

# MIND THE GAP: HOW COVID-19 IS INCREASING INEQUALITY IN LATIN AMERICA AND THE CARIBBEAN\*



Policy Note No.4 / July 2021

## Main messages

- The most vulnerable households in Latin America and the Caribbean have been disproportionately affected by the Covid-19 pandemic, endangering the region's inclusive development path.
- High-Frequency Phone Surveys show that two months into the pandemic, in May 2020, the gaps between the most vulnerable and the least vulnerable households in terms of job loss and income loss were 13 percentage points (pp) and 10 pp, respectively. By August 2020, as the pandemic progressed, these respective gaps widened to 15 and 14 pp.
- The uneven impacts went beyond monetary indicators, as disadvantaged households suffered from higher levels of food insecurity and had lower access to good quality health and education services, such as online sessions with a teacher.
- To prevent the pandemic from erasing years of progress against inequality, the most vulnerable households require short-term support to overcome their liquidity constraints via safety net transfers, thus guaranteeing that their basic needs are met.
- In the medium term, government efforts should be focused on the recovery of households' primary source of income through labor market policies that actively support the placement of the less advantaged groups and improve their employability.
- Equally important, it is necessary to curb losses related to human capital accumulation, given the long-term consequences that this entails. The return to in-person schooling, under strict bio-security protocols, is encouraged. When not possible, schools and parents should be provided with better tools to support distance learning.

**T**he region of Latin America and the Caribbean remains one of the most unequal in the world, despite substantial progress over the last few decades.<sup>1</sup> In 2019, the regional Gini index (using household income) was 0.51, almost one-third higher than in Europe.<sup>2</sup> Central America exhibits higher inequality levels (with a Gini of 0.50 in 2019)

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1 See Darvas (2019) and Ferreira & Schoch (2020).

2 OECD at al. (2020). Moreover, it is worth noting that this level of inequality is likely underestimated since household surveys do not capture accurate information for the very top of the distribution, as has been shown by several studies using administrative tax records; Piketty and Saez (2003) and Saez and Zucman (2016).

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compared to the Andean and South Cone countries (with a Gini of 0.44 in 2019).<sup>3</sup> Despite socio-economic progress in the region's best-performing countries (e.g., Chile and Colombia), the period before the pandemic was characterized by social unrest that echoed the frustration of persistent inequality of opportunities.<sup>4</sup>

**As a result of the Covid-19 pandemic, the region is set to regress in terms of inequality.** Simulations show that the pandemic is set to increase inequality in the region by 0.2 Gini points in 2020, from 48 to 48.2 (World Bank, 2021a).<sup>5</sup> Considering the effects of the pandemic on human capital accumulation, the risk that inequality will increase for the next generation is very high. Given that inequality hinders economic and productivity growth and is a source for political and social destabilization (International Monetary Fund, 2021; OECD et al., 2020), the consequences of the Covid-19 pandemic on the region's development path are disturbing.

**High-Frequency Phone Surveys collected over the first six months of the pandemic provide robust evidence that the most vulnerable households in the region were disproportionately affected.** This policy note offers solid evidence on how the pandemic has widened the income gap in the region using data from the LAC High-Frequency Phone Surveys (HFPS – see Box 1 for additional details), collected between May and August of 2020 in 13 countries in the region. Moreover, it shows that the effects go beyond the monetary dimension, as more disadvantaged households suffered from higher levels of food insecurity and had lower access to health and good quality education services.

## Box 1. The High-Frequency Phone Surveys for Latin America and the Caribbean region (LAC-HFPS)

The World Bank conducted a multi-round High-Frequency Phone Survey (HFPS) to assess the impact of the coronavirus pandemic on the welfare of Latin American and Caribbean households. Between March and June 2020, the HFPS collected nationally representative information (of the population aged 18 and above with phone access) for thirteen countries: Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, and Peru. The HFPS provides information on the welfare loss that households and people experienced regarding food insecurity, changes in employment, income loss, access to health services and education, and coping mechanisms. Additionally, it documents household responses to lockdown and safe-distancing measures imposed by their governments and catalogs the behaviors they undertook to mitigate the spread of the disease. These socio-economic impacts are available at the COVID-19 monitoring [global dashboard](#), which provides 96 harmonized indicators across 50 countries in Latin America and the world. For further information on the HFPS, see Mejía-Mantilla et al. (2021) and World Bank (2021b).

<sup>3</sup> According to new estimates by the World Bank LAC Equity Lab using the SEDLAC dataset.

<sup>4</sup> See Ferreira & Schoch (2020).

<sup>5</sup> Not including Brazil.

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## Unequal effects on livelihoods

The most vulnerable households across the region suffered the highest rates of employment loss. According to their pre-pandemic poverty levels, we classify all households in the HFPS into six vulnerability categories using official household surveys (Box 2). Rural households with a low level of education and high dependency levels comprise the most vulnerable group. In contrast, urban households with a high level of education (with or without dependents) constitute the least vulnerable group. In May 2020, soon after the pandemic started, the most vulnerable group experienced the highest job loss rate, at 24 percent, while the least vulnerable group experienced the lowest rate, at 11 percent. This different level of impact is explained by the fact that a large share of vulnerable individuals was employed in contact-intensive occupations, mainly in the informal sector. These occupations, which are not amenable to remote work or have low tele-workability (Lohan, 2020), were the most affected by the containment measures (World Bank, 2021; IMF 2020).

### Box 2. Classification of Households' Vulnerability Level

Households were classified in six groups, that describe their level of vulnerability to poverty, depending on their sociodemographic characteristics. More specifically, three dimensions were used: education level of the respondent (1=secondary or less; 0= tertiary or above); geographic location (1=rural; 0=urban); and dependency level (1=household has members that are dependent; 0=no dependents). The interaction of the three dimensions yielded six distinct sociodemographic categories, where the first (Type 1) refers to rural households with low levels of education and where dependents (i.e., members aged under 18 or above 65) are present. Conversely, the last category (Type 6) refers to urban, high-education households with or without dependents (Table B provides a detailed description of each category). These categories provide an ordinal classification of the level of vulnerability of households: Type 1 indicates the highest level of ex-ante vulnerability, while Type 6 signifies the lowest. This ordering is consistent with the welfare ordering (poverty rates) observed in the region for each of the household types (Figure B).

**Table B. Detailed description of each household type**

Type 1	Rural households with low education and the presence of dependents*
Type 2	Rural households with low education and no dependents
Type 3	Rural households with high education, with or without dependents
Type 4	Urban households with low education and the presence of dependents
Type 5	Urban households with low education and no dependents
Type 6	Urban households with high education, with or without dependents

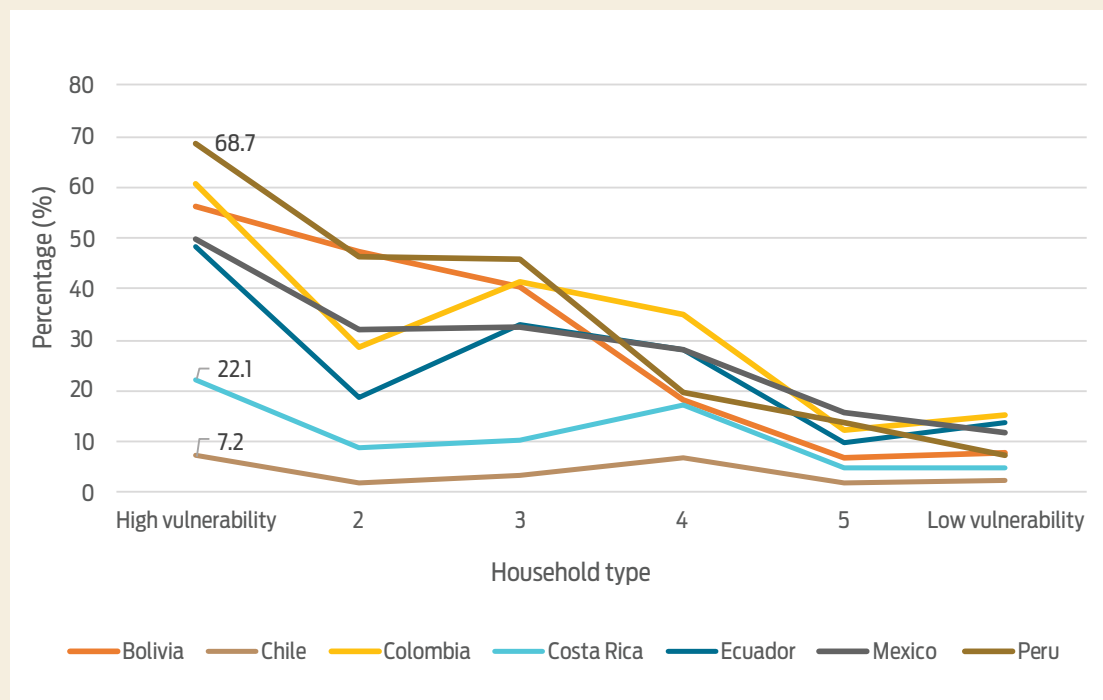
Note: (\*) Dependents include household's members aged under 18 or above 65.  
Source: Own elaboration using the SEDLAC dataset (World Bank and CEDLAS).

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**Figure B: Poverty rates in selected countries in LAC (5.5 USD) by household type**



Note: For clarity purposes, the poverty rates in Figure B are only presented for a selection of countries. However, the analysis confirms that the relationship between poverty rate and household Type holds for the remaining countries in the region.

Source: Own elaboration using the SEDLAC dataset (World Bank and CEDLAS).

As the pandemic progressed, the gap in job loss between the high and low vulnerability households widened. After several months of lockdown, many businesses went bankrupt and many other had to adjust their costs. By August 2020, the job loss rate with respect to pre-pandemic increased considerably for households of all vulnerability groups. Amongst the most vulnerable, close to 60 percent report losing their job (with respect to pre-pandemic), and amongst the least vulnerable, the proportion reached 42 percent. Moreover, the 13 percentage points (pp) gap observed at the outset of the pandemic (May 2020), increased by 2 pp, reaching 15 pp.

Job losses were more common among less educated households for both urban and rural areas. Education levels were the driving factor behind the job loss rate in urban and rural areas. Among the group characterized by low education and dependent members, job loss was similarly high for rural and urban areas, about 24 and 21 percent, respectively, in May 2020. In contrast, the proportion of respondents who reported losing their job was almost half for

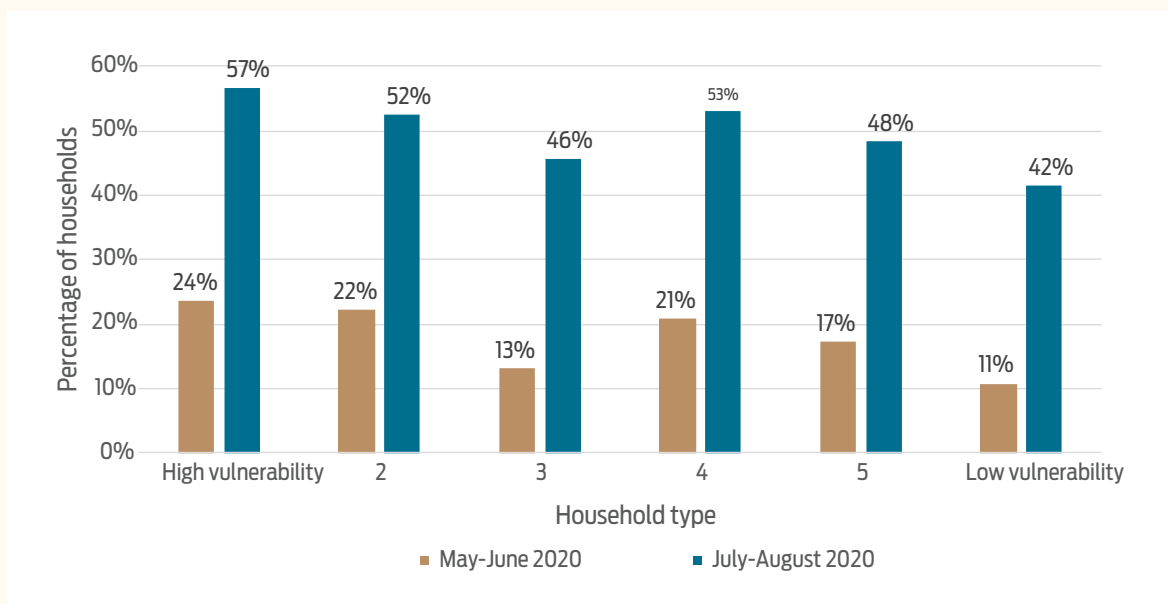
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the more educated households; 13 percent in rural areas and 11 in urban areas (Figure 1). As shown in another note of this series using the same data, workers with primary education or less were twice as likely to lose their jobs than those with tertiary education (World Bank, 2021c).

**Figure 1: Job losses (with respect to pre-pandemic period) by household type**



Source: Own elaboration based on LAC HFPS

**While job losses resulted in substantial income reductions across the board, vulnerable households were particularly affected.** Since labor is the primary source of income for Latin American households, job losses translated into a decline in total income for all types of households. However, the gap in income loss was not as pronounced as the job loss gap. By May 2020, close to 70 percent of those in the most vulnerable group reported a decline in total household income compared to 59 percent of those in the better-off, representing an income loss gap of 10 pp (Figure 2). This difference is partly explained by the fact that hours worked for those who remained employed declined substantially, so labor income declined even for the least vulnerable workers (ILO, 2020a and 2021).

**By August 2020, despite higher job loss rates, a lower proportion of households reported total income losses.** This dynamic could be explained by the vertical and horizontal expansions of social safety nets and other social programs implemented by the governments of the region in response to the crisis. In addition, other non-labor income sources, such as remittances, are likely to have offset the decline. Even though the proportion of households reporting income loss fell for households of all vulnerability levels between May and August 2020, this decrease was less pro-

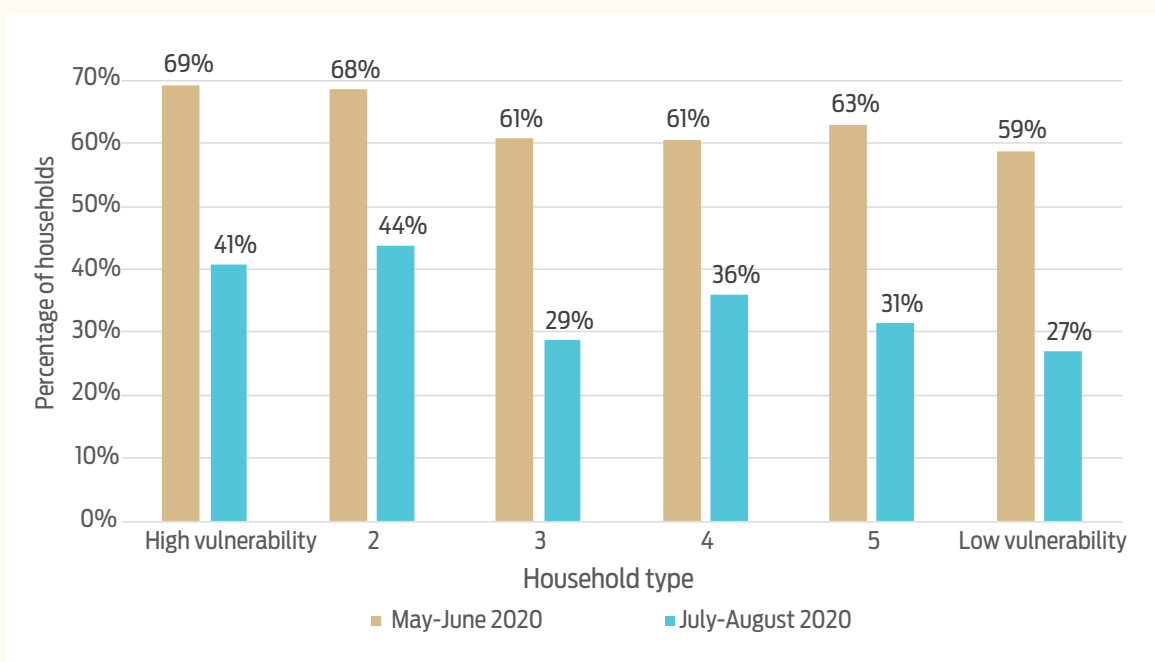
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nounced among the most vulnerable segment of society (i.e., Type 1). As a result, the income loss gap also widened over time, marking an increase of 4 pp in the period between May 2020 and August 2020.

**Figure 2. Income losses by household type**



Source: Own elaboration based on LAC HFPS

## Beyond income: Effects on food security and human capital accumulation

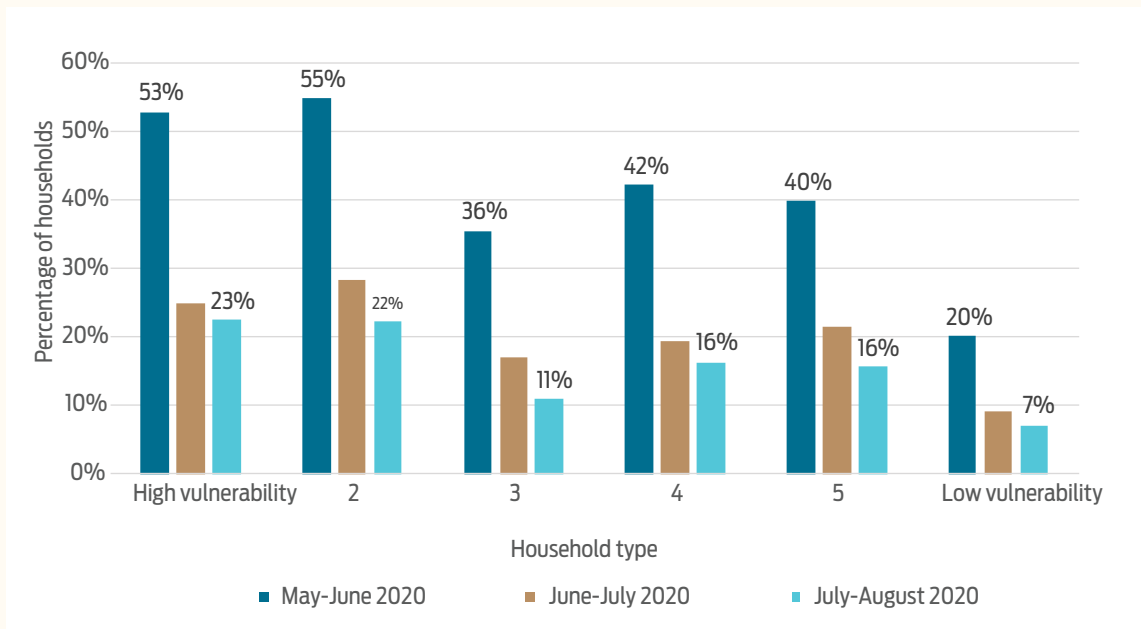
**Highly vulnerable households also suffered from heightened food insecurity.** The adverse effects of the Covid-19 pandemic on households extended beyond monetary wellbeing. As a result of income loss, some households experienced food insecurity, particularly among the less well-off. The proportion of the most vulnerable households reporting at least one indicator of food insecurity was more than double the proportion at the other end of the spectrum: more than half for the most vulnerable (Type 1 households) versus one fifth for the better-off (Figure 3).

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Figure 3. Food Insecurity by household type



Note: Food insecurity is defined as households reporting at least one of the indicators: 1. Running out of food (in the last 30 days); 2. Went hungry; 3. Went the entire day without eating or had to skip a meal.

Source: Own elaboration based on LAC HFPS

**The food security gap between groups was high at the onset of the pandemic and fell as it progressed.** Across all household types, the proportion of households reporting at least one marker of food instability fell as the pandemic advanced, suggesting a generalized recovery. The initial gap in food insecurity was as high as 33 pp in May 2020. By the next quarter, in August 2020, the gap had fallen to 16 pp (Figure 3). Despite the narrowing of the gap over time, the level of food insecurity remains a cause of grave concern. As several studies have shown, malnutrition and food deprivation carry long-term consequences for children, such as stunting and cognitive deficiencies. This is especially the case in the early stages of a child's development (Parker et al. 2011; Grantham-McGregor et al. 2007). Thus, the uneven effects of the pandemic are expected to have a long-lasting impact on the level of inequality in the region.

**Access to health and education services has been more restricted for the poorest households.** Not surprisingly, low-income households were more exposed to the pandemic's health and learning support shocks, which reinforced the pandemic's job and income effects. Soon after the pandemic started, households belonging to the most vulnerable group reported lower access to medical services than their counterparts. Only one in two uneducated rural house-

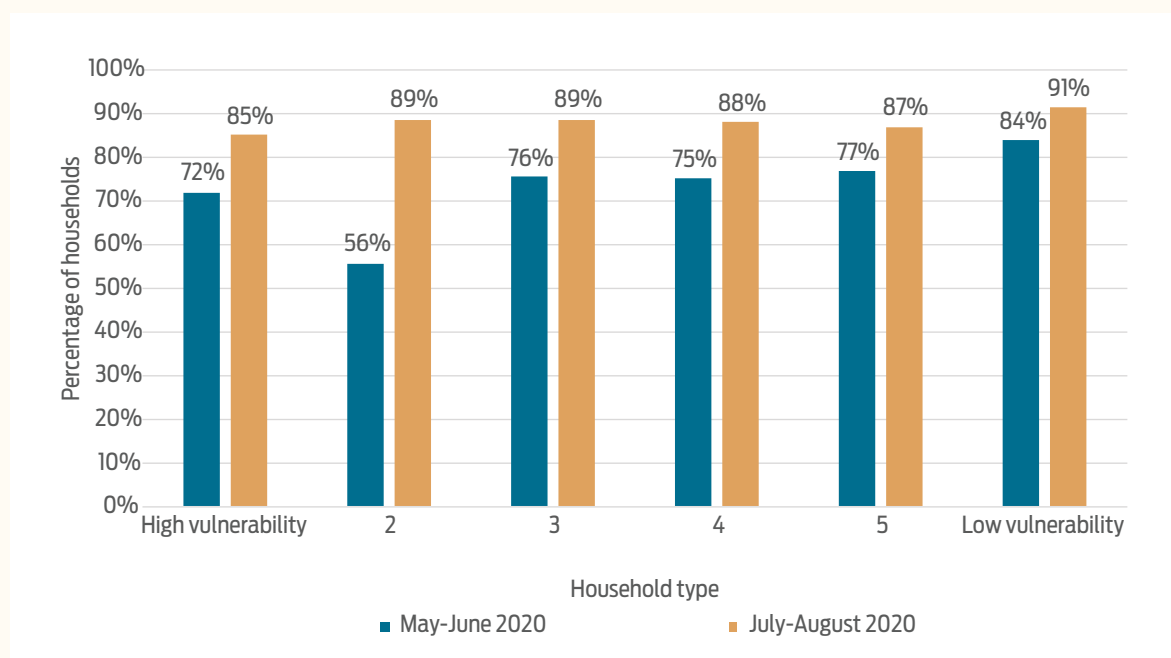
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holds (Type 2) had access, compared to almost all households (85 percent) in the least vulnerable group (Type 6). As the pandemic evolved, the situation improved among the worse off and the gap in access between the low and highly vulnerable was curbed from 12 pp in May to 6pp in August 2020 (Figure 4).

**Figure 4. Access to medical services by household type**



Note: Access to medical services refers to the period in the past week  
Source: Own elaboration based on LAC HFPS.

**While children of all backgrounds have been affected by school closings, remote learning brings additional challenges for the most deprived.** Currently, about 120 million of the region's school-age children have already lost or are at risk of losing an entire academic year of in-person education due to school closings (Saavedra and Di Gropello, 2021). Students and teachers have been forced to adapt to 'distance learning', which presents additional challenges for the most disadvantaged students. In-person education is vital for students from poor households. This is partly because, in many countries, such students benefit from school feeding programs (e.g., Colombia, Guatemala, Peru and Ecuador), as well as access to materials and resources (including human resources). In addition, many do not have educational support at home. Finally, in-person education provides students the opportunity (sometimes the only opportunity) to interact with their peers and to participate in sports and other physical activities in a healthy environment (Attanasio and Rajan, 2021).



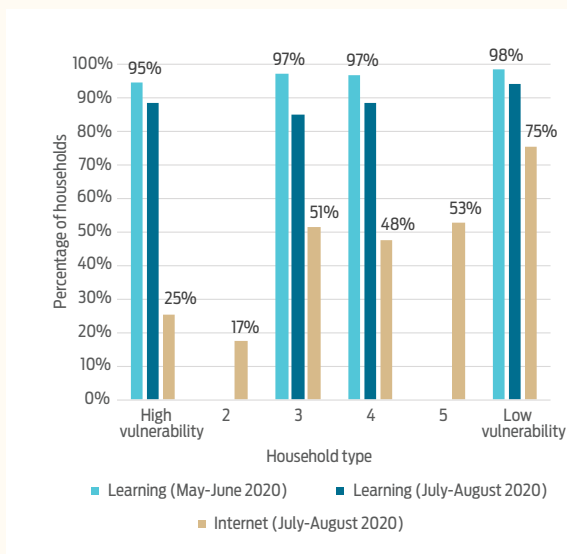
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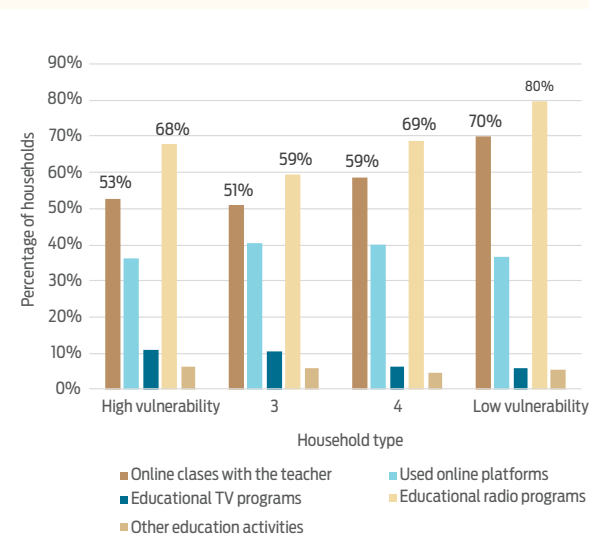
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The quality of remote engagement was highly uneven, even though most children were engaged in some form of learning activity. In May 2020, most households, regardless of their socio-economic level, reported having their children involved in some education or learning activity<sup>6</sup> after the school closures. Even among the most vulnerable households, participation was as high as 95 percent. For the least vulnerable households, meanwhile, it reached 98 percent. These figures remained high through August 2020 (Figure 5). However, the quality of the engagement differed significantly by level of vulnerability. For example, access to online classes with a teacher was more common among wealthier households: 70 percent of the low vulnerability households versus only 53 percent among the highly vulnerable households (Figure 6). Educational radio programs were also more widely used by better-off households. The consequences of the pandemic in the quality-adjusted education level, and thus in the future income generating ability of the most disadvantaged children, is perhaps one of the main sources of concern for the region.

**Figure 5. Access to learning services during lockdown and Internet access**



**Figure 6. Engagement in learning activities during lockdown by household type**



Note: Results on access to education services are not presented for Type 2 and Type 5 households since no children reside in these household types. Source: Own elaboration based on HFPS

The lower reported use of online platforms among the poorest households is explained by their starkly lower access to internet connectivity. Only one out of every four highly vulnerable households have access to the internet

<sup>6</sup> Such activities include completing assignments based on the teachers' instructions, virtual sessions, or assignments from online systems.

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compared to three out of every four among the wealthiest households (Figure 5). This is consistent with the phenomenon of 'digital poverty', which has been documented as accompanying economic poverty. Limited physical infrastructure, connectivity, and (at times) parental literacy make it difficult to access the internet, further exacerbating the child development gap (Attanasio and Rajan, 2021).

## The Way Forward

**The Covid-19 pandemic has exposed and reinforced the inequality dynamics that characterize the Latin America and Caribbean region.** Analysis using the LAC High-Frequency Phone Surveys confirms that the pandemic has disproportionately impacted the most vulnerable households across the region with respect to their livelihoods, food security, and human capital development. In the poorest households, the consequences of different factors (economic downturn, job loss, school closures, etc.) are compounded and, more worryingly, are likely to pass on to the next generation.

**The pandemic threatens the region's prospects for inclusive, sustained growth and development, and concerted policy is urgently needed in three main areas: (i) financial support and resources; (ii) livelihoods; and (iii) sustaining human capital accumulation.** First, the most vulnerable households should receive continued support to fulfill their basic needs. Most governments in Latin America and the Caribbean resorted to using a mix of new and existing cash transfer programs (e.g., through their vertical and horizontal expansion) to buffer the impact of the pandemic on households in their countries. However, results varied greatly depending on the programs' characteristics (size, periodicity, and coverage) and quality. Another important factor in their effectiveness was how well updated governments' social information systems were at the time of the shock (Levy, 2020; Blofield et al. 2020).<sup>7</sup> Going forward, countries should aim to sustain and, when needed and possible, further expand their ongoing programs as well as their emergency or Covid-19-related programs. For countries in which additional spending is not feasible, redirecting current expenditure could be explored.

**In addition to financial support programs, the policy action supporting the most vulnerable households should focus on active labor market interventions.** Given the uneven effects of the pandemic on job loss levels, labor market policies that aim to preserve employment for the most disadvantaged workers (particularly formal jobs) and support their placement through active labor market interventions should be the second area of focus. For example, tax credits and employment matching efforts for firms hiring vulnerable workers (youth, women, and less educated) can help reduce the cost of hiring them during the first stages of economic recovery (ECLAC and ILO, 2020). In addition,

<sup>7</sup> In more than half of the programs, these did not benefit more than 10 percent of the national population and provided benefits below the minimum wage (Cejudo et al., 2020).

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training (re-skilling and up-skilling) programs can help promote their placement and employability in the labor market, especially if these include training in digital skills (World Bank, 2021 d).

**Thirdly, measures to avoid further human capital loss, particularly that of children, are crucial to curb the unequal intergenerational effects of the pandemic.** A prompt return to schools, with strict observation of bio-security measures, should be considered. The long-run costs of keeping schools and the educational infrastructure closed are evident, especially for the most vulnerable students (Attanasio and Rajan, 2020). In-person school attendance should be encouraged, and flexible education schemes should be set in place to avoid students dropping out. When in-person attendance is not possible, schools and parents should be provided with better tools to support distance learning, such as training, information, counseling, and, when possible, better connectivity (either through digital resources or devices, or both).

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