

COVID-19 AND INEQUALITY: A REVIEW OF THE EVIDENCE ON LIKELY IMPACT AND POLICY OPTIONS

RUTH VARGAS HILL & AMBAR NARAYAN

Abstract

The covid-19 crisis is bringing the inequalities in society into sharper focus. This discussion paper examines the unequal impacts of the pandemic across different groups, the potential consequences for long-term inequality, and the implications of both of these for policy. Although real-time data on the impact of covid-19 in developing countries is currently scarce, early data from surveys during the crisis period, together with available evidence from past shocks, form a useful basis for the discussion. The paper reviews the evidence to make the case that, while the short-run implication of covid-19 for income distribution is uncertain and varies across countries, the longer-term risks to equality and social mobility are less ambiguous. These risks are significant due to the pre-existing inequalities in most societies, the scale and distribution of short-run impacts, and the lasting effects of those impacts and the coping strategies households are forced to adopt. Over time, this combination of factors is likely to amplify inequality of opportunities in affected countries and reduce resilience to future crises. Policy measures need to be adopted during the recovery phase that keep the eye on the long game while also spurring economic recovery in the short run. This requires a concerted focus on inclusiveness and building resilience to future disasters, particularly among vulnerable people and communities.

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About the Centre for Disaster Protection

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1

● COVID-19 AND LONG-TERM INEQUALITY: SHOULD WE BE CONCERNED?

While the covid-19 crisis affects all, its impacts are not being felt the same way by everyone. The crisis is bringing inequalities in society into sharp focus, as very often those with less to start with—poorer health, inadequate housing, less secure jobs—are experiencing larger losses. This note examines the evidence on the unequal impacts of the covid-19 crisis across individuals and groups in different countries. Although real-time data on impacts in developing countries is currently scarce given the recent and evolving nature of the crisis, the evidence that is available suggests that the crisis is likely to have long-term implications for equity and social mobility.

This paper will argue that while the short-run implications of covid-19 for income inequality are uncertain and vary across countries, the longer-term risks it poses to equity and social mobility are less ambiguous.¹ The pattern of uneven impacts varies across countries; but overall, there is already evidence of greater immediate impact on the disadvantaged segments of the population— such as those who are poor, those who are vulnerable, those with lower levels of education and assets, and those in insecure employment and lower-skilled occupations. Whether these uneven impacts translate to higher inequality in a country would depend on the size, distribution, and duration of the economic shocks resulting from the pandemic, as well as the policy measures to mitigate its impact. In the short term, the effect on income inequality could go either way, depending on how the impacts are distributed among the poorest members of society (who are often in rural areas and in agriculture in developing countries, which tend to be less affected) versus the less poor, and how relief

measures are able to temporarily replace incomes. But over time, the highly uneven impacts of the crisis are likely to widen opportunity gaps between the haves and have-nots in most societies, leading to lower social mobility and a more unequal distribution of income and wealth, if adequate policy measures are not adopted.

It is important to recognise that a society with larger pre-existing disparities in assets and opportunities will experience more uneven impacts and a more unequal recovery process, with worse implications for equality of opportunities over time. As disadvantaged groups suffer larger, longer-lasting shocks, they are also more likely to adopt coping mechanisms that are harmful to their future economic prospects. Inequality will increase inequality in capital accumulation (human and physical) that is linked to opportunities in the longer term and of future generations. This could in turn reduce social mobility across generations and cause disparities in inequality and wealth to persist and even widen over time.

Thus, without the right policies that adopt an equity lens, covid-19 can amplify the existing inequalities in a society both during the crisis and further during the recovery period (Figure 1). The crisis has hit amid uneven access to opportunities and persistent income gaps in large parts of the world. Not only has income inequality risen in many economies during the past quarter century, economies with high levels of inequality often also have low social mobility. Greater inequalities in society increase the likelihood that the pandemic will have unequal impacts which, in the absence of mitigating policies, would lead to widening inequality over time, with consequences for

¹ Social mobility here refers to the commonly understood notion of intergenerational mobility, which is the extent to which the education or income status of individuals is linked to that of their parents. A higher correlation between parental and offspring outcomes indicates lower intergenerational (or social) mobility (see Narayan *et al.*, 2018).

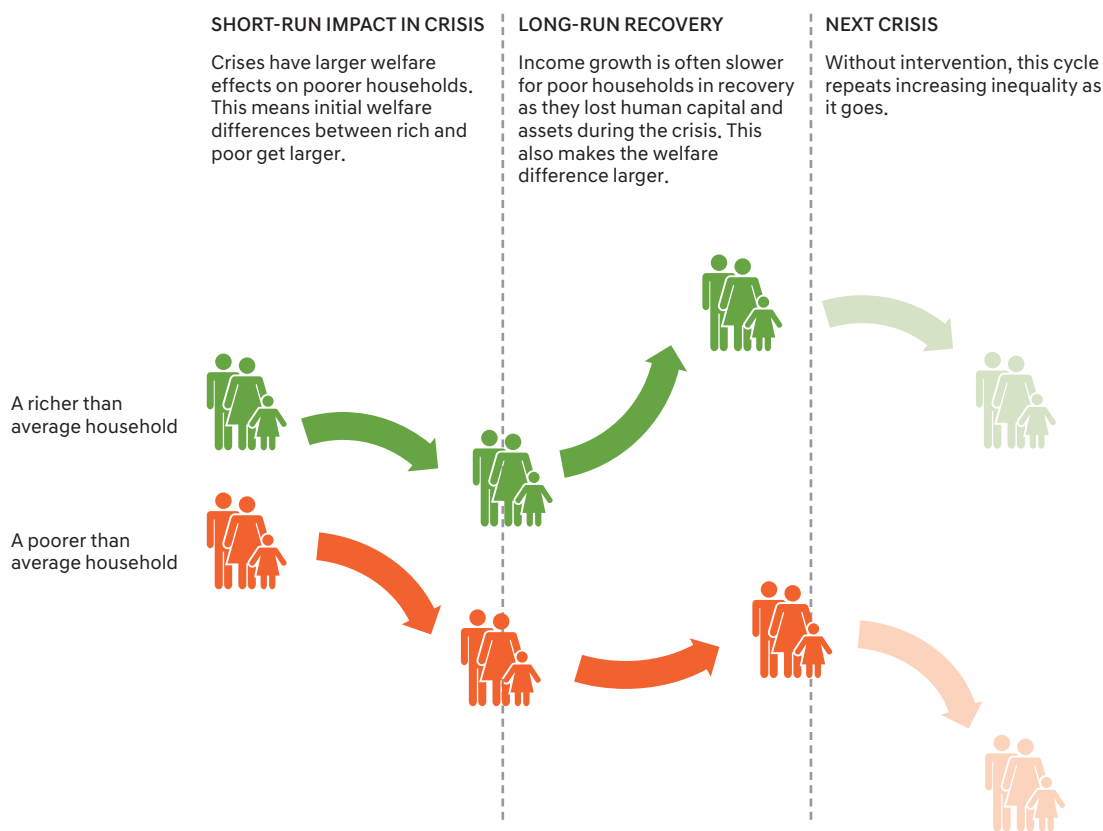
resilience to future shocks. Recent evidence (Furceri *et al.*, 2020) suggests fiscal policy has not mitigated increases in inequality in the aftermath of past pandemics, highlighting the need for a concerted effort to reverse this trend.

Subsequent sections of this paper examine the inequities in crisis and recovery for households during this pandemic. In Section 2 we examine the degree to which covid-19 is a shock that systematically affects the more vulnerable groups in society. Evidence to date is mixed given the urban bias of the shock, but within urban areas the shock is compounding existing inequalities as the poorest are affected the most. This makes the shock highly unequal for middle-income countries, where many of the very poorest members of society are in urban areas, and often impacts those just below the median of the income distribution in low-income countries. In Section 3 we examine the degree to which the recovery is likely to be unequal—i.e. slower for poorer households than for richer households—with possible consequences for long-term inequality. In Section 4 we discuss the implications of both inequality in crisis and recovery for policy.

While the note is structured around these two separate phases of crisis and recovery, it is important to note that this is a conceptual distinction, and not necessarily a chronological one. The covid-19 crisis can be best viewed as a series of multiple shocks causing households to repeatedly move in and out of crisis. This is because the crisis comprises multiple shocks that affect households at different times, and which are not necessarily sequential (Pfister *et al.*, 2020): a health shock; economic shocks arising from aversion behavior; a global trade shock; and potentially fiscal, food and conflict crises. It is also because the health shock is characterised by repeated waves, which makes it even harder to differentiate between phases of crisis and recovery in a chronological manner.

The conceptual distinction between crisis and recovery, however, is still useful, whereby the latter refers to a period where overall economic activity is on an upward trend from the crisis levels, which is also the time for policy measures that go beyond providing short-term relief. A recovery phase may be countrywide, or region-specific within countries; and some regions or countries may even oscillate between crisis and recovery phases as a few recent experiences have shown.

Figure 1: Inequality and crises: a vicious cycle



2

● INEQUALITY CAN MAKE DISASTERS MORE COSTLY TO WELFARE IN THE SHORT RUN. HAS THIS BEEN THE CASE FOR COVID-19?

Covid-19 has had an extremely significant impact on wellbeing across the world, and this increases the risk of lasting impacts on inequality. The International Monetary Fund (IMF) estimates that in 2020 inequality, as measured by the average Gini coefficient of income, will increase by 2.6 percentage points in emerging markets and low-income countries as a result of the crisis (IMF, 2020). The combination of health risk—which is also higher for some of the most vulnerable groups including the poorest and older members of society—and economic malaise induced by the policies to mitigate the health risks has produced a shock that is unprecedented in terms of its scale, duration, and scope in most countries. This is likely to produce multiple, overlapping deprivations among disadvantaged groups, the effects of which could lead to worse outcomes in both monetary and non-monetary dimensions for these groups.

The greater the pre-existing inequalities in a society, the more unequal the economic and social impacts of a crisis are likely to be. When crises occur, they tend to have a larger impact on households that have less access to markets, capital, and basic services (Dercon, 2004; Lybbert *et al.*, 2004; Thirumurthy *et al.*, 2008; Hill and Porter, 2016). This means that, all other things being equal, crises have larger welfare impacts in economies with greater inequality of opportunity, in the form of unequal access to basic services, and an uneven playing field in terms of access to jobs, markets, and capital. In a society with a highly unequal distribution of opportunities, those with little opportunity are more prevalent and suffer from greater pre-existing disadvantages, which leave them more vulnerable to the impacts of a crisis. The distribution of welfare impacts

across households and communities is likely to be influenced by pre-existing inequalities.

However, this general finding is dependent on the nature of underlying exposure to the shock. In some crises, exposure is lower for some groups of poorer households. For example, the food price shock of the late 2000s often affected urban households more than rural households. Even though poorer households in urban areas suffered greater welfare losses than richer urban households, their higher position in the national income distribution compared to the more numerous poor rural households meant that poverty and inequality did not increase in many countries during this period. Here we examine the evidence on exposure and impacts of the covid-19 crisis, starting first with exposure.

2.1 Exposure to health and income shocks is highly unequal

2.1.1 Exposure to health risks is higher for low-income households in urban areas and for women

Population density has been a primary driver of covid-19 infections, yet population density also confers many economic advantages, making the relationship between exposure and deprivation non-linear. Remoteness is often a defining characteristic of life for those at the bottom of the income distribution. 80% of the extreme poor and 75% of the moderate poor live in rural areas (Castaneda *et al.*, 2016). While remote households have lower access to health information, WASH, and health services, they benefit from lower levels of population density and the lower levels of exposure that confers.

However, in densely populated places, poor households have been much more exposed to disease. In urban centres, the poorest and most vulnerable people are likely to live in areas where social distancing is difficult, and to have less access to healthcare. The disease itself poses much more severe health risks to those in poor health or with co-morbidities, many of whom are likely to be the poorest or older members of society. Income and wealth inequalities are linked to greater crowding, especially in urban areas, and low access to basic infrastructure—including sanitation—and higher prevalence of pre-existing health conditions. In addition, less access to information and healthcare resources during health crises can worsen the spread of communicable diseases and health outcomes among vulnerable groups (Kumar and Quinn, 2012).²

In addition, the ability to choose to work in occupations with lower risk is dependent on education, and the immediate need for cash. Those who are better educated are better able to switch sectors and type of job than those who are less well educated. This allows them to protect their consumption by mitigating losses from one income source by increasing income from other sectors (Hill and Mejia-Mantilla, 2017). When faced with no other alternatives, individuals may choose to engage in risky work to meet their consumption needs, even when this entails higher exposure to health risk (Burke *et al.*, 2014). Although the risk of undertaking a job may have increased for some households, without viable alternatives or savings or insurance to fall back on they will have little choice but to stay in the same job, even without adequate protection being put in place.

Experiences from previous pandemics and large-scale shocks show men and women may have different levels of exposure to health risks from covid-19. Based on a review of the existing literature from prior crises, a recent World Bank policy note has highlighted gender gaps that might be widened by covid-19 through different channels (World Bank Group 2020b).³ One of these is that women account for a larger share of those working in the health sector which puts them at risk. Occupational sex-segregation might also bring different levels of exposure depending on preventive measures (e.g. women are often more present in client-facing roles while men concentrate

in logistics or among the security forces). Moreover, the shift in resources towards addressing the public health emergency can entail disruptions to key health services for women and girls.

2.1.2 Aversion behavior and policies to mitigate health risks have highly uneven consequences across different groups

Exposure to the economic impact of policies to mitigate health risks has been higher for those who work outside of the home but are less able to work remotely. Many households in low-income countries engage in family-based agriculture with limited interaction with non-family workers. For these households, the impact of working from home has been less severe, especially as many governments have provided lockdown exceptions to agricultural work. However, in secondary and tertiary sectors, many of the workers who cannot work from home, particularly in developing countries, are likely to be in lower-skilled service sector occupations in the informal sector with no benefits or security. In the United States for example, just 37% of jobs can be performed entirely at home, with significant variation across cities and industries (Dingell and Neiman, 2020).⁴

The share of urban jobs able to be performed from home tends to increase with the level of economic development of a country (Hatayama *et al.*, 2020). The share of urban jobs that can be done from home is only about 20% in poor countries, compared to close to 40% in rich ones. This is largely because the share of self-employed workers tends to be large in poor countries and their occupational composition is not conducive to working from home (Gottlieb *et al.*, 2020). Jobs in poor countries tend to be more intensive in physical/manual tasks, less intensive in ICT use, and workers do not always have as good internet connectivity at home (Hatayama *et al.*, 2020). This means that urban areas in lower income countries are harder hit by lockdown policies and aversion behavior. It is important to note, however, that this pattern across countries depends on the nature of the lockdown—when essential services are excluded from lockdown restrictions, lower income countries do not do as badly as a larger share of their workforce is in essential sectors (Gottlieb *et al.*, 2020).

2 Kumar and Quinn explore the role of these factors in determining policies to prepare for an influenza pandemic in India.

3 Previous experiences such as Ebola in Africa, SARS in Asia, H1N1 worldwide or Zika in Latin America and the Caribbean showed that women and girls are often more exposed to the various potential negative impacts of such crises. That said, no other previous infectious disease has posed a similar challenge to health services or required the large-scale confinement measures that covid-19 is demanding. The evidence from the Ebola epidemic, despite being limited to West Africa, offers special insights since lockdown measures were also adopted in the worst hit countries (World Bank, 2020f).

4 Research using firm surveys conducted after the outset of covid-19 has found that this measure of suitability for remote work performs well in predicting the industry-level patterns of remote work in the United States (Bartik *et al.*, 2020).

In addition to unequal patterns of inequality across countries, there is also inequality in exposure to this economic shock across income distribution: urban workers in non-work from home or high-physical-proximity jobs are likely to be more economically vulnerable. For example, in the United States, such workers tend to be less educated, of lower income, have fewer liquid assets relative to income, and are more likely renters—and are less likely to stay at home. Those in jobs that are thought to be non work-from-home jobs experienced greater declines in employment (Mongey *et al.*, 2020). Remote working in the United States after the onset of covid-19 is found to be much more common in industries with better educated and better paid workers (Bartik *et al.*, 2020).⁵ Using skill surveys from 53 countries, Hatayama *et al.* (2020) find that workers in hotels and restaurants, construction, agriculture, and commerce are less likely to have jobs that can be carried out from home. Individual and household characteristics, such as education and internet access, and not just the type of occupation, matter for explaining the differences in working from home rates within countries.

Early data available from a few countries appears to confirm that exposure to labor market risks is strikingly unequal, depending on job and worker characteristics. Below are a few examples from real-time survey data on the pattern of employment losses in a handful of countries.

- *Job losses vary significantly by the type of occupation and the extent to which a job can be performed from home.* Job losses due to covid-19 in Germany, the United Kingdom and the United States are much less likely among workers who report that a high share of their tasks can be carried out at home. Differences in this share explain most of the variation in the likelihood of job losses across and even within occupations (Adams-Prassl *et al.*, 2020). Similarly, in Romania, the sector of work and whether the occupation is conducive to working from home partly explain the larger impact on low-income earners—those working in retail trade are much more likely to report work stoppage than those in professional jobs. Lower income earners in Romania are far more likely to see work stoppages,

while higher income earners are more likely to see their hours reduced (World Bank, 2020c). In Ethiopia, sectors like restaurants, hotels and bars, and wholesale and retail trade, which are likely to be least amenable to working from home, accounted for the highest share of job losses by mid-May (Wieser *et al.*, 2020b).⁶

- *Job losses also vary by the type of employment.* In Germany, the United Kingdom and the United States, there are large differences in the likelihood of job losses between employed and self-employed workers, and between employees in permanent contracts or salaried jobs, and those in other work arrangements. In the very different labour market of Ethiopia, casual workers accounted for the largest share of job losses since the outbreak started (Weiser *et al.*, 2020b).
- *Characteristics of workers, such as gender, education and age, matter for impacts, with some commonalities across countries.* In both the United States and the United Kingdom (but not in Germany), the probability of job loss is much higher among women and those without college education, with the gap by education level being entirely attributable to differences between the two groups in occupation and the share of tasks one can do from home. World Bank phone surveys from a large group of developing countries show that college-educated workers are much less likely to suffer work stoppages than workers with lower levels of education in most countries, and that women survey respondents are more likely to stop working than men in almost all countries (Sanchez-Paramo and Narayan, 2020).⁷ In Romania, younger workers are more likely to see their employment stop, even after accounting for differences in individual and job characteristics.

Children from disadvantaged families are also exposed to higher risks from disruptions to public services, particularly schools, as they are more likely to rely on public schooling and social programmes, such as nutrition and early childhood programmes, and lack adequate access to distance learning opportunities. While schools are shut, education and care must be provided within the family, and poorer families are more constrained in what they can provide. Dependency ratios are higher, the pressure to work outside of the home is stronger, access to supplementary material is lower, and

5 They also find that employers perceive lower productivity loss from remote work in better educated and higher paid industries.

6 These are findings from a phone survey of households in Ethiopia, which is one of the earliest in the World Bank's high-frequency phone survey initiative. The phone surveys of households are being conducted in more than 100 countries and those of firms in about 50 countries. Results from harmonized data from these surveys for around 40 countries is now available at World Bank's covid-19 'High-frequency monitoring dashboard' (World Bank, 2020a).

7 Job stoppages are less frequent among college-educated workers than workers with lower education in 23 of 29 countries where data is available in the World Bank's covid-19 'High-frequency monitoring dashboard' (World Bank, 2020a), as at 7 December 2020. The pattern is most common for middle-income countries (18 of 20). While more women surveyed reported losing their jobs than men in almost all countries, the respondents may not be representative because of limitations of the phone survey samples in some countries.

the education level of parents is lower. For some children, family is not a safe place. Income losses may also lead to increased dropout rates among children in poor families when schools do reopen.

Across developing countries, women are largely engaged in informal work and other vulnerable forms of employment, which often leaves them out of formal social protection measures targeted to workers. Also, unlike typical business cycle type recessions, which tend to affect male employment more severely, the social distancing measures have a large impact on sectors with high female employment shares (Alon *et al.*, 2020). Women are over-represented in some of the occupations that are hardest hit such as retail, travel, leisure and hospitality. This is also true for some of the sectors particularly affected by the global trade shocks discussed in the next section, such as textiles in some countries (like Bangladesh, Farole *et al.*, 2017; World Bank Group, 2020b), while men are more present in construction or manufacturing.

2.1.3 The exposure to global demand shocks varies from country to country, leading to differences in distributional impacts across countries

In addition to the health shock and the economic shock stemming from aversion behaviour that is typical of epidemics, covid-19 brings with it a global demand shock. The pandemic's global nature and origin in higher income economies has resulted in a contraction of global demand (apart from some goods where demand has increased, such as personal protection equipment) impacting export sectors in low- and middle-income economies. There are four key aspects of this global economic slowdown: lower commodity prices, including oil; a sharp reduction in global remittances—affecting some flows more than others; reduced demand in some light manufacturing sectors, such as ready-made garments; and the collapse of global tourism.

A country's vulnerability to the global economic slowdown depends on its exposure to the global economy in general, and its dependence on export of primary commodities, tourism and FDI-reliance of sectors in the overall economy in particular. The distributional impact depends on where in the income distribution workers in the affected sectors are situated. For example, in Bangladesh, a sharp reduction in clothing retail sales has caused some large clothing brands to cancel contracts with suppliers in low-income countries, affecting many low-income wage workers who rely on factory jobs. More than a half of Bangladesh's garment suppliers reported that their in-process or already-completed production orders had been cancelled. More than a million of Bangladesh's 4.1 million garment workers have been laid

off or furloughed as a result (Anner, 2020). Garment workers and their families have been able to move out of poverty in recent years and may have been just above the poverty line, but the loss of income for these households in the third and fourth decile of the consumption distribution could put them back into poverty. Reduced demand for garments in turn contributes to downward pressure on cotton prices. For cotton-exporting countries such as Burkina Faso, depressed cotton price has historically led to lower production and reduced income (United States Department of Agriculture (USDA), 2020).

Remittances are often countercyclical in nature, which insures receiving households against national or local-level shocks. However, given the global nature of the pandemic, this countercyclical nature of remittances has been diminished, as both migrants and the receiving households at home are being affected simultaneously. The World Bank predicts a reduction in remittance flows across all regions (World Bank, 2020e). The impact of reduced remittances will depend on the importance of remittances across the income distribution. In Nepal, where international remittances are received by households across the income distribution (World Bank, 2016), remittances dropped from around NPR5,000 during earlier survey rounds to around NPR2,000 after the lockdown (Mobarak and Vernot, 2020). This will affect many households across the income distribution.

However, not all aspects of the global demand shock will increase inequality. In oil-importing countries, lower oil prices are likely to disproportionately benefit households at the bottom of the income distribution. Prices for basic goods are reduced as lower oil prices reduce transportation costs.

Exposure to the health and economic risks associated with the pandemic are affecting working people worldwide. Compared to pre-crisis levels, a 10% or more contraction in working hours is now expected—equivalent to 305 million full-time jobs (ILO, 2020). The pandemic and the response measures are now estimated to severely affect the incomes of 1.6 billion informal workers, many of whom are not likely to be covered by social protection such as unemployment benefits and health insurance (ILO, 2020). This takes into account the shocks already realised—the initial health shock, the aversion behaviour mitigation measures, and the global demand shock. These shocks could be repeated as the crisis ebbs and flows. In addition, further shocks may come if food production is compromised or as a result of fiscal contraction or increased insecurity (Pfister *et al.*, 2020). Although the shocks may not always hit the poorest areas of a country the hardest, they particularly affect those who are vulnerable in any given location.

2.2. Impacts tend to be large, and vary by the characteristics of individuals and households

2.2.1 Evidence suggests very large overall welfare impacts, which are likely to persist for a while

Large income and employment losses, at least for a temporary period, are reported in several countries for which high-frequency phone survey data is available. Preliminary evidence suggests a massive drop in labour incomes in most countries, to the extent that is rarely seen on a national scale.⁸ For example, 42% of respondents in Nigeria who were working before the outbreak reported being out of work due to covid-19, and nearly 80% of respondents reported income reduction since mid-March. In Ethiopia, 13% of respondents surveyed between 2 April and 13 May reported losing their jobs (including 19% in urban areas) and 55% reported reduced household income. Between 14 May and 3 June, income losses have continued in Ethiopia, with 46% of surveyed households reporting lower income in the previous three weeks.⁹ In Senegal, more than 85% of households have reported at least some income loss (Le Nestour *et al.*, 2020).¹⁰ The World Bank phone surveys show that an average of 62% of households across 27 developing countries suffered income loss between April and July 2020. Much of this is due to work stoppages, which were reported by around one-third of households (World Bank Group, 2020a).¹¹

These income reductions are quickly leading to reductions in consumption. Food insecurity is high in many countries. For example, in Nigeria, between 35% and 60% of households reported not being able to buy staple foods like yam, rice, and beans when they needed them, during the week prior to the interview. An average of 38% of respondents to the World Bank phone surveys across 20 developing countries reported that an adult in their household had skipped a meal in the last month due to lack of money or resources (World Bank Group, 2020a). On average, households where the survey respondent

stopped working after the onset of the pandemic were 11 percentage points more likely to report this form of food insecurity than other households. This seems to suggest that the pandemic is at least partly responsible for the observed food insecurity, even though other factors preceding (or unrelated to) covid-19 likely play a role as well.

The estimated scale of welfare impacts of covid-19 is evident from the latest (June 2020) projections of extreme poverty by the World Bank (World Bank Group, 2020d). An additional 70 million to 100 million people are projected to be in extreme poverty in 2020 compared to what would have occurred in a world without covid-19 (Mahler *et al.*, 2020; World Bank Group 2020d), where the lower and upper bounds of the range correspond to the two global economic growth scenarios projected in the Global Economic Prospects (World Bank 2020d). The baseline and downside scenarios have global gross domestic product (GDP) contracting by 5% and 8% respectively in 2020. These projections translate to an increase in the global extreme poverty rate over time—from 8.2% in 2019 to 8.8% in 2020 under the baseline scenario or 9.2% under the downside scenario—which effectively wipes out all progress made since 2017. The projected increase in extreme poverty from 2019 to 2020 would be larger than ever seen since 1990, when the World Bank started tracking poverty globally in a consistent manner.¹²

These impacts are likely to be persistent rather than temporary. The GEP forecasts that global GDP will increase by about 4% in 2021, which is still expected to leave the number of people living in extreme poverty almost unchanged between 2020 and 2021, primarily because GDP growth rates in countries with the most poor people will not be enough to produce a reduction in poverty headcount when population growth is taken into account (Mahler *et al.*, 2020).¹³

8 Note that the global poverty projections are based on annual estimates, which implies that the temporary increase in poverty (e.g. between two quarters) can be much higher.

9 Results from World Bank high-frequency phone surveys reported by Siwatu *et al.* (2020) for Nigeria, and Wieser *et al.* (2020a, 2020b) for Ethiopia.

10 Le Nestour *et al.* report on the findings of a survey fielded by the Center for Global Development.

11 The one-third share of households reporting work stoppages is an average for 42 countries. The value of the indicator for each country is the proportion of respondents who report stopping work after the outbreak of the pandemic out of all those who were working before the pandemic.

12 The only other time that extreme poverty has increased globally since 1990 (in terms of the number of poor and the share of the world's population in extreme poverty) was between 1997 and 1998, which coincided with the worst impacts of the Asian financial crisis.

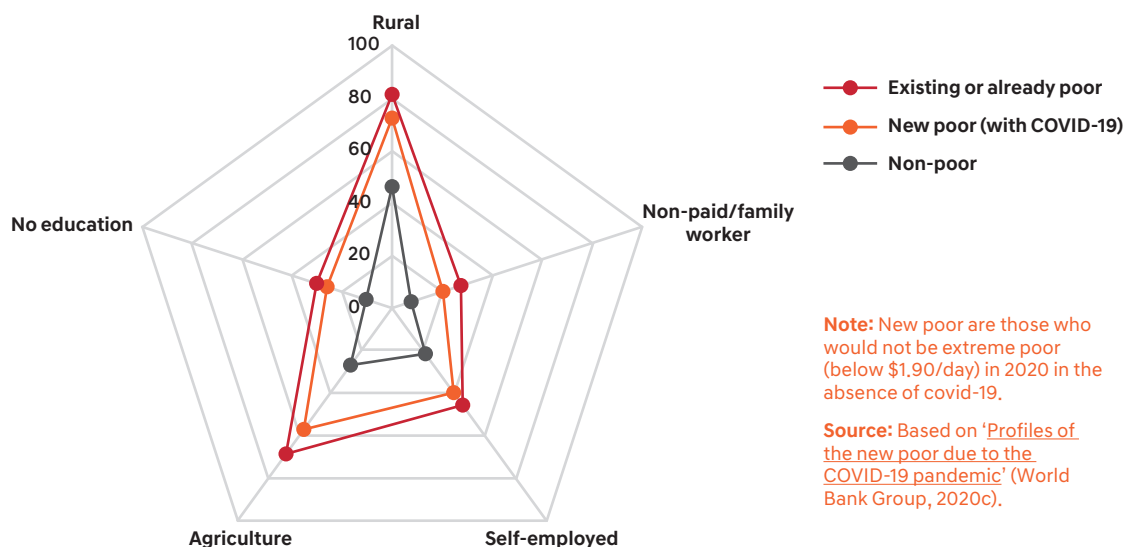
13 Nigeria, India, and the Democratic Republic of Congo—home to more than one-third of the world's poor—are predicted to have per capita growth in real GDP of -0.8%, 2.1% and 0.3%, respectively, which is not enough to produce a decline in the number of poor in these countries given their population growth rates of 2.6%, 1.0%, and 3.1% respectively.

2.2.2 Certain characteristics of households are associated with greater vulnerability

Evidence from past crises suggests that those without savings and access to financial services are particularly hard hit when faced with a sudden decline in income. Without cost-effective coping strategies to employ, they are forced to cope by undertaking costly actions—incurring debt at high interest rates and reducing food consumption—which are also likely to lead to loss of

productivity and lower consumption in the longer run (Hill *et al.*, 2019). In Nepal, 20 days after the 2015 earthquake, 44% of households reported borrowing in order to eat and 39% reported eating less than normal. Even more stark, four out of five households reported reduced consumption in Haiti one week after the 2010 earthquake (in the three most affected northern provinces). When income losses are sustained for a long period of time, households migrate, engage in risky work (such as prostitution) and sell productive assets.

Figure 2: Profile of the 'new poor' due to covid-19 compared to others



Profiling the (projected) global population who are likely to be poor because of covid-19 in 2020, or the so-called 'new poor', suggests high vulnerability of those with lower levels of education and insecure jobs (World Bank Group, 2020c; Sanchez-Paramo and Naravan, 2020). In terms of most of their characteristics, the new poor are projected to fall somewhere between the existing (or already) poor and the non-poor, but much closer to the former group than the latter, since most of the projected new poor are essentially those who would have been just above the poverty line in every country in the absence of covid-19 (Figure 2). For example, the (projected) new poor are

significantly less educated than the non-poor—64% of the new poor have education of primary level or less, compared to 49% of the non-poor and 68% of the existing poor. The new poor are also more likely to be somewhat more urban than the existing poor, as well as somewhat more likely to be wage workers and employed outside agriculture.¹⁴ Overall, the projections suggest that, in addition to its impacts on the extreme poor, the crisis has a strong impact on groups whose characteristics would have typically placed them above the poorest on the welfare scale (in the absence of the crisis).

¹⁴ On the characteristics for which the existing poor and the non-poor are not that different, we see some differences in this pattern. The new poor are less likely to be employed than the existing poor, and similar to the non-poor (employment rate of 59% compared with 63%). The new poor are also slightly more likely to have secondary education than both the existing poor and the non-poor.

The global profiles of the new poor above are produced under the restrictive assumption that the loss in GDP affects all parts of the distribution proportionately. But for the reasons outlined in Section 2.1, the actual impacts of economic contraction are likely to disproportionately affect groups with certain pre-existing attributes that go beyond education and employment status, such as occupation, gender, and location. Thus the profiles above should be seen less as reliable predictions and more as useful benchmarks of what the new poor could look like if the growth impacts were proportional to income at every point of the distribution.¹⁵ As more real-time data becomes available for developing countries, including data from the World Bank-supported high frequency phone surveys ongoing in more than 100 countries, updated global profiles of the new poor can be generated with better assumptions on the incidence of growth impacts. Until such data becomes available on a global scale, it is useful to look at a broad range of evidence from different sources to assess how covid-19 can affect inequality.

2.2.3 Impacts vary significantly by location and tend to be higher for women

Early evidence suggests that the distributional impacts vary significantly across space, down to the level of neighbourhoods and communities. The spatial variation in impacts occurs because of differences in the composition of the local economy and labour markets, pre-existing differences in the attributes of an area like availability of infrastructure, services and connectivity, and local-level variations in the type of shock that an area may experience. While economically lagging areas may not necessarily suffer greater economic impacts compared to more economically vibrant areas, they may be at risk of more adverse impacts on wellbeing, due to the lack of quality infrastructure and services. Local governments in less wealthy cities and towns may also be more financially vulnerable as their revenues drop due to loss of economic activity, which can affect the delivery of public services that poor people depend on.

In the United States, Chetty *et al.* (2020) combine real-time information from multiple sources of big data to find a pattern of economic impacts of covid-19 across geographic areas at the level of postal codes and across income groups. Sharp reduction in spending by high-income individuals, particularly in areas with high rates of

infection and in sectors that require physical interaction, appears to have affected the revenues of small businesses in affluent postal codes most severely, leading to severe impacts among low-income employees who work in affluent areas.

Available evidence also suggests that economic impacts are unequal by gender. In the United States and the United Kingdom, the likelihood of job losses due to covid-19 is found to be significantly higher for women than for men, and the gender gap persists even after controlling for job characteristics (including the share of tasks one can do from home), suggesting that other factors play a role (Adams-Prassl *et al.*, 2020). This is in contrast with usual recessions where men are generally more likely to lose their jobs (for example, Bredemeier *et al.*, 2017). In the United States, employment among women without college degrees fell by 15 percentage-points by early April, compared to 11 points among men without college degrees (Zamarro and Prados, 2020).¹⁶ As mentioned earlier, phone survey data from developing countries suggests gender inequality in job losses, with women more likely to stop working than men in most countries (Sanchez-Paramo and Narayan, 2020).

The evidence from these countries suggests that women experience a larger burden on their time as school closures and confinement measures are adopted. In Germany, the United Kingdom, and the United States, among the population working from home during covid-19, women are also found to spend significantly more time home-schooling and caring for children (Adams-Prassl *et al.*, 2020). In the United States, one-third of working mothers in early April reported being the main caregiver versus one in 10 working fathers. Childcare demands clearly constrain women's employment in this crisis. By early June, 64% of college-educated mothers of young children in the United States reported that they had reduced their working hours at some point since March, versus 36% of college-educated fathers and 52% of college-educated women without young children (Zamarro and Prados, 2020).

The unequal burden of care responsibilities can lead to reductions in working time and exits from the labour market. This may have a persistent impact on women's employment and earnings in the future as there are high returns to experience in the labour market. This could in turn influence household investment decisions, as intra-

15 When the growth impact on consumption/income is proportional to the initial distribution, the profile of the new poor essentially depends on the magnitude of the growth impact in a country and the pre-existing distribution of income with respect to individual and household characteristics.

16 This paper uses data from a nationally representative sample of the Understanding Coronavirus in America project that included six tracking survey waves between 10 March and 16 June 2020.

household allocation of resources (e.g. ICT) for home-schooling might be redirected to boys (as a future investment) over girls.

Past evidence hints at how persistent the adverse effects of a disaster on women's employment can be. A report by Tulane University suggests that post-Katrina labour force participation rates in New Orleans dropped by 6.6% among women compared to 3.8% among men in 2007 (Willinger 2008, as reported in Bapat, 2012). The gender impacts were compounded by other socioeconomic

disadvantages. Median earnings of African American women and Hispanic women were lower a year after Katrina, whereas median earnings of men increased and those of white women showed a slight increase. The city's pre-existing barriers to women's employment, including the lack of schools, childcare facilities, housing and public transportation were likely worsened by the disaster, which led to lower outcomes for women, and particularly for those in poorer communities, well into the post-disaster recovery phase.

3

● IS COVID-19 LIKELY TO DEEPEN EXISTING INEQUALITIES AND MAKE THEM MORE PERSISTENT?

The scale of the crisis with its multifaceted (and repeated) shocks, the differential exposure to risks of different countries and groups and regions within countries, and the emerging evidence of significant welfare and distributional impacts all add up to a high risk of covid-19 having lasting impacts on equity and social mobility. This is because a shock of this nature, even when its most severe impacts are short-lived, can trigger processes that lead to a widening of pre-existing gaps in capabilities and endowments in society. These processes, once they are set in motion, are likely to continue even during the *recovery phase*, when economic activities are on the rebound. The phase of recovery is then also the time window for policymakers to act to reverse the processes that pose longer term risks to equity, even as they undertake necessary policy actions to reduce the short-term risks to the nascent economic recovery.

3.1 What do past pandemics tell us?

What do past experiences tell us about the impact of pandemics on inequality, even though none of them has approached the scale of covid-19? The limited evidence available from past pandemics suggests that events of this kind are associated with long-run increases in income inequality. This means that the initial unequal impacts documented in the previous section compound, not lessen, over time. Furceri *et al.* (2020) estimate the distributional impacts of five major events—SARS (2003), H1N1 (2009), MERS (2012), Ebola (2014) and Zika (2016)—over the five years following each event and find that on average, the Gini coefficient of income in affected countries increased steadily after these events. After five years, the net Gini (market incomes after taxes and transfers) is estimated to be above the pre-shock trend by

around 1.25%, which is 0.5 percentage points higher than the increase in Gini in market income. That the impact on net Gini is larger than that on market Gini suggests that redistributive public programmes have been inadequate to mitigate the distributional impacts of the shock on market incomes and may even have been regressive in the medium term.

Past evidence also suggests that the adverse distributional effect of pandemics is likely to be higher when the crisis leads to contraction in economic activity (Furceri *et al.*, 2020), which is happening on a massive scale with covid-19. For pandemic episodes associated with significant economic contraction, the effect on income Gini is statistically significant, while for episodes associated with high growth, the effect is not statistically significant. The pattern of distributional impact of a pandemic being associated with the size of its economic impact is consistent with evidence from past *economic* crises, which suggest that larger economic shocks are associated with higher inequality over time. Economies with larger output and employment losses in the initial aftermath of the global financial crisis registered greater increases in income inequality compared with their pre-crisis average (IMF, 2018). An important channel of the longer-run distributional impact appears to be employment effects, which vary widely by the education level of workers. The employment rate of those with basic levels of education falls significantly in the medium term, while employment of those with intermediate or higher education is not affected. The distribution of job losses during the first months of the pandemic in many developing countries, as described earlier, seems to show a similar pattern—of higher rate of work stoppages among those with less than college education.

In considering the potential impacts of covid-19 on inequality, it is important to distinguish between short-term movements in income inequality and longer-term effects. In the short term, the extent and direction in which the crisis affects income inequality in a society depends on the size and incidence of the shock, as described earlier. In many developing countries, the fact that subsistence agriculture, where the poorest are likely to be employed, is often the least affected among all sectors, means that income inequality need not necessarily rise in the short term.

Short-term movements in income inequality can also be driven by the policy responses to the crisis. In the United States, for example, expansion in unemployment benefits may have more than replaced income losses among lower-income households that experienced job loss for the first few months (Chetty *et al.*, 2020, citing Ganong *et al.*, 2020).¹⁷ These gains can however be short-lived as the benefits are reduced or become more restrictive with time.¹⁸ Moreover, in developing countries, policy responses like unemployment benefits and aid to small businesses are unlikely to be as large because of fiscal and capacity constraints, and are also likely to leave large gaps in coverage, particularly among informal workers, including the self-employed.¹⁹ Replacing the lost income of low-income workers is an enormous challenge in most low- and lower middle-income countries where informal workers make up an overwhelming share in the sectors that are severely affected by the crisis (such as urban services, transport and small manufacturing).

In the longer term, however, and regardless of income inequality changes in the short-term, the crisis is more likely to increase inequality of opportunities, triggering a cycle of lower social mobility, higher income inequality, and lower resilience to future shocks. The extent to which this is likely to occur in a country would depend on: the extent of pre-existing inequalities of opportunity; the depth, incidence and timing of the short-term impacts; the adequacy of policy responses to mitigate those impacts; and the long-term costs of the coping strategies that households are compelled to adopt to survive the crisis.

3.2 Short-term impacts on firms and households could worsen longer-term inequalities

A temporary loss of income for micro and small firms can turn into longer-term destruction of jobs that the vulnerable groups in urban areas are particularly reliant on. Many micro and small enterprises are likely to collapse, particularly those in the service and small manufacturing sectors in the urban areas, so that many of the jobs they produce would not come back readily even when the economy starts to recover. Thus, the duration of the shock to livelihoods would be higher in those engaged in these firms and sectors, with implications for equity in the short and long term.

Early evidence from phone surveys of firms conducted by the World Bank after the onset of covid highlights the medium-term risks for micro and small firms in particular, with adverse implications for equity. In Georgia, capacity utilisation rate among small manufacturing firms in June was just 28%, compared to 42% for all manufacturing firms (World Bank 2020b). While income from all sources is affected by the pandemic, the largest share of decline reported by households in Ethiopia and Nigeria is from non-farm businesses, most of which are micro and small firms (Siwatu *et al.*, 2020; Wieser *et al.*, 2020a). In Ethiopia, 41% of businesses in Addis Ababa had completely ceased operations during the first round of the survey (conducted primarily in April 2020). This share fell to 29% in May, but the share of firms reporting zero earnings in the last completed month rose from 36% in the first round to 40% in the second round (Bundervoet *et al.*, 2020). Smaller firms are also much more likely to be liquidity-constrained. Consistent with evidence from advanced countries including the United States, Apedo-Amah *et al.* (2020) estimate that larger firms have a lower probability of falling into arrears and can cover their costs with cash-at-hand for a longer period.

17 National accounts data in the United States actually shows a 13% increase in total income from March to April 2020.

18 For example, in the United States, an extra USD 600 per week in unemployment benefits ended on 31 July and has not been extended, as the Congress has been unable to come to an agreement on the components of the next stimulus package.

19 This has led to some governments providing additional support to informal sector workers through stop-gap measures. In Chile, for example, a second stimulus package includes benefits for 2.6 million informal workers who lack unemployment coverage, and had fallen through the cracks of an earlier stimulus package.

Large-scale closures of small and micro enterprises are costly for a society for efficiency and distributional reasons. The efficiency losses arise because the firms at high risk of closure are not just the low-performing ones, but also those that are productive but unable to weather the crisis due to their inability to weather the effects of a shock this large with collapsing cash flows and limited access to credit (or market failures).²⁰ The distributional impact comes from the erosion of entrepreneurial capital and jobs due to the destruction of small firms, which disproportionately affect the youth, low-skilled workers and those without access to capital.

3.3 Firm closures can lead to higher long-term inequality among workers²¹

Unemployment spells can leave a lasting effect on the earnings of young workers in formal and informal sectors alike. There is evidence to suggest that an individual who enters the labour market during a recession is likely to face a long-term disadvantage in terms of future labour market outcomes. This is because a long unemployment spell for a new entrant to the job market can lead to lower lifetime earnings due to the lost time of (potential) experience, skills depreciation, discouragement, and scarring effects. Also, in a recession, job-seekers may need to accept lower salary offers, which can adversely affect the trajectory of earnings over their lifetimes. A depressed labour market during a young worker's entry can therefore reduce social mobility of those workers and widen gaps in lifetime earnings between different age cohorts of workers in an economy.²²

The long-term effects of unemployment during the deep covid-19 recession could be particularly severe for workers from poorer households and those with lower skills. This is true in general for all crises. Compared with youth in well-off households, who can afford to postpone entry and use the time to get more education, gain more skills or accumulate experience through unpaid internships, youth from disadvantaged backgrounds may have little option but to enter the labour market even when it is in a depressed state.²³ In the case of covid-19, given its very uneven impacts on workers by education, gender, and job characteristics (as discussed earlier), the long-term effects of unemployment stints are also likely to widen inequality across these different types of workers *within* age cohorts.

3.4 Coping strategies can increase long-term inequality

Large and sustained income losses require households to use coping mechanisms with long-run impacts: **inadequate nutrition in first 500 days of life, high rates of indebtedness, and at times, the loss of productive assets and permanent withdrawal of children from schools.** The size and duration of the shock make it more likely that such coping strategies will be adopted by many households, given that most developing countries cannot afford to implement income replacement programmes at such a scale.

Past evidence suggests that reducing food consumption is most frequently used as a coping strategy after a fast onset shock, whereas sale of productive assets seems to be mainly used by households as a coping strategy of last resort. Dercon (2004) finds that 85% of households affected by the famine in Ethiopia in the mid-1980s reduced food consumption, 39% sold valuables (on average 29% of livestock holdings were liquidated), 7% migrated in distress, and 11% had at least one member go to a feeding camp. This ordering of the prevalence of coping strategies was constant in every village, even though the severity of harvest failure varied across villages. In Burkina Faso in 1984, combined livestock sales offset between 15% and 30% of the income losses resulting from drought during this period, while more than half of the rainfall-induced crop losses were passed on to reduced consumption (Fafchamps *et al.*, 1998; Kazianga and Udry, 2006). In southern Ethiopia, drought did not trigger the sale of livestock, and in northern Kenya, households chose to protect the assets they had by reducing food intake and energy levels (Lybbert *et al.*, 2004; McPeak and Barrett, 2001).

Data available so far from phone surveys seems to confirm that reducing food consumption is one of the most common coping strategies adopted by households, in addition to using their savings. In Nigeria, more than half of households have resorted to reducing food consumption. Reducing consumption (which includes but is not limited to food) is the most common coping strategy, adopted by around 40% of households on average across 33 developing countries, followed by the use of emergency savings and then the sale of assets (World Bank, 2020a). Supply-chain disruptions, leading to food shortages or price increases in some countries, can

20 See, for example, Didier *et al.* (2020), who refer to 'inefficient bankruptcies'.

21 This sub-section draws on the discussion in Chapter 6, Narayan *et al.* (2018).

22 See Narayan *et al.* (2018), Chapter 6 for a discussion.

23 See Narayan *et al.* (2018), Chapter 6 (p. 238).

compound income shocks temporarily, particularly for poor households. In Ethiopia, for example, higher prices were the most important reason reported by lower-income (bottom 40%) households for being unable to buy everything they needed in the phone survey fielded mainly in April; but it fell far behind another reason (less regular income) in May (Wieser *et al.*, 2020a).

Given the reliance on reducing food consumption as a coping strategy, covid-19 could increase nutritional deprivation for children and mothers, with damaging long-term consequences. A meta-analysis suggests that loss of childhood nutrition results in 1.59 fewer years of education, lower stature of 5.98 centimetres, and 0.63 standard deviation lower cognition (Galasso and Wagstaff, 2019). In Burkina Faso, inadequate nutrition when *in utero* as a result of a one standard deviation reduction in rainfall was correlated with a reduction of 0.23 standard deviation in cognitive ability. These children were less likely to be sent to school and more likely to work at home than their siblings (Akresh *et al.*, 2016). In Ethiopia, children who were younger than 36 months at the height of the famine in 1984 were less likely to complete primary school (Dercon and Porter, 2014). Nutritional deprivation among pregnant women would be a cause for serious concern as well, since maternal health is a critical determinant of a child's health at birth, which is an important predictor of long-term outcomes in education, income, and health (Aizer and Currie 2014).

High rates of indebtedness can be another consequence of coping strategies adopted by households. A review of fast onset events shows that in addition to consumption shortfalls, poor households without other options almost immediately increase borrowing (Hill *et al.*, 2019). Because poorer households are often excluded from local financial markets and because they have little collateral, taking an emergency loan carries higher interest rates for poor households than for better off households (Walker *et al.*, 2019). More than 10% of households in Nigeria and nearly 6% of those reporting income losses in Ethiopia report (in the high-frequency phone surveys) borrowing from friends and family to cope with the covid-19 crisis, which would have added to their indebtedness (Siwatu *et al.*, 2020; Wieser *et al.*, 2020a).

While the sale of productive assets to cope with shocks is less common among households on average, it merits careful monitoring as the consequences for poverty and vulnerability can be highly damaging, particularly in

countries where the strategy is adopted more frequently. It can have important implications for a household's income-generating potential and ability to cope with future shocks. Across 33 countries, an average of about 5% of households report selling assets as a coping strategy, which however includes a much higher share (15% or more) of households in four countries (World Bank, 2020a). The impact on those households and the longer-term trend of sales among the population needs to be monitored to ensure that this coping mechanism does not turn into a larger-scale constraint to future economic mobility and resilience of households.

3.5 Disruption to schooling and health services has long-term implications²⁴

Service disruptions, particularly in schools and health clinics, are wide-ranging and likely to be long-lasting in many countries. The complete closure of schools, in particular, implies not just the loss of months of learning, but disruptions in various other programmes (such as early childhood interventions and school meals) that are administered through schools. By the end of April 2020, schools were at least partially closed in roughly 180 countries (UNESCO, 2020). The impact of school closures depends to some extent on the length of closures and the effectiveness of mitigation policies such as distance learning. But with almost 1.5 billion children and youth affected, many of whom are in countries with poor learning outcomes even before the pandemic, school closures will inevitably add up to significant short-term loss of learning (World Bank, 2020f). These effects are not equally distributed across the population. As children learn from home, social inequalities become more salient. The closure of schools could thus widen already existing gaps in education between children born into relative privilege and those born into disadvantage—a key dimension of equality of opportunity.

The direct effects of school closures can be compounded by parents keeping their children out of school to cope with the impacts of a severe income shock. As households suffer income losses, and particularly after a forced interruption due to a school closure, they may be less likely to send children back to school—a risk that is higher for students in low-income households and girls. In Indonesia, during an economic crisis that reduced GDP by 12% in the late 1990s, households responded by cutting school expenditure, particularly among poor households with younger children, which reduced enrolments (Thomas *et al.*, 2004).

24 This sub-section draws substantially from Chapter 3 ('Accumulation interrupted? COVID-19 and human capital') in World Bank Group (2020e).

Evidence from past disasters suggests that disrupted schooling (and the trauma of shocks) can adversely impact academic performance and produce differences that are observable years later (Gibbs *et al.*, 2019). A study of the effects of the 1916 polio pandemic in the United States shows that young people aged 14–17 during the pandemic later showed lower educational attainment compared to slightly older peers (Meyers and Thomasson, 2017). The 1982–84 Zimbabwe drought resulted in a delay in starting school of 3.7 months and 0.4 grade less of completed schooling, which led to a 14% reduction in lifetime earnings for those children (Alderman *et al.*, 2006). Four years after the earthquake in Pakistan that led to the massive destruction of homes and schools near the fault line in 2005, households near the fault line were similar in terms of welfare and enrolment rates of children to those further away from the fault line, in part due to the significant aid they received in the year after the disaster. However, test scores for children living 10 kilometres away from the fault line were significantly below those of children residing 40 kilometres away (Andrabi *et al.*, 2020).

Recent global projections suggest that almost 0.6 years of schooling adjusted for quality will be lost due to the covid-19-linked closures (Azevedo *et al.*, 2020). A disproportionate share of these losses will fall on children born in poorer or more vulnerable families, with significant impacts on their long-term development outcomes.

Early evidence from real-time World Bank phone surveys suggests the scale of impact of school closures on learning. In Nigeria, for example, 38% of households with children who attended school prior to school closures due to the pandemic reported that their children did not engage in any learning activities during the week prior to the interview; and more than 80% of households reported no contact with children’s teachers since schools were closed. In Ethiopia, just 33% of children who had been in school before were participating in distance-learning in a survey fielded between 14 May and 3 June, which was still an improvement of 13 percentage points over what was seen in the previous month. In most of the sub-Saharan African countries that feature in the World Bank’s covid-19 dashboard, children in fewer than 30% of households (which had children attending school prior to the pandemic) completed at least one teacher-provided assignment since schools closed (World Bank Group 2020a).

The real-time data shows that school closures affect poor and rural children disproportionately, since these groups have lower opportunities for distance learning. In Nigeria, the richest 20% of households were much more likely to report that their children had engaged in any learning activity after school closures than the rest of the population (Siwatu *et al.*, 2020). In Senegal, 30% of children aged under 16 do not participate in any learning activities, and parental support and access to distance learning varies significantly by the education level of parents and economic status (Le Nestour *et al.*, 2020). In Ethiopia, there are wide urban-rural and rich-poor gaps—participation in distance learning is 27% higher among urban children than rural children, and 32% higher among children in the richest 20% of population than the poorest 20 percent. Large gaps between urban and rural children, and between children from the top 60% and the bottom 40%, are also seen in educational activities such as using mobile learning applications, watching educational TV programmes, and completing assignments given by teachers. Children from poorer households and rural areas in Ethiopia are much more likely to listen to educational programmes on radio (Wieser *et al.*, 2020a).

School closures also affect access to other services that many children receive through their schools. This includes meal programmes, which tend to benefit poorer and younger children. This places additional stress on parents to make up for the nutritional shortfall, even as many parents are struggling economically due to the pandemic and reducing food consumption (as shown earlier). To use the example of Ethiopia again, all children in Addis Ababa public schools participate in a twice-daily school feeding programme when schools are open.

Long-term adverse effects on equality of opportunity can also occur due to the interruption of critical health services, including maternal and child healthcare. Resources during a pandemic are likely to be diverted from other, critical health efforts. For example, in areas affected by the 2014–15 Ebola outbreak in West Africa, maternal and delivery care dropped by more than 80%, malaria admissions for children under the age of 5 fell by 40%, and vaccination coverage was considerably reduced (Elston *et al.*, 2017). Some of this may be already occurring as a result of covid-19. Due to interruptions in vaccination, some 80 million children under the age of 1 year may go unvaccinated in low- and middle-income countries (WHO, 2020).

Possible disruptions to maternal and child health services, and access to food, could undo decades of gains in health outcomes in many low- and middle-income countries. Also, health impacts are not limited to mothers and children. As routine or even urgent healthcare services are postponed, crowded out, or avoided by patients out of fear, ill-health and morbidity are likely to increase. This again disproportionately affects poor and vulnerable households, which are more likely to be in poor health or rely on public services in the first place—adding to the long list of factors that could widen inequality of opportunities in the longer run.

4

● POLICIES TO MITIGATE IMPACTS AND SPUR RECOVERY MUST SEEK TO LEVEL THE PLAYING FIELD

To ensure that the crisis does not induce a long-term increase in inequality, the equity implications of policies are important to consider in both the long and short term. This does not imply that every policy should be optimised for maximum impact on equity, but rather that the implications for equity of every policy need to be considered and accounted for, even those that are geared to address short-term goals of economic relief or accelerating growth for recovery.

In most cases, the equity objectives will also be consistent with the objective of protecting the wellbeing of disadvantaged segments of the population, which should be the goal of public policy in any case. In some cases, employing the equity lens might mean making choices that would look a bit different from those that would seek to turn the clock back to status quo. Following are a few broad policy directions, which seek to address the most critical dimensions of the overlapping set of deprivations that households from disadvantaged groups are likely to experience.

4.1 In the short term: during the crisis and in its immediate aftermath

The goal while the crisis is ongoing would be to ensure that households are able to maintain a basic living standard: to prevent erosion or loss of assets, prevent indebtedness, and minimise disruptions to human capital development of children. Now more than six months since the beginning of the crisis, this phase is easing as restrictive non-pharmaceutical measures are being lifted for most, but not all countries. Some countries are also facing a second wave of the pandemic with further restrictions.

There is a challenging trade-off in this phase from an equity point of view. Exposure to covid-19 mortality risk and vulnerability to the economic consequences of lockdown are not equally distributed in the population. The trade-off between measures to reduce mortality risk and limit economic losses has implications for inequality (Loayza *et al.*, 2020). While offering advice on this trade-off for specific countries is beyond the scope of this note, there are two important points to note. First, the trade-off may be quite small in a number of contexts. The evidence presented in Sections 2 and 3 highlights that for many countries it will be the same set of vulnerable households that bear the highest mortality risk and the highest long-run economic costs of lockdown. Also, aversion behaviour limits the degree to which economic losses can be avoided. Second, the ability to mitigate the impacts on equity is thus strongly dependent on the country's ability to implement supportive policies that protect the wellbeing of households.

So, what are the policies that can protect the wellbeing of households and ensure that a minimum level of economic activity is maintained or can resume soon after mobility restrictions are lifted? Four policy directions are highlighted below. For some of them, applying an equity lens will imply prioritising certain considerations in designing and implementing these policies.

- **Compensating for the loss of labour and non-labour income through social protection programmes (including transfers and unemployment benefits)**, which also contributes towards improving food security, nutrition, and other essential consumption; preventing over-indebtedness and protecting productive assets; and supporting employability and the relocation of workers across sectors. Transfers can

also be used to mitigate the direct effects on consumption of higher food prices, potential food shortages, and unexpected medical costs. **Applying an equity lens in this context would involve prioritising support to those who are in greatest need, as opposed to those who have suffered the greatest amount of loss**, particularly when the overlap between these two groups is imperfect. As highlighted in the previous sections, many of those most affected are in informal service sector occupations and are not covered by formal social insurance schemes. This makes safety net transfer programmes that target those in need in the informal sector, as well as the formal sector, a particularly important tool for this phase of the response.

- **Mitigating the effects of widespread disruptions to public service delivery** by scaling up public health diagnostic and care capabilities in underserved areas and taking measures to compensate for the loss of months of learning at school—with a focus on children in disadvantaged households and communities who have been unable to access distance learning opportunities. **Applying an equity lens would imply prioritising services for those who have the least capacity (in monetary and non-monetary terms) to mitigate the impacts of service disruptions on their education and health**, for example by paying out-of-pocket or accessing alternate services. It would also imply adopting strategies to leverage the services that disadvantaged households do have access to, such as the observed high use of educational programmes on radio among poor and rural children in Ethiopia relative to other groups (compared to other means such as mobile applications and TV programmes).
- **Acting now to support food production and supply.** Many low-income countries are entering the main growing season and supporting the strong domestic production of food will be essential to maintaining incomes of the rural poor and ensuring domestic food supply. This involves prioritising the smooth functioning of supply chains of key inputs to agricultural production (such as fertiliser) and limiting labour mobility restrictions where it is safe to do so. Many low-income countries import key staples (particularly those consumed by urban households) and lessons from the food price crisis of 2008/9 highlight the importance of resisting export restrictions for key importers. This is also a time for many countries who tax imported food (for example rice in most West African countries) to remove these taxes. **Applying an equity lens would not affect the nature of these interventions**, as their objectives are crucial for mitigating the risk of short-term nutritional deprivation and their long-term impacts.

- **Supporting firms and workers to protect jobs and facilitate recovery.** This includes: providing grants and wage subsidies to firms to minimise layoffs; supporting micro and small enterprises through measures such as tax exemptions, delays or waivers, soft loans, and grants; active labour market programmes to facilitate the transition of workers who have lost jobs that are not coming back; and facilitating entry in ‘contactless’ service economy among the self-employed and those displaced from micro, small, and medium-sized enterprises (MSMEs). Increasing the survival rate of formal sector firms, including MSMEs, can also have important and positive spillover effects for the informal sector via both supply and demand channels. **Adopting an equity lens in designing these programmes would imply prioritising jobs in providing publicly financed support to firms**, for example by tying assistance to firms to the protection or revival of jobs to the maximum extent it is possible.

4.2 In the medium to long term: promoting inclusive growth and resilience to future shocks

The overarching goal of policies in the post-covid phase would be to foster a durable and inclusive recovery, while building resilience among the vulnerable against future crisis. The inequitable impacts of the crisis highlight that some of the best approaches to reduce the impact of the next disaster (be that a health shock or something else) are those that narrow gaps in endowments and capabilities and increase the resilience of those at the bottom of the income distribution. These measures are particularly critical during the period of recovery and rebuilding from a crisis as deep and damaging as the current one. As the World Bank Group’s COVID-19 Crisis Response Approach Paper puts it, ‘[r]ebuilding better is about achieving resilient, inclusive and sustainable recovery in a world transformed by the coronavirus’ (World Bank Group, 2020f, paragraph 60, p. 27).

It is important to note that putting in place fiscal policies that enhance opportunities and reduce inequality requires a concerted effort in the aftermath of pandemics. That recent evidence (Furceri *et al.*, 2020) suggests that fiscal policy in the aftermath of shocks has not been able to mitigate increase in inequality on average across countries suggests that the general tendency is for the progressivity of fiscal policy to decline after a pandemic. Although it is not clear what drives this result, the fact that this tendency is observed underscores the need for policymakers to take into account the distributional incidence of all tax and spending measures that are considered during the recovery phase.

Crucially, it underscores the need for policymakers to put in place fiscal policy that fully considers the risk of future shocks and the need to increase spending to help households manage the impact of shocks. This can be done by investing in plans (supported by appropriate financing) for how spending will increase in a crisis.

The following points offer a few key critical dimensions where closing opportunity gaps can be instrumental for rebuilding better by promoting inclusion and resilience. While not intended to be a comprehensive list, this is rather an attempt to shed light briefly on a few key policy directions that are likely to promote equality of opportunity, based on the review of a large body of evidence and policy discussion in some recent publications.²⁵

- **Focusing on health and education, particularly at an early age and for children, is essential.** Interventions should help ensure adequate healthcare and improve maternal health and the early childhood environment, including by ensuring adequate nutrition, access to water and sanitation, and social protection for disadvantaged groups to mitigate the impact of future health or economic shocks. Improving educational outcomes should focus on interventions to help children and parents in transitioning back to school as schools re-open and preventing dropouts, in addition to continuing efforts to improve the quality of education. Interventions in disadvantaged communities to improve the quality of schooling, health, childcare, safety, housing, and infrastructure are critical for equalising opportunities for children across communities with vastly different socioeconomic profiles.
- **Levelling the playing field in economic opportunities across age and gender.** Equalising economic opportunities will above all require facilitating the re-entry of the unemployed into jobs, through active labour market policies, training, and reforms to labour market regulations in some cases. Gender gaps in labour markets can be narrowed by improving access to affordable and high-quality childcare and improving parental leave policies. In addition, market reforms to strengthen competition can help level the playing field in economic opportunities during the economic recovery, particularly for MSMEs, which have been hit the hardest by the covid-19 crisis. Other reforms can help improve the business environment for innovation

and growth to create jobs, including for younger people, who will have suffered the most in the economic crisis.

- **Enhancing access to financial services and technology.** While financial technology has helped expand access to financial services, the high and rising ownership of mobile phones provides many more opportunities to close gaps in traditional financial account ownership. Encouraging the availability of low-cost products and improving financial information and capabilities would help, as the narrowing of information gaps will help MSMEs. Improving access to technology for MSMEs, including in the service sector, would make them more competitive in the post-crisis landscape where remotely-provided goods and services will gain in importance. Expanding access to digital infrastructure and technology among firms and households alike will improve their ability to function in this changed landscape and to cope with any future situations that demand work from home.
- **Investing in safety nets and social insurance programmes.** This crisis has highlighted the important policy role for quick cash transfers to households in need, many of which have members who work in the informal sector in urban areas, which have low pre-existing coverage of safety nets in many developing countries. For many countries this has been very difficult and has required new programmes to be put in place to provide transfers. Although most countries have some form of social protection, few have systems that are national and can scale quickly in an emergency. Investing in national systems and financing that can provide quick support to those that fall into need, needs to be a priority. This requires investing in the key building blocks that allow safety nets to scale when needed: for example, social registries, national IDs, mobile phone coverage, and mobile payment systems. It also requires assessing the risks a country faces that could push households into shock, and developing plans supported by financing to invest in scaling for that need. The countries that were able to access finance quickest from the World Bank during the covid-19 crisis were those that had put in place access to catastrophe-contingent finance through Catastrophe Deferred Drawdown Options (Cat DDOs). This instrument was able to disburse in April when vulnerable households were losing large parts of their income because of national lockdowns and the shock to global demand (Hill *et al.*, 2020).

25 This discussion draws in part from the policy discussion in IMF and the World Bank (2020). For a full discussion and critical review of the literature and the evidence, see Narayan *et al.* (2018).



● CONCLUSION

This paper has presented evidence to show that covid-19 poses substantial long-term risk to equality and social mobility. Pre-existing inequalities are deep in most societies, which has resulted in the pandemic having vastly different effects on poor and richer households. This has been compounded by the scale and distribution of short-run impacts, and the lasting effects of those impacts and the coping strategies households are forced to adopt.

The paper has also shown that while policies can mitigate these impacts, it will take a concerted effort to make sure appropriate policies are implemented. Policy measures need to be adopted during the recovery phase that keep the eye on the long game while also spurring economic recovery in the short run. This requires a strong focus on inclusiveness and building resilience to future disasters, particularly among vulnerable people and communities.

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