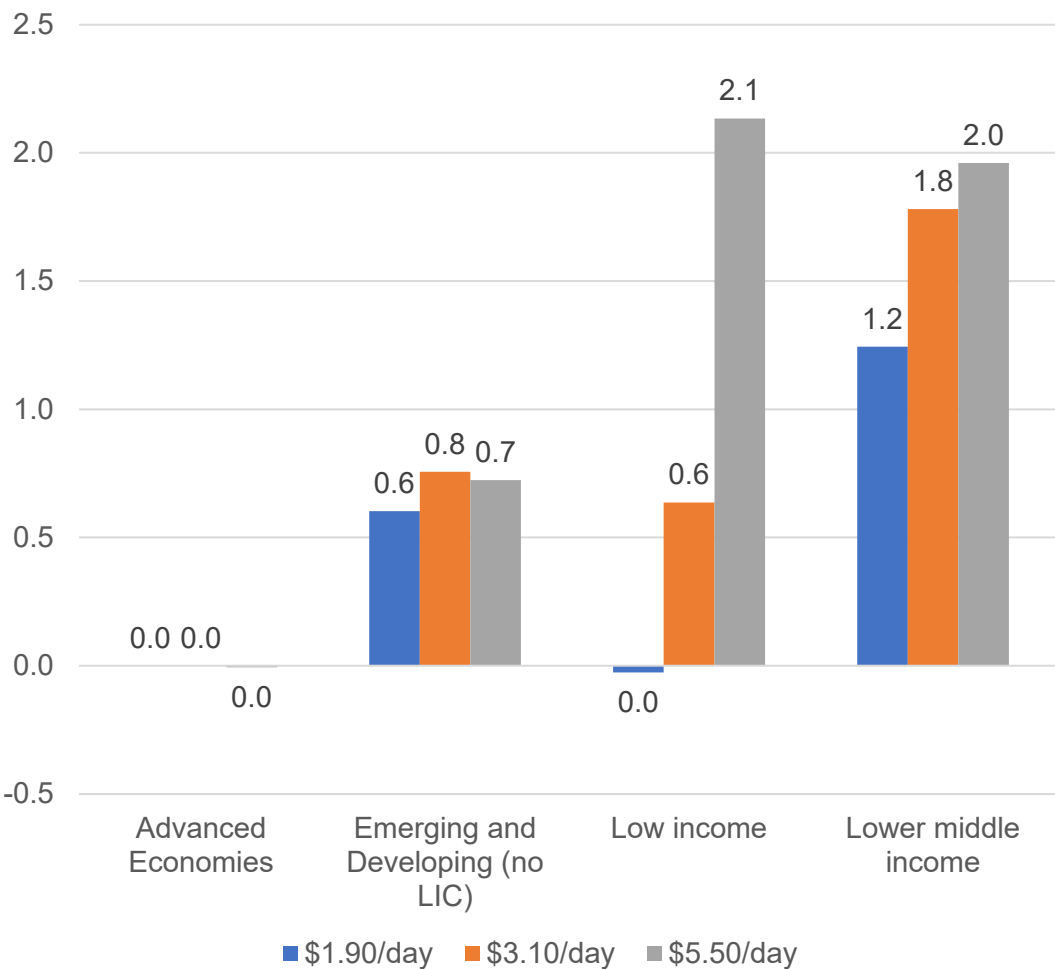
## Social Assistance – infrequent and sometimes misdirected

- In many areas, households reported low assistance in response to the pandemic, and that it did not always help the most vulnerable.

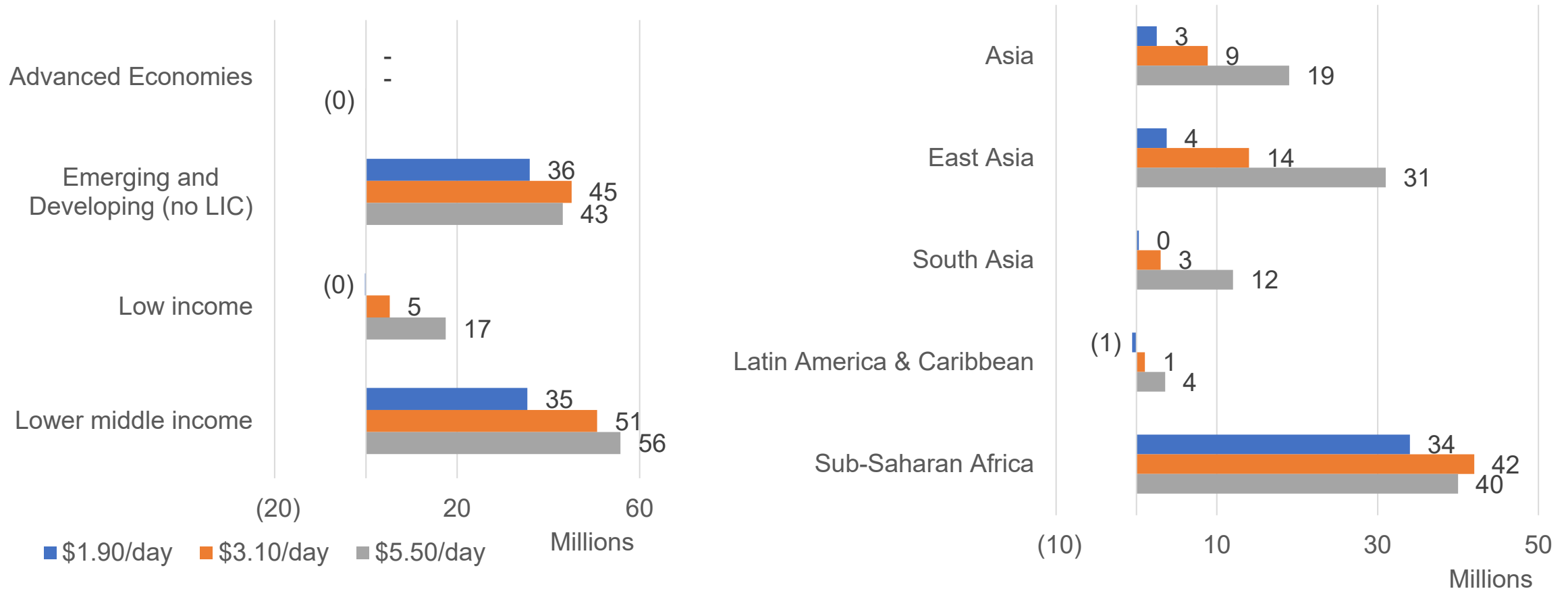




# Difference in poverty rates due to COVID by 2030



# Change in number of people living in poverty due to COVID by 2030



# Impact of Social Assistance



# Impact of Social Assistance

## Incidence of Poverty (in millions)

	Concentrated Losses		Dispersed Losses	
	New Poor	New Poor (w/ assist)	New Poor	New Poor (w/ assist)
Argentina	2.0	1.4	2.1	1.4
Brazil	13.5	7.1	11.4	2.8
Colombia	3.0	2.7	2.5	2.3
Mexico	8.0	-	8.8	-
Source: Lustig et al.				

## GINI Coefficients

Country	Ex Ante GINI	Concentrated Losses		Dispersed Losses	
		New GINI	New GINI (w/ assist)	New GINI	New GINI (w/ assist)
Argentina	44.4	48.6	46.9	46.7	45.1
Brazil	55.4	59.1	56.5	57.0	54.5
Colombia	55.0	57.8	57.4	56.4	56.0
Mexico	46.4	50.3	-	47.9	-
Source: Lustig et al.					

Two scenarios:

- (1) **concentrated losses scenario** - the smallest proportion of households loses much income
- (2) **dispersed losses scenario** - the largest proportion of households lose smaller amounts of income



# Impact of Social Assistance

	Without Social Assistance			With Social Assistance		
	% of moderate poor who fall to extreme poor	% of the lower middle class who fall to poor	% of middle class who fall to poor	% of moderate poor who fall to extreme poor	% of the lower middle class who fall to poor	% of middle class who fall to poor
Concentrated Losses						
Argentina	22.6	20.8	6.2	19.2	19.0	5.8
Brazil	16.2	14.8	6.0	13.9	12.9	5.4
Colombia	14.4	15.2	4.9	14.0	15.0	4.9
Mexico	20.1	20.3	4.8	-	-	-
Dispersed Losses						
Argentina	27.5	21.9	0.0	7.8	13.0	0.0
Brazil	24.1	16.8	0.0	7.5	8.0	0.0
Colombia	20.0	17.0	0.0	18.3	16.2	0.0
Mexico	22.1	21.2	0.0	-	-	-
Source: Lustig et al.						

Under both scenarios, considerable shares of *ex-ante* poor fall into extreme poverty and large shares of *ex-ante* low-middle income fall into poverty.



# Key Takeaways on the Impact of Social Assistance

Poverty increases are larger when each households' income declines in proportion to the decline of GDP

Net income losses are greatest around the middle of the income distribution, in part reflecting social assistance focus on low-income households

The larger the expanded social assistance measures, the larger the offset of the poverty caused by the pandemic

Poverty among afro-descendants and indigenous populations increases more than whites, but the offsetting effect of social assistance is larger for the former

The increase in poverty induced by the lockdowns is the same for male- and female- headed households, but the offsetting effect of expanded social assistance policies is greater for the latter.



# Conclusions

The pandemic has increased income inequality both between and within countries, and this increase will continue even by 2030. As the second slide of the Annex shows, the pandemic has maintained the widening trend.

Low-middle income and low-income countries, as well as Sub-Saharan African countries, have been hit the most. Serious as this hit is, considerable uncertainty surrounds our estimates, especially regarding the availability of vaccines, the capacity to implement effective recovery policies, and the difficulties arising from very large debt burdens.

Our growth model shows increased levels of poverty remain through 2030 in East Asia, Latin America & Caribbean, and Sub-Saharan Africa. Notably, Advanced Countries are envisaged to have removed the increases in poverty by 2030.

The WB High Frequency Surveys document the largely informally known impacts of the pandemic, especially the different impacts between non- and low-skilled workers and skilled ones, and the different impacts on education between those that have and those that have no access to online learning, with serious consequences for human capital development.

Lustig et al show that the social assistance measures implemented by governments have significant mitigating effects regarding poverty and income distribution; the stronger the measures the stronger the mitigation effects.

Decisive implementation of the policies recommended by the World Bank, the IMF and other development institutions, including strong international cooperation and assistance, is needed to help reverse the severe impacts of the pandemic.



# Recommendations to address inequality

## At the global level

- Intensify efforts to produce and disseminate COVID vaccines to all countries;
- Help reduce heavily indebted low-income countries' debt to enable sustainable growth;
- Establish a forum that provides mutual support by sharing experiences in reducing inequality and achieving SDG Objective 10.

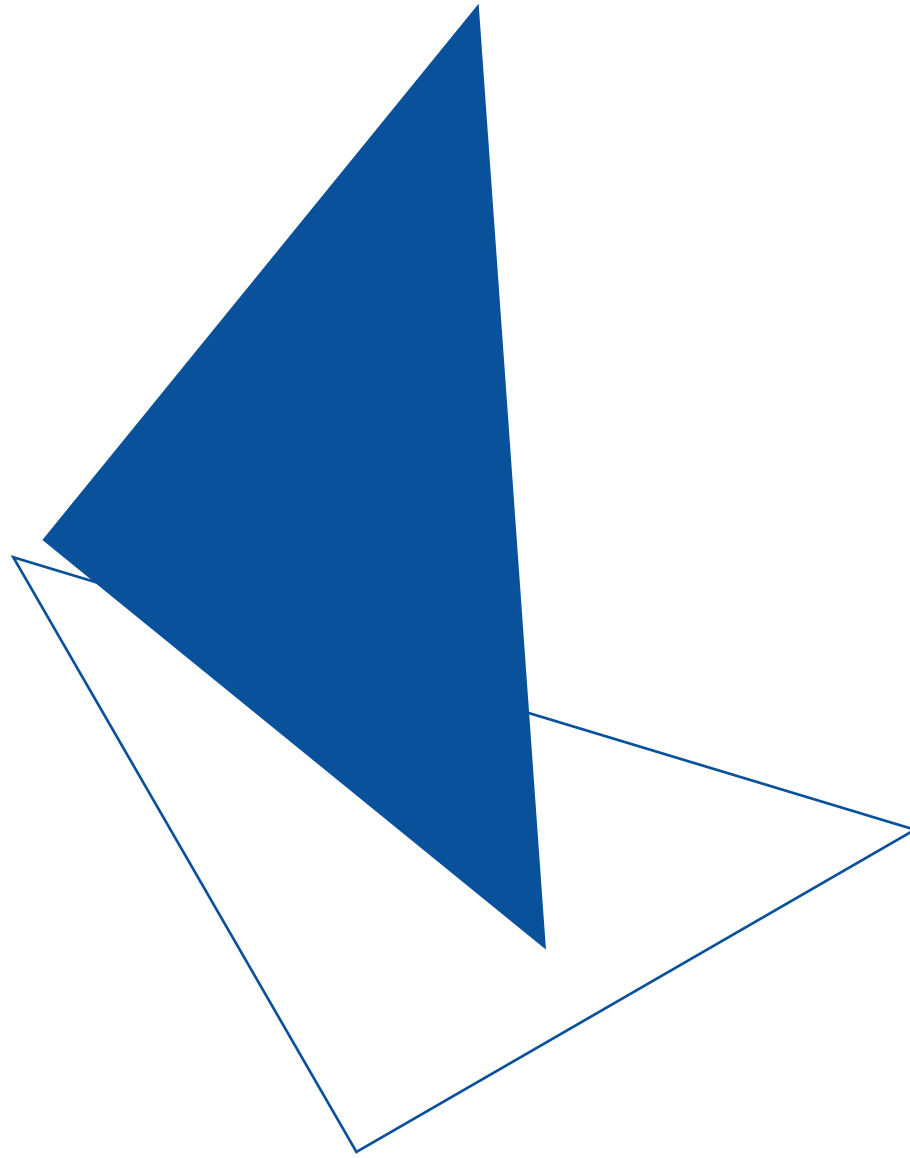
## At individual country level

- Promote inclusive growth and create opportunities for all through determined efforts;
- Invest in human capital (e.g., health, education, skills upgrade) to help raise the poor's income potential and foster upward mobility;
- Prioritize social expenditure on young children, including child-care facilities (allowing mothers join the labor market), supported by enhanced means-tested transfers;
- Ensure fiscal sustainability by increasing revenue (more progressive tax systems) and enhancing expenditure efficiency (removal of unproductive expenditure (fuel subsidies)).





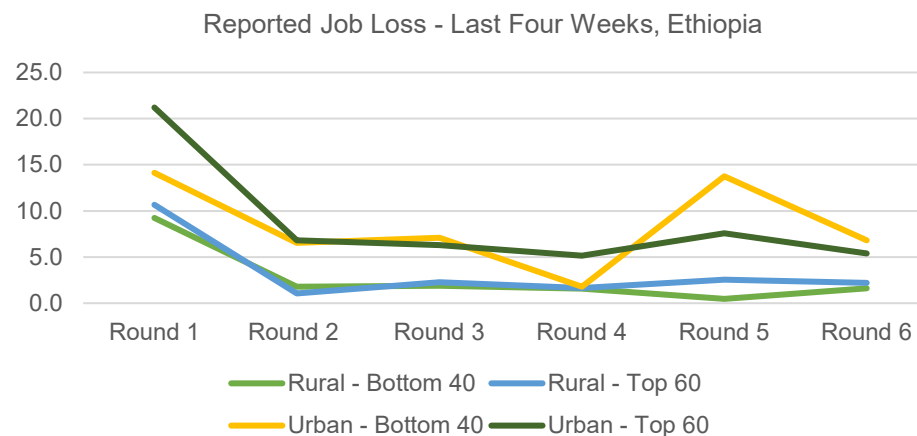
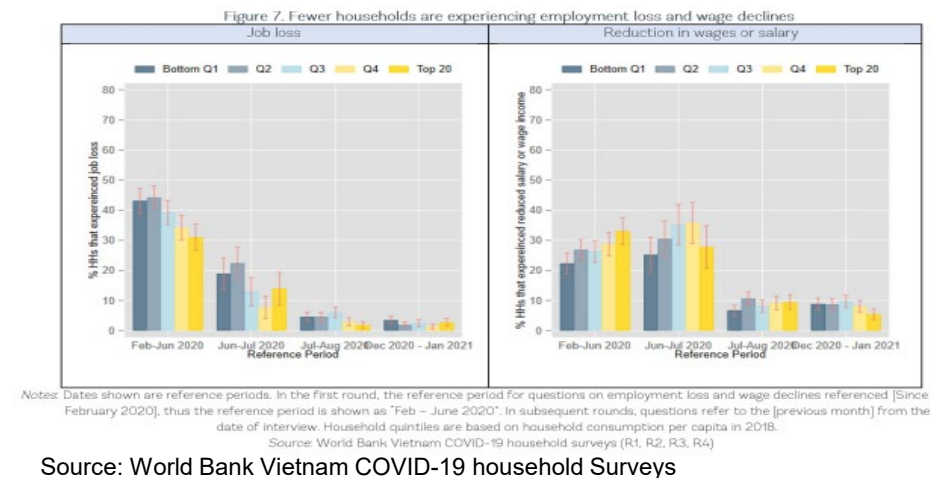
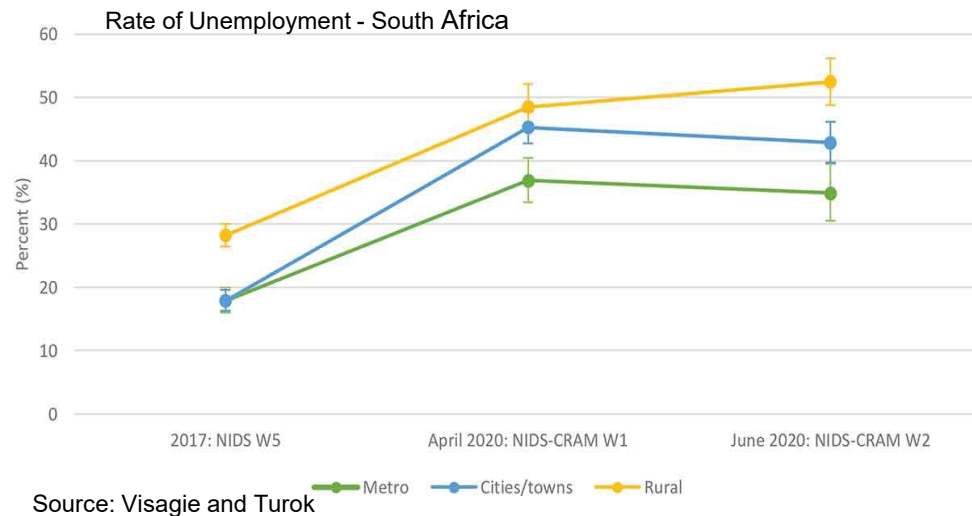
# Thank You



# Annex

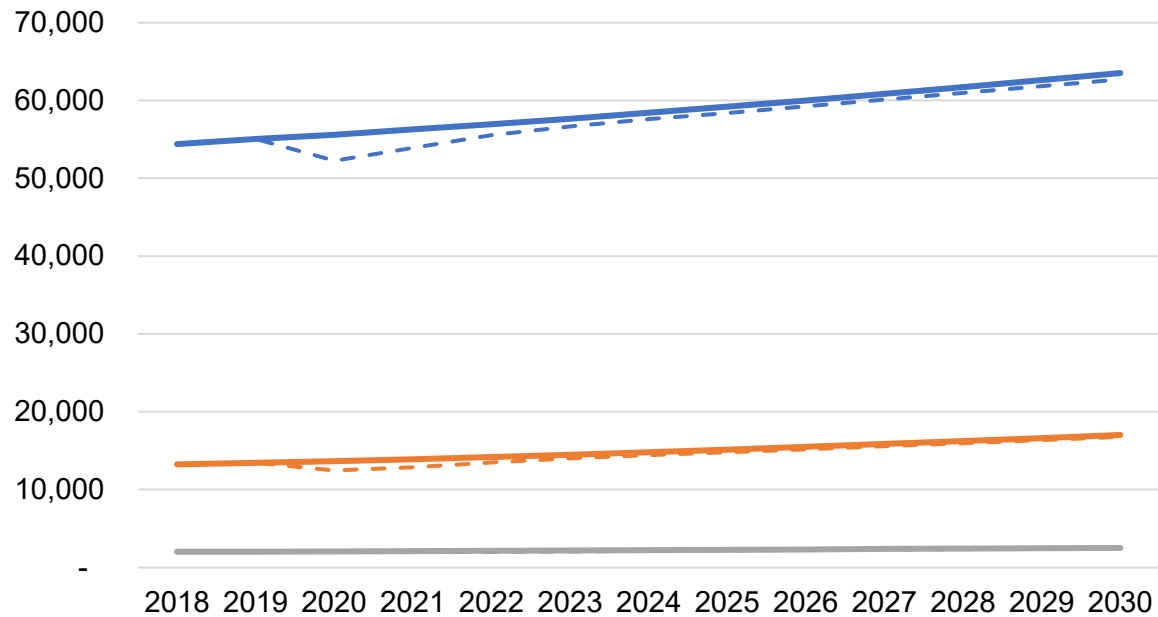


# Data from WB HF Surveys



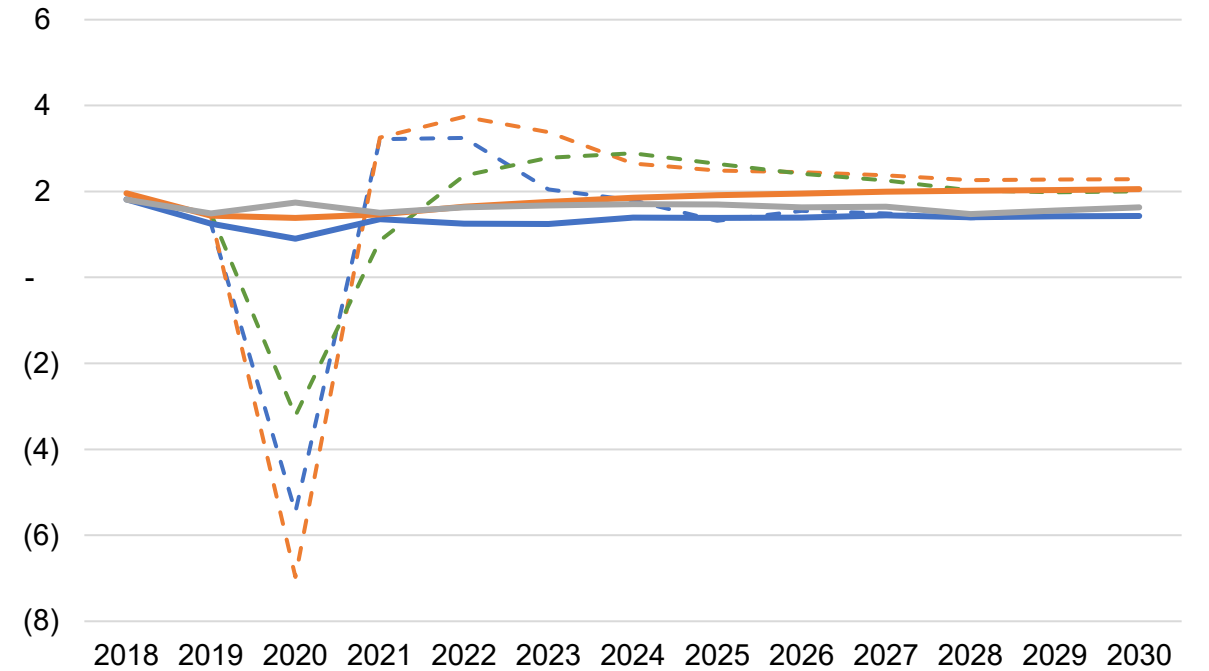
# PPP GDP per capita and growth through 2030 – Concept 1

GDP PPP PC



-- COVID advanced      -- COVID emerging      -- COVID low income  
 -- No COVID advanced      -- No COVID emerging      -- No COVID low income

GDP PC Growth

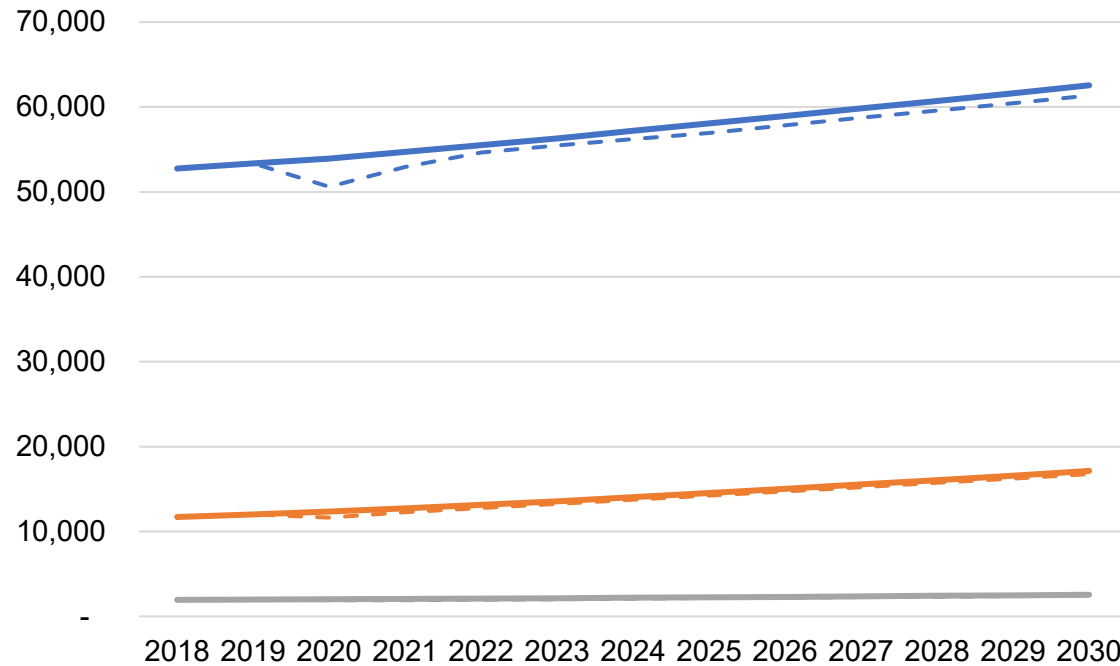


-- COVID advanced      -- COVID emerging      -- COVID low income  
 -- No COVID advanced      -- No COVID emerging      -- No COVID low income



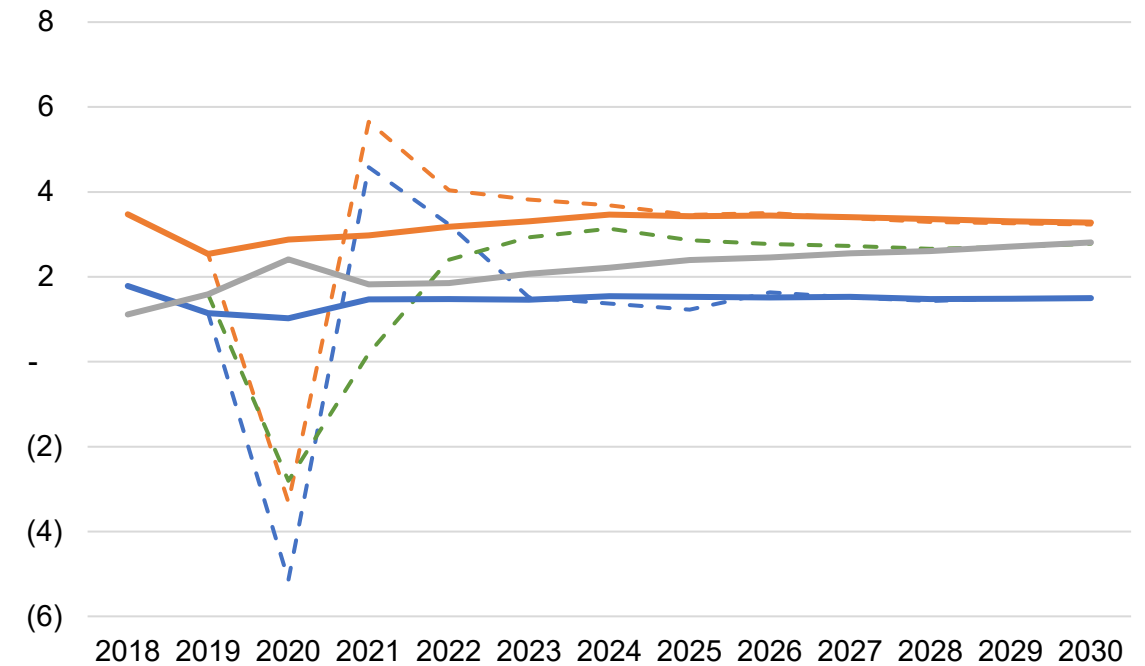
# PPP GDP per capita and growth through 2030 – Concept 2

GDP PPP PC



-- COVID advanced    -- COVID emerging    -- COVID low income  
 — No COVID advanced    — No COVID emerging    — No COVID low income

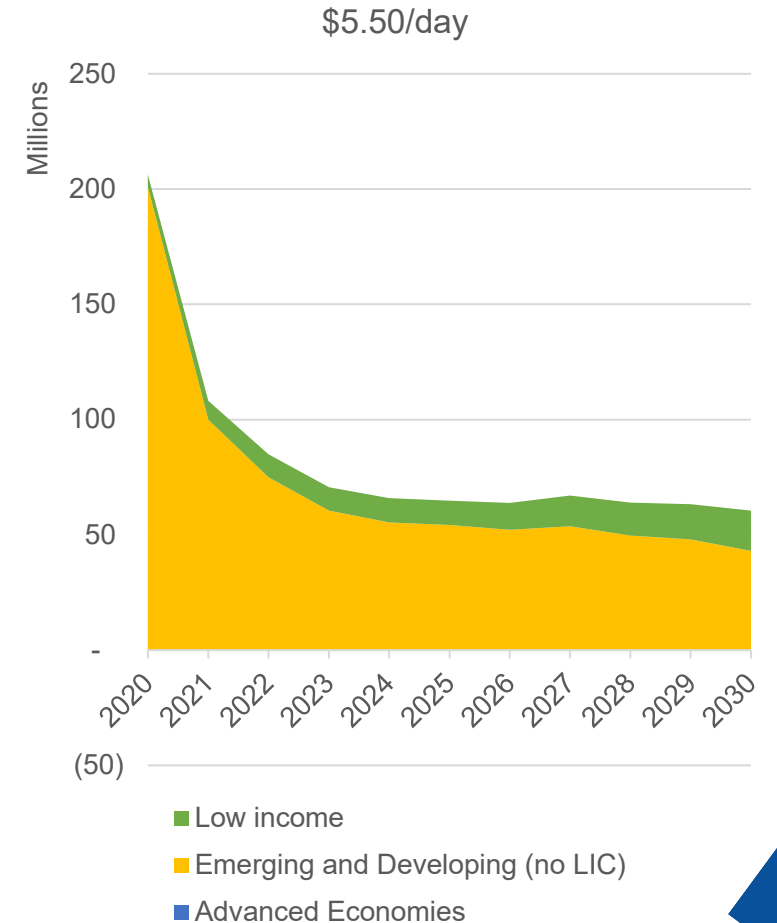
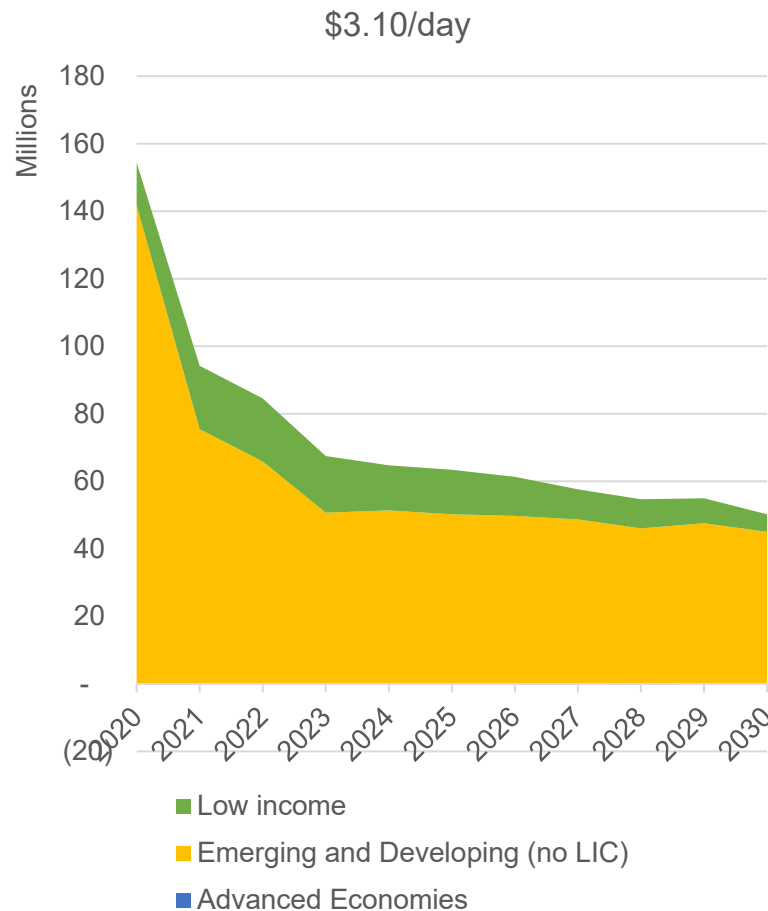
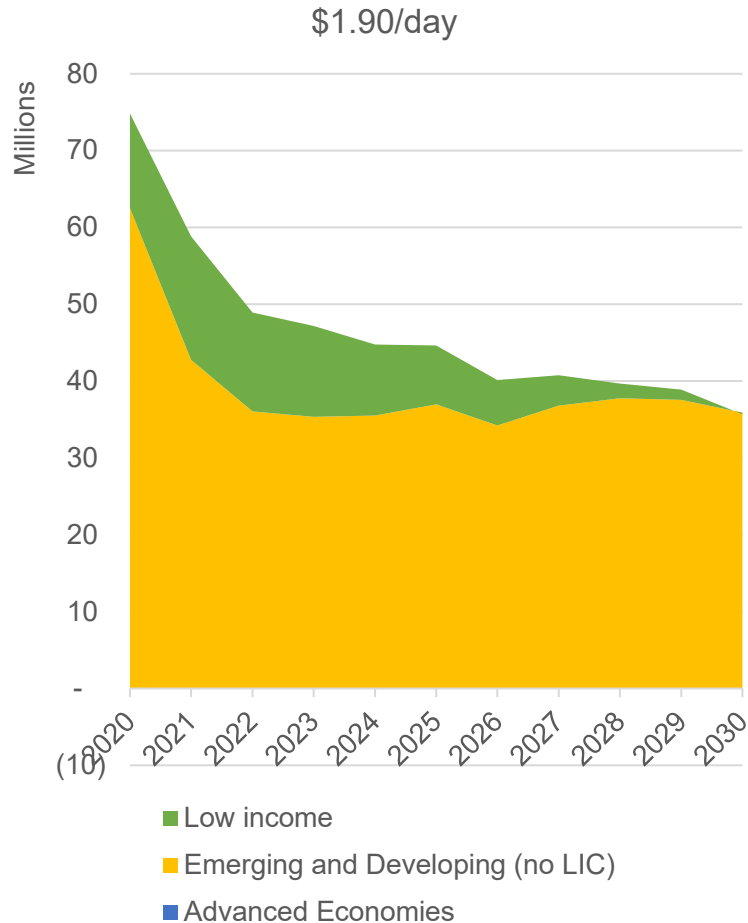
GDP PC Growth



-- COVID advanced    -- COVID emerging    -- COVID low income  
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# Change in number of people living in poverty due to COVID



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