Understanding the Economic Impacts of COVID-19 in Low- and Middle-Income Countries: Who, Where, How, and When?

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This Background Document on the Economic Impacts of COVID-19 in Low- and Middle-Income Countries was developed alongside others – most importantly a Strategy Decision Matrix and a Delivery System Decision Matrix – as a technical tool used to structure an independent and unbiased analysis of COVID-19 response options. It does not necessarily represent DFID or GIZ own views or policies.

INTRODUCTION

It is essential to understand ‘Who’ will be affected, ‘Where’, ‘How’ and ‘When’ to better understand the ‘What’ of the social protection response to COVID-19.

Social protection is recognised as an essential mechanism to reach those who are in urgent need because of the COVID-19 crisis, and efforts are under way to scale up systems, so they can be ‘shock responsive’. What is needed next, however, is a much more disaggregated view, based on an understanding of who will be affected, how, and when so as to better understand the ‘what’ of the social protection response. While ultimately country-level assessments will be most useful for specific policy recommendations, this note sets out a framework for some of the key considerations.

The main takeaway from this note is that it is essential to first understand which livelihood groups are most likely to (i) be severely impacted and (ii) lack the resilience to withstand such an acute shock.

It is very likely that in many places, this will not necessarily be the same as either the usual social protection caseload or the target population for ‘business as usual’ humanitarian assistance. This will require innovative thinking in terms of how to reach those who are most in need, as:

• **Vertical expansions** of existing programmes (topping up what current recipients receive) would not solve the problem of reaching those most affected by COVID-19.

• **Well-designed expansion of coverage** will be needed, either via ‘horizontal expansions’ of existing programmes or new programmes that leverage (‘piggyback on’) existing systems to the extent possible. These new programmes may be led by the social protection sector or other actors (e.g. humanitarians). Either way, targeting will need to be considered very carefully, as even where social

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1 Where and when these are strong, and capacity is not overwhelmed. See O’Brien et al 2018; UNICEF (2019) and Seyfert et al (2018).
registries are in place, they may systematically exclude those most in need as a result of COVID-19 (depending on their design and implementation\(^2\)).

For further details, Annex A discusses the context and channels of impact, while Annex B looks at the ‘who’, ‘where’, ‘how’, and ‘when’ of these impacts. The following sections discuss the main insights from the more in-depth analysis contained in Annex B.

THE ‘HOW’: UNDERSTANDING CHANNELS OF IMPACT

There are two main channels of impact that all governments are trying to balance: i) direct impacts of the virus in terms of those who are severely ill or die because of the disease, and; ii) indirect impacts on earnings and consumption that stem from the effects of public health measures put in place to mitigate the spread of the virus.

**Direct effects of a health shock**

Direct effects will work through:
- Increased medical expenses for those who lack adequate medical insurance coverage and where fees for care are considerable.
- Loss of immediate income from those who are ill but also from those – most likely women – who will need to reduce their paid employment in order to shoulder the caring burden for those who are ill.
- In the case of those who fall ill and eventually die, households will face a permanent loss of income.

**Indirect effects of public health responses**

Indirect effects are those that arise from public health measures put in place both domestically and globally. These are illustrated in the figure below, and include loss of earnings, potential increases in food prices, potential reduction in own food production, and needing to draw down liquid assets. All of these will be mediated by:
- the stringency of the lockdowns, their duration, and seasonality;
- the effects this has on global and domestic demand for goods/services and prices;
- the degree and nature of integration with wider markets;
- the extent to which supply chains continue to function;
- the location of households (urban or rural) and their livelihood strategy including the nature of their employment (sector, status in employment, occupation, place of work); and
- individual’s gender and stage in the life cycle.

\(^2\) For more details, see Barca and Beazley (2019)
In the immediate term, effects will mainly work through the loss of earnings due to domestic lockdowns or slumps in global demand. Prices for consumption goods have so far been stable (aside from oil, which has declined sharply, and which will have a positive effect on consumption for most households).

Over the short term (i.e. beyond the immediate phase of any public health measures), effects will largely depend on the extent of domestic and global recessions. Countries that are further along in their structural transformations and that are more dependent on exports are likely to face deeper impacts. South Asia (SA) is likely to be more affected than most of sub-Saharan Africa (SSA), given the larger share of manufacturing. Whether prices for food and other key imported consumption goods stay stable will depend on the extent to which supply chains are maintained, and the extent of relative exchange rate movements.

THE ‘WHO’: UNDERSTANDING LIVELIHOODS AND VULNERABILITY

Understanding who will be most in need of assistance requires a livelihoods perspective, as the reality of ‘work’ in low- and middle-income countries needs to extend far beyond an assessment of economic sectors or whether it is ‘formal’ or ‘informal’. Livelihoods are highly diversified, especially for the poor, across individuals and within households; the majority of households will undertake more than one activity as a way to manage risk. In rural areas, most will combine work in agriculture, casual wage labour, and self-employment, while in urban areas they will combine casual wage labour and self-employment.

- In SSA and SA, while those who rely to a large extent on smallholder farming are often amongst the chronic and extreme poor in normal times, they are likely to be more protected from the economic effects of the pandemic, as long as family farming activities are allowed to continue.

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3 For example, even during the food and fuel crisis of 2009/10, most rural households were not negatively affected outside of a few rice-importing countries in West Africa. See FAO (2011) The State of Food Insecurity in the World: How does International Price Volatility Affect Domestic Economies and Food Security? Rome: FAO.
• Those reliant on casual wage labour and self-employment in household enterprises (HEs), or on remittances from family members who migrate for work, by contrast, will be harder hit by lockdowns, both in urban and rural areas, even if they were somewhat less poor than others before the current crisis.

• In poorer countries, it is important to bear in mind that of those who work outside of agriculture, the vast majority are self-employed in household enterprises (HE’s). For most, especially the poorest, these activities are ‘patchwork’, pursued in reaction to immediate opportunities, with little capital investment or training.

• Those working in modern sectors such as manufacturing or services in particular tourism will be harder hit immediately by the effects of public health measures in other countries (i.e. a slump in demand), even outside of any domestic lockdown policies. This will be a larger issue in SA than SSA given the relatively low level of structural transformation in SSA. These workers also tend to be relatively better-off than those working in HEs (higher levels of education, higher earnings).

• The essential take-away from this livelihood’s perspective is that the effects of any lockdown or global slump in demand will depend not only on who is involved in affected activities, but to what extent. What is important is the overall combination of activities at the household level and what share of earnings will be reduced.

NOTE: In Europe and Central Asia (ECA) and the Middle East and North Africa (MENA) the overall role of agriculture is usually significantly smaller than in SSA and SA, and the urban share of the population is larger. Government is much bigger and a major employer, and this means that the level of formal employment is significantly higher than in SSA and SA. Nevertheless, in both ECA and MENA in urban areas there is a significant share of self-employment that is informal or only partly licensed. Employment opportunities in rural areas are highly dependent on location, their connection to towns and cities, with informality predominant in services and the construction sector.

Table 1 Livelihood components

<table>
<thead>
<tr>
<th>Livelihood strategies</th>
<th>Assumed level of impact under lockdowns that are national in scale but permit food supply chains to operate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own-account farming (self-employment in agriculture)</td>
<td>Largely unaffected if supply chains are operating</td>
</tr>
<tr>
<td>Casual wage labour on farm</td>
<td>Might be affected depending on the nature of the lockdown</td>
</tr>
<tr>
<td>Casual wage labour off-farm</td>
<td>Universally affected</td>
</tr>
<tr>
<td>Regular/salaried wage labour</td>
<td>Relatively unaffected in some sectors depending on lockdown and nature of contract (e.g. piecework), possibly affected in others, but with better access to various coping strategies</td>
</tr>
<tr>
<td>Household enterprise (self-employment outside of agriculture)</td>
<td>Universally affected</td>
</tr>
<tr>
<td>Pension and social transfers (including social assistance)</td>
<td>Unaffected, unless system is disrupted</td>
</tr>
<tr>
<td>Domestic/international migrant labour –remittances</td>
<td>Entirely affected (with some caveat on the nature of migration and country of migration)</td>
</tr>
<tr>
<td>+ refugees/IDPs</td>
<td>Intrinsically highly vulnerable but potentially less affected by COVID-19 economically where they are unable to work and already reliant on aid (though health risks high)</td>
</tr>
</tbody>
</table>

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These impacts will differ across rural and urban areas, as further discussed below.

**VULNERABILITY: WHO WOULD BE ABLE TO COPE?**

The vast majority of those who are dependent on casual wage labour or household enterprises, and many who are dependent on remittances, and who will see their income fall to zero as a result of lockdowns will have very little ability to withstand this kind of shock. Even those in these livelihood groups who are relatively less poor are still likely to live very close to the poverty line and have few liquid assets to be able to draw down.

Those who include farming in their livelihood strategy are likely to be better protected, as some portion of their food consumption will come from their own production; it is those who are more reliant on food purchases that will be worse off.

**WHO WILL BE IMPACTED AND WHEN?**

**Impacts in the short-term**

**National lockdowns**

Taking all this together, we can illustrate both which livelihoods groups will be most impacted, and their relative vulnerability at the outset.

- **In rural areas**, those more reliant on casual wage labour and household enterprises tend to be clustered around the poverty line and will face an almost complete halt in their earnings in the case of a national lockdown. Only those with some own production will have any cushion at all. The depth of their descent into extreme poverty will depend on the length of the lockdown and the speed of recovery in domestic demand, as well as the extent to which their assets were depleted as coping mechanisms.

- **In urban areas**, casual wage labour and household enterprises will be relatively better off to start off with than those in rural areas, sitting in the upper half of the consumption distribution, but they will have no own production to fall back on. Many of them will live just above the poverty line, so the complete halt in their earnings will likely push them into poverty very quickly.

**Global demand**

A reduction in global demand will impact a relatively small portion of casual wage workers and household enterprises in SA and SSA in the short term, although those in tourism-related activities and some manufacturing will have their earnings reduced.
Figure 2: Livelihood groups most affected in SSA and SA in the case of national lockdowns

Note: The relative position on the y-axis reflects each group’s starting point on the earnings/consumption distribution, while the blue arrows indicate the extent of income/consumption loss.

**Impacts in the medium term**

We would expect the short-term impacts from national lockdowns to resolve quickly, but the medium-term effects of a recession are likely to be worse; a ‘L-shaped’ recovery is more likely than an optimistic ‘V-shaped’ one.

This medium-term recession is most likely to impact those in urban areas more than in rural ones, suggesting that, as in the immediate term, urban casual wage workers and those reliant on household enterprises (self-employed) will be most vulnerable to ongoing slumps in demand, as shown in Table 3 below.

For other groups, their short/medium-term effects will depend on how deeply they were affected in the short term, and whether they were forced to draw down on productive assets that could jeopardise their earning potential during the recovery period.

**Table 2 Summary of livelihoods, vulnerability, and impacts, urban and rural**

<table>
<thead>
<tr>
<th>Types of livelihoods: Diversification as a strategy to manage risk</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most will combine work in agriculture, casual wage labour, and self-employment in household enterprises</td>
<td>• Most will combine casual wage labour and self-employment in household enterprises. They will have very precarious and diversified livelihood strategies.</td>
<td></td>
</tr>
<tr>
<td>The poorest are almost always those who must take up casual agricultural wage labour, whether due to landlessness or because their own land is insufficient to generate enough earnings.</td>
<td>• Those who work in the formal sector or in jobs that are more permanent tend to be those who are much better off (and they are a minority) but important to disaggregate the type of employment, whether formal or informal, and the sector of employment (see also Informal Workers paper).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Seasonality and other 'natural'</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
</table>
| The point in the agricultural cycle and extent of other compounding | Less likely to be affected by other compounding 'natural' hazards.
### Hazards as Added Risk Factors
- shocks (e.g. locusts, flooding, drought) will strongly affect capacity to cope
- Seasonality can be an issue for some in tourism-related activities
- Seasonality can also play a role in some migration to urban areas

### Exposure to National/International Markets/Prices
- Degree of integration with markets will vary. For most poor smallholders, a large % of their output will be for direct consumption
- Agricultural and nonagricultural wage labour somewhat more exposed although currently food prices are not expected to be adversely affected
- Higher degree of integration with markets, although this depends on extent of structural transformation

### Exposure to Lockdown Policies and Type of Lockdown (Stringency)
- Own account farming less exposed
- Potential loss of income (reduced/no work) for agricultural and non-agricultural wage labourers and household enterprises depending on the stringency of lockdown policies
- Reduced income from remittances, although this tends to affect those who are relatively better-off
- Some of those who are involved in home-based production might be able to continue producing for a short time depending on their supplies, but most of those working as casual labour or in household enterprises may have their activities discontinued almost immediately depending on the stringency of lockdown policies,
- The type of work they do, and where their work takes place (e.g. public market)
- Impact on manufacturing depends on stringency of lockdown policies (e.g. whether informal workers classified as essential workers) as well as global demand

### Overall Impacts (Short Term)
- Widespread poverty already, so easy to reach ‘tipping point’
- In rural areas, the majority will cultivate at least some land, but many will have very small plots and even those whose main income source is agriculture may not produce enough for all their consumption needs
- Household resilience in the face of a complete halt in income will also depend on the extent to which they can fall back on their liquid assets, either savings or items that could be sold even during the lockdown. The vast majority of those reliant on casual wage labour and household enterprises are extremely unlikely to have much if any liquid assets
- In urban areas, the incidence of poverty is much lower than in rural areas, but the vast majority live quite close to the poverty line and are unlikely to have much savings. Likely to have marginally more durable goods, but it is unlikely that they would be able to sell these to raise cash
- Also, less likely to rely on some food from own production.
- Decreased demand for services (e.g. domestic workers)
- Inability to access markets (restrictions on movement and working in public space)
- Increase in care burden (especially where schools have closed).
- Rising costs of inputs for those who continue to work (e.g. cost of transportation, cost of ingredients for cooked food vendors)

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5 See WIEGO rapid assessment of impact on urban informal livelihoods
## Overall impacts (medium term)

- Many of the poorest will be unable to stockpile their harvest through until the next one, so that they rely on purchases in the lean seasons – potentially triggering longer term impacts depending on the extent to which agricultural markets can continue to function.
- Those reliant on casual wage labour and household enterprises will depend on the extent to which domestic demand bounces back (especially construction, petty trading, and services).

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Overall impacts (medium term)</td>
<td>Urban areas will be much more dependent on the extent to which local demand bounces back (construction, services, trading) as well as – for those countries with greater structural transformation – manufacturing and extraction.</td>
</tr>
<tr>
<td></td>
<td>In general, those in sectors impacted by global demand are likely to have started out relatively better-off, but the extent and duration of industry-specific recessions will largely determine how deep the poverty impacts will be.</td>
</tr>
<tr>
<td></td>
<td>Generalised loss of income and food insecurity amongst workers in the informal economy, particularly for those who are part of long supply chains (e.g. homebased garment workers), those reliant on severely impacted sectors such as tourism, those reliant on employment in households (e.g. domestic workers), and migrant work.</td>
</tr>
<tr>
<td></td>
<td>Where livelihoods can continue, workers may be facing increased input costs and decreased incomes.</td>
</tr>
</tbody>
</table>

This is further explored for different livelihood types within Table 3 below.
Table 3: Impacts by livelihood grouping over the immediate, short, and medium term

<table>
<thead>
<tr>
<th>Rural</th>
<th>Immediate effects</th>
<th>Short-Term Effects</th>
<th>Medium-Term Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lockdowns or global demand slump</td>
<td>International supply chains functioning</td>
<td>International supply chains disrupted</td>
</tr>
<tr>
<td>Own-account farming</td>
<td>Protected</td>
<td>Protected</td>
<td>Depends on whether net seller or buyer</td>
</tr>
<tr>
<td>+ Ag Wage L</td>
<td>Relatively protected</td>
<td>Relatively protected</td>
<td>Depends on whether net seller or buyer</td>
</tr>
<tr>
<td>+ Non-Ag Wage L</td>
<td>Some impacts</td>
<td>Some impacts</td>
<td>Depends on whether net seller or buyer</td>
</tr>
<tr>
<td>+ HE</td>
<td>Some impacts</td>
<td>Some impacts</td>
<td>Depends on whether net seller or buyer</td>
</tr>
<tr>
<td>+ Remittance</td>
<td>Some impacts</td>
<td>Some impacts</td>
<td>Depends on whether net seller or buyer</td>
</tr>
<tr>
<td>Agricultural Wage Labour</td>
<td>Deep impacts; Food Security and basic needs</td>
<td>Recovery: effects of coping mechanisms</td>
<td>Deep impacts; Food Security and basic needs</td>
</tr>
<tr>
<td>Only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Farming</td>
<td>Significant impacts: Food Security and basic needs</td>
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<td>+ HE</td>
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<td>Recovery: effects of coping mechanisms</td>
<td>Deep impacts; Food Security and basic needs</td>
</tr>
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</table>
### Immediate Effects
- **Lockdowns or global demand slump**
- **Short-Term Effects**
  - International supply chains functioning
  - No major price disruptions
  - Food price rises
- **Medium-Term Effects**
  - More globally-integrated / More structural change
  - Less globally-integrated / Less structural change

### Household Enterprise
- **Only**
  - Deep impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms; Low demand
- **+ Farming**
  - Significant impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms; Low demand
- **+ Wage Labour**
  - Deep impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms; Low demand

### Remittance
- **Only**
  - Deep impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms; Low demand
- **+ Farming**
  - Significant impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms
- **+ Wage Labour**
  - Deep impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms

### Permanent Worker
- **Only**
  - Protected
- **+ Farming**
  - Protected
- **+ Wage Labour**
  - Relatively protected

### Non-Agricultural Wage Labour
- **+ HE**
  - Deep impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms; Low demand
- **Household enterprise**
  - Only
  - Deep impacts: Food Security and basic needs
  - Recovery: effects of coping mechanisms; Low demand
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<td>Low global demand</td>
<td>Food price rises</td>
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Policy implications

- The households hit hard by COVID-19 in the short to medium term and most in need of social assistance are not necessarily the ones who are already covered by any existing social protection mechanisms, where these exist.
- There is an urgent need to find means to identify and ways to target those groups most affected immediately. A gender and protection risk analysis are essential as part of this process (see the GESI framing document).
- Coverage of current programmes is more likely to better respond to the needs of some of those hit in the medium term in a scenario of high inflation and widespread recession, including the rural poor, but again would exclude those same groups of casual workers who are most affected.
- In the immediate and short term, particular attention should be paid to ways to ensure rural areas can continue to function, focusing on maintaining supply chains while limiting virus transmission. It is also important to ensure that food supply chains in urban areas can function wherever possible, and as safely as possible.\(^6\)
- Over the short- and medium- term, any social assistance (including humanitarian transfers) should be continued to allow households to mitigate the negative effects of any coping strategies (e.g. to allow time and space to re-build assets) and avoid any further negative coping mechanisms (especially with respect to children's education, labour, and protection). Where humanitarian operations exist, it will be important to find ways to harmonise approaches (transfer values, etc.), develop strong linkages including coordination, and optimise the capacity available in both humanitarian and social protection systems.
- Given the likelihood of virus resurgence until a vaccine is produced, any periods of non-lockdown should be used to rapidly invest in social registries that could be used should further lockdowns be required, including where appropriate and possible, humanitarian databases. These should include the type of indicators discussed above that are not normally collected.

A guide for further country-level analytical work

This framework provides a starting point for thinking about impacts at the household level, but it is important to undertake specific analysis for each country to ensure that any social protection response will be able to effectively reach those most in need. This should include three basic steps:

- Analyse household and labour force survey data to understand:
  - Livelihood groups and who is likely to be most affected, most vulnerable in terms of their starting point, and to lack resilience and access to existing social protection, in the immediate, short, and medium terms.
  - Based on this livelihood analysis, assess what are realistic caseloads for a social protection and/or humanitarian cash transfer response including who is already covered by existing programmes and who is left out, and how to prioritise current resources based on budget availability.
  - How to identify those who are prioritised in the data (categorical or index-based approaches), to understand likely errors of inclusion and exclusion and the implications of this, especially in terms of social disunity, unrest and conflict.

How then to identify them in the real world, given the data in existing social registries and/or through new registration process: in a practical sense, who could be targeted and how?

- Undertake some scenario modeling to understand the likely timing and trajectory of the spread of the virus and public health interventions/lockdowns over the coming months
  - Ideally this would involve some cost-benefit analyses, even if light-touch, to help policy-makers understand the trade-offs between decisions around balancing the direct effects of the virus with the socio-economic consequences of public health measures.

- Extend the scenario modeling to the medium-term, based on country-specific contexts in terms of the degree of structural transformation, integration with the global economy, and likely macroeconomic effects by sector\(^7\). Include gender disaggregation.

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\(^7\)For example, the most recent ILO estimates suggest that the four sectors most affected by the crisis are accommodation and food services, real estate and business administrative activities, manufacturing and wholesale retail trade. These sectors employ 1.25 billion workers and represent 38 per cent of the global labour force. (ILO (2020). ILO Monitor: COVID-19 and the world of work. Second edition. 7 April 2020)
ANNEX A: CONTEXT AND CHANNELS OF IMPACT

INTRODUCTION
With many countries across the world having already taken stringent public health measures to limit the spread of the coronavirus, there is an acute awareness of the economic costs that these measures are having – and will continue to have – on large swathes of the global population, including ripple effects across countries. Outside OECD countries, there is also a very serious concern of how such crisis will impact absolute poverty and the achievement of the Sustainable Development Goals.

Social protection will obviously be an essential policy tool to address people’s economic needs, and other work has already set out the conceptual framework for how this might function, both in theory and practice⁸. Much thought is already being put into how existing systems could be used to scale up to be ‘shock responsive’⁹.

What is needed next, however, is a much more disaggregated view, based on an understanding of who will be affected, how, and when. While ultimately country-level assessments will be most useful for specific policy recommendations, this note, and its Annexes set out a framework for some of the key considerations.

The main takeaway is that it is essential to first understand which livelihood groups are most likely to (i) be severely impacted and (ii) lack the resilience to withstand such an acute shock. It is very likely that in many places, this will not necessarily be the same as either the usual social protection caseload or the target population for humanitarian assistance.

Context: the nature of public health responses

Public health responses to the virus are in place to save lives; especially where access to high-quality tertiary health care is limited, a significant number of those who are infected and develop serious complications are likely to die. In countries hit early by the virus’s spread (China, Western Europe, and the US), fatalities have been affecting disproportionately those aged 60 and older¹⁰, and men and people with pre-existing medical conditions.

The relatively much younger populations in SSA, SA and Central Asia should in theory help to reduce the case fatality rate if the virus were to spread. However, it is important to recognise that findings from the more advanced economies that have been hit so far may not hold amongst populations with high levels of malnutrition, smoking prevalence and a high prevalence of communicable diseases, HIV and TB, that are likely to be significant comorbidities. Moreover, it is unclear whether more young people would die in the absence of intensive medical care. There are therefore large unknowns about the extent of the health consequences if the virus were to spread widely throughout developing and middle-income countries, although many reasons to fear that the fatality rates would be significantly higher than those experienced in wealthier countries, for both younger and older people.

As a result, the number of countries with quite stringent public health responses is growing, even where confirmed cases of COVID-19 are still low, as shown in the map below from Oxford University’s Blavatnik School of Government¹¹.

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⁹ Evaluating Delivery Systems Matrix & Strategy Decision Matrix
¹⁰ In England, those aged 65 and older are currently 90% of the fatalities so far (ONS).
¹¹ https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker
In many of these countries with more stringent responses, the measures include ‘lockdown’ in terms of a ‘stay at home’ order, with exceptions for certain kinds of activities (namely health and care work, core public services like utilities, and often food production and distribution). In some countries the lockdowns are so far only focusing on some urban areas (e.g. Nigeria), whereas in many the lockdown is nation-wide. Some countries with less stringent interventions have limited public gatherings and international travel but have allowed commerce to continue unabated.12

Annex B. Understanding the ‘Who’, ‘How’, and ‘When’ to better understand the ‘What’ of the social protection response

Why is there need for nuance to understand who is being impacted?

The ILO has estimated the number of workers in sectors affected by COVID-19, but the reality of ‘work’ in low- and middle-income countries needs to extend far beyond an assessment of economic sectors or whether it is ‘formal’ or ‘informal’. What is needed is a much more nuanced understanding of livelihoods which at the individual level are not easily identified by the sector of employment, since people tend to have more complex and diverse sources of income, and because the full assessment needs to take place at the household level, where structures are more complex and multi-nuclear. Overall, this means that reality is often much more complex than macro aggregates suggest.

The following sections set out some basic scenarios for low and middle-income countries Given both the level of uncertainty around both the trajectory of the pandemic and the way in which public health responses are likely to evolve, combined with the very large differences in economic circumstances across countries. We refer to the context of Sub-Saharan Africa (SSA), South Asia (SA), and Eastern Europe and Central Asia (ECA), regions where DFID and GIZ provide support, with some guiding points for policy disaggregated by region.

Who will be impacted by the economic effects of the pandemic? Understanding livelihoods at the household level

Key channels of impact for the shock

Direct effects of a health shock

Direct effects will work through both increased medical expenses for those who lack adequate medical insurance coverage and where fees for care are considerable. In SSA and SA this will be the vast majority; very high out-of-pocket spending characterises most countries in these regions, averaging 34% of total health expenditure for Africa overall. Even in an average year across Africa, 3.2% of the population will experience catastrophic health payments, and 1.4% will fall into poverty as a result. COVID-19 is likely to increase those numbers drastically in the absence of effective public health measures to curb the spread of the disease.

On top of medical expenses, households will also face a loss of immediate income from those who are ill but also from those – most likely women – who will need to reduce their paid employment to shoulder the caring burden for those who are ill.

In the case of those individuals who fall ill and eventually die, households will face a permanent loss of income. This is likely to have gendered impacts as well, given the higher likelihood of fatalities amongst men. Surviving widows in SA and SSA will have little support outside those countries with universal social pensions and will face huge disadvantages in terms of access to inheritance of land and other property.

The direct economic impacts of the virus that could affect households operate via a health shock, which could entail both:

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• **Large medical expenses.** This will depend on the extent of out-of-pocket payments for healthcare, but in many countries these will be significant. **Costs are often even higher for persons with disabilities where healthcare rationing can see them excluded based on discriminatory quality of life rubrics, and they therefore have to pursue higher-cost informal routes to healthcare.**

• **The potential loss of a breadwinner and/or carer for children and older people.** Especially in ECA but also southern Africa, in case of death even amongst older people, beyond the grief of the loss, this could translate into a fall income such as pensions and other social transfers upon which other family members also rely. In these places pensions for people over a certain age are almost universal and often they represent an important source of income for the household.

With respect to those who become ill but eventually recover, this impact would theoretically be mitigated by **different capacities to cope with the illness: access to health facilities, coverage of sick leave, the ability to resort to savings, etc.** In practice, however, very few in SSA and SA have any of these. In ECA access would be higher but given that even health systems in OECD countries struggled to respond to the surge in demand, it is unclear how effective the response will be. Those who do contract the virus and have serious health consequences as a result will therefore face immediate and severe economic consequences. This is even true for older people, as the concept of ‘retirement’ in SA and SSA is non-existent and poor older people generally continue to work if they are physically able in these countries. This would be mitigated in countries with universal social pensions (e.g. Nepal, Uganda, Kenya, and countries in southern Africa), but even there the transfer amounts tend to be low and are not as generous as a full ‘pension’ as understood in developed countries, so social pensions tend to be combined with work by older people rather than allow a full ‘retirement’.

These direct effects of illness and death are gendered; women disproportionately bear the burden of caring duties within the home. They are therefore more likely to have to take on additional responsibilities if household members fall ill, must reduce their paid employment outside of the house to shoulder these burdens, and could also have greater exposure to the virus as a result. This and other gendered implications are discussed in more depth in the SPACE GESI framing document.

**Indirect effects of public health responses**

In lockdown scenarios, anyone not working in ‘priority’ sectors is deemed to be ‘non-essential’ and must therefore stay at home. Those whose professions can accommodate working from home are likely to be able to continue work, and some others are likely to be able to continue getting paid in any case (such as public sector workers). The group ‘working from home’ contains some polar extremes; on one hand, it includes the vast majority in low-income countries who are subsistence farmers and who tend to have low levels of education and earnings, while on the other it includes the minority of extremely well-educated and well-resourced professional workers in urban areas.

Importantly, even in countries where less stringent public health measures are in place (or were only in place for restricted areas or periods), many households will still be heavily impacted because of shutdowns and their corresponding slumps in demand globally; those working in manufacturing for export and tourism will be especially hard-hit, as will households dependent on remittances from abroad where work has stopped.

Beyond the direct effects of a health shock, who will be impacted by the indirect effects of public health measures and how these will manifest depends entirely on a household’s livelihood strategies and assets. To answer, there are a few key things to bear in mind based on an understanding of livelihoods in low- and middle-income countries:
1. **Livelihoods are highly diversified**\(^{14}\). In rural areas, most will combine work in agriculture, casual wage labour, and self-employment, while in urban areas they will combine casual wage labour and self-employment. This is especially true of the poor, who are forced into diversification by a lack of options (small landholdings that do not produce enough to live on fully, a lack of jobs leading to severe under-employment, and a lack of capital and skills to launch higher-return self-employment) and the need to manage risk. Subsistence traps force households to diversify their incomes not only across crops but also across other farm- and non-farm employment opportunities\(^{15}\). Diversification is therefore a strategy to manage risk, where failure to do so could mean failure to reach even a very basic level of consumption. Those who do have some assets and skills may be able to diversify by choice, for example engaging in self-employment that offers greater returns than casual wage labour. In many countries one of the diversification strategies also includes migration (sometimes seasonal migration) and involves also migration to other countries providing an important source of income.

2. **This diversification happens at an individual level, with the vast majority undertaking more than one job over a year, but especially at the household level.** Each household is likely to have many different income streams, and these will vary across the year.

3. **Seasonality is incredibly important.** Which earning streams would normally have been relied upon during a period of lockdown will depend on, particularly in rural areas, the point in the agricultural cycle. For non-farm jobs, seasonality can still be important in terms of tourism or other weather-related factors (for example, brick-making or construction) and also for migration (for example much of the seasonal migration occurs at the time of low agricultural activity).

4. **Of those engaged in agriculture, the vast majority are ‘smallholders’, and most of these are subsistence farmers.** Their degree of integration with markets will vary, and most will sell at least some of their crops, but in general the vast majority of marketed output is produced by a small number of better-off farmers in more accessible locations. For the majority of poor smallholders, and especially those in agricultural hinterlands, a large proportion of their output will be for direct consumption. Of those who do sell at harvest time, many then purchase later in the year\(^{16}\). In some countries in the ECA region, self-employment in agriculture simply aims at supporting own-consumption and it is complementary to work opportunities in larger farms or off-farm activities.

5. **In poorer countries of those who work outside of agricultural production, the vast majority are self-employed in household enterprises (HE’s).** For most, especially the poorest, these activities are ‘patchwork’, pursued in reaction to immediate opportunities, with little capital investment or training. They can therefore be stopped and started as necessary when other work opportunities arise (for example, during the peak agricultural season, or where casual employment can be found). Only a handful will employ workers outside the family; they are otherwise almost exclusively undertaken within a household. Nevertheless, it is important to understand the sector of such opportunities to see how they could be affected.

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\(^{14}\) Filmer and Fox (op cit) and MasterCard Foundation (op cit)


\(^{16}\) The percentage in this category of being both sellers and buyers depends on the surveys cited in Barrett, Christopher (2008) “Smallholder market participation: Concepts and evidence from eastern and southern Africa” Food Policy. Vol 33. Pp 299–317 and Jayne, T.S., David Mather and Elliot Mghenyi (2010) “Principal Challenges Facing Smallholder Agriculture in Sub-Saharan Africa”. World Development. 38(10): 1384–1398. These estimates range from around 10–30%. With most of these purchases occurring within two months of harvest, this ‘sell low, buy high’ phenomena would indicate some kind of distress sale or general lack of credit to smooth out periodic needs for higher liquidity (for example where immediately after harvest there is a need to pay large lump sums for school fees or inputs for the next cropping season).
6. **Those who work in the formal sector or in jobs that are more permanent tend to be those who are much better off.** This is especially true in SA and SSA. In ECA the percentage of people working in the formal sector is higher than in SSA and SA, but in the private sector often wages can have elements of informality (envelopment payments) and there are significant differences in the quality of jobs even in the formal sector. In understanding the impact of COVID-19 it is important to disaggregate the type of employment, whether formal or informal, and status in employment (self-employed vs waged labour). See also the framing paper on informal workers, COVID-19 and Social Protection.

Beyond these headlines, it is useful to separate those in rural and urban areas by region to better understand the way in which livelihoods are constructed.

- **In urban areas**, across SSA and SA, only a small minority work in the formal sector (14%-17%) and these tend to be the ones with higher levels of education and will usually be in the top two consumption quintiles. The rest work as casual labour and/or in their own household enterprises. In SSA there has generally been much less structural transformation, and what little there is has tended to come from the services sector rather than manufacturing. In SA, there is more employment in manufacturing, but even this has a large informal component through home-based production. While some of those who are involved in home-based production might be able to continue producing for a short time depending on their supplies, most of those working as casual labour or in household enterprises will have their activities discontinued almost immediately as a result of lockdown policies.

- **In rural areas**, the poorest are almost always those who must take up casual agricultural wage labour, whether due to landlessness or because their own land is insufficient to generate enough earnings. This kind of daily wage work is almost always seen as the ‘employment of last resort’ and taken up by those at the poorer end of the consumption distribution. Households with some kind of assets, however minimal, tend to diversify into household enterprises, whether selling livestock products or branching out into transportation (moto/rickshaw driving).

**NOTE:** In ECA and MENA the overall role of agriculture is usually significant smaller than in SSA and SA, and also the urban share of the population is larger. Government is much bigger and a major employer, and this means that the level of formal employment is significantly higher than in SSA and SA. Nevertheless, in both ECA and MENA in urban areas there is a significant share of self-employment that is informal or only partly licensed. Employment opportunities in rural areas are highly dependent on location, their connection to towns and cities, with informality predominant in services and the construction sector.

**In both SA and ECA migration plays a major role in household livelihood diversification,** with migrant workers attracted to cities but also other rural areas to take up seasonal agricultural as well as non-farm work. Others go further afield, for example Afghan workers in Iran, Bangladeshis and Nepalis in Gulf States, and Nepalis working in India. The ability to migrate internationally can require greater levels of education and capital, and therefore international migrants are more likely to come from relatively better-off rural households. However, there are significant exceptions. For example, there are significant differences in the profile of Nepali migrants going to the Gulf States compared to those going to India. In many former Soviet Union countries, migration to Russia occurs easily and

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17 ILO (2018)
18 See Andy McKay and Priya Deshingkar (2014) “Internal Remittances and Poverty: Further Evidence for Africa and Asia “Migrating out of Poverty, Working Paper 12 for analysis of household surveys six countries in SSA (Uganda, Nigeria, South Africa, and Uganda) and Asia (Bangladesh and Viet Nam). Similarly, using cross-country regressions of the impact of migration on poverty and inequality, Katsushi S. Imai, Bilal Malaeb, Fabrizio Bresciani (2017)” Remittances, Growth, and Poverty Reduction in Asia’ Rome: IFAD. found that while immigration was poverty-reducing it also increased inequality, suggesting that relatively better-off households were more likely to receive remittance income.
without significant costs and often involves people from poor households. In Kyrgyzstan, a country with one of the highest level of remittances as a percentage of GDP, poverty levels in 2018 would have increased from 22% to 32% without foreign remittances.

How will they be impacted? Understanding the nature of the shock and resilience (or lack thereof)

The shock will have different channels of indirect impact depending on domestic and external factors, including:

- the type of COVID-19 public health interventions and the exact nature of possible lockdown measures will have consequences on local production and employment opportunities
- effects on international trade: slump in demand, blocked transportation, possible currency devaluation, interruption of tourism
- international commodity prices: slump in prices could result in reduced national production (for example in copper mining), or higher prices of certain goods
- others

The nature of the shock impacts differently on households’ income sources, but then the ultimate impact on living standards will also depend on the households’ ability to cope with the shock (the extent of liquid assets). Moreover, the objective is not only to understand who is affected, but also whether households will be affected to the point of falling below the poverty line or extreme poverty line.

Based on this understanding of livelihoods, we can construct some key livelihood groupings, based on the relative shares of income they receive from different sources – and can make some assumptions:

<table>
<thead>
<tr>
<th>Livelihood strategies</th>
<th>Assumed level of impact under lockdowns that are national in scale but permit food supply chains to operate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own-account farming (self-employment in agriculture)</td>
<td>largely unaffected as long as supply chains are operating</td>
</tr>
<tr>
<td>Casual wage labour on farm</td>
<td>might be affected depending on the nature of the lockdown</td>
</tr>
<tr>
<td>Casual wage labour off-farm</td>
<td>universally affected</td>
</tr>
<tr>
<td>Regular/salaried wage labour</td>
<td>relatively unaffected in some sectors depending on lockdown and nature of contract (e.g. piecework), possibly affected in others, but with better access to various coping strategies</td>
</tr>
<tr>
<td>Household enterprise (self-employment outside of agriculture)</td>
<td>universally affected</td>
</tr>
<tr>
<td>Pension and social transfers (including social assistance)</td>
<td>unaffected, unless system is disrupted</td>
</tr>
<tr>
<td>Domestic/international migrant labour - remittances</td>
<td>entirely affected (with some caveat on the nature of migration and country of migration)</td>
</tr>
<tr>
<td>refugees/IDPs</td>
<td>intrinsically highly vulnerable but potentially less affected by COVID-19 economically where they are unable to work and already reliant on humanitarian assistance (though health risks high)</td>
</tr>
</tbody>
</table>

Whether households can rely on their own production obviously depends on the region. For example:

- In rural areas, the majority will cultivate at least some land, but many will have very small plots and even those whose main income source is agriculture will not produce enough for all of their consumption needs. For example, in Rwanda around 50% of this group’s consumption came from own production on average. Still, while they are not fully self-
sufficient, they are likely to be able to rely on their own produce to a large extent, depending on the season. Many of the poorest especially will be unable to stockpile their harvest through until the next one, so that they rely on purchases in the lean seasons. It will be critical to assess where each country/region is in its agricultural cycle, and the extent to which those most vulnerable to food insecurity have access to food staples during a period of lockdown.

- Those living in areas that have had a recent shock to production – such as the recent Desert Locust outbreak in the Horn of Africa – and those in conflict zones are at particular risk in terms of food security if there are any disruptions to agricultural production. In West Africa during the Ebola outbreak quarantines had a similar effect as an earthquake, restricting movement to sell at markets and the ability to hire labour at harvest time. Much will therefore depend on the extent to which agricultural production can continue and supply chains remain intact. So far they are functioning relatively well, aside from some particular areas of concern, mainly related to conflict and poor harvests.

Household resilience in the face of a complete halt in income also depends on the extent to which they can fall back on their liquid assets, either savings or items that could be sold even during the lockdown. The vast majority of those reliant on casual wage labour and household enterprises are extremely unlikely to have much if any liquid assets. In rural areas, they are likely to have the highest incidence of poverty before this crisis, and even those above the poverty line will still be extremely vulnerable because the consumption distributions are very flat, meaning that even those above the poverty line still live very close to it.

In urban areas, the incidence of poverty is much lower than in rural areas, but again the vast majority live quite close to the poverty line and are unlikely to have much savings. Moreover, they are also less likely to rely on some food from own production. They are likely to have marginally more durable goods, but it is unlikely that they would be able to sell these to raise cash during a lockdown.

What are the implications for social protection?
In terms of social protection, the question is whether coverage of existing programmes is likely to overlap with those affected directly or indirectly by COVID-19. Here there is both an issue of coverage of current programmes as well as existence of social registries or other information systems that would allow a rapid expansion.

Unfortunately, coverage in many countries in SSA and SA is very low, often almost exclusively targeted at the extreme poor in rural areas (with some notable exceptions). This may include landless or near-landless labourers and self-employed but will exclude those who are not usually poor but nevertheless live very near to the poverty line, and who will be destitute very quickly without cash earnings. Social protection coverage also tends to exclude those in urban areas. In the ECA region and in some other countries social protection coverage can be relatively high, but it is imperative to understand whether, especially in the short period, those affected, and the new poor are likely to be covered.

Based on this it is clear that:

- ‘Vertical’ expansions of existing programmes (topping up what current recipients receive would not solve the problem of reaching those most affected by COVID-19.

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19 FAO (op cit)
• **Expansion of coverage** will be needed, either via ‘horizontal expansions’ of existing programmes or new programmes that leverage (‘piggyback on’) existing systems to the extent possible (where and when these are strong, and capacity is not overwhelmed. These new programmes may be led by the social protection sector or other actors (e.g. humanitarians).

*The ability of existing social protection programmes to support those most in need is questionable, meaning it is likely that other approaches and new programmes (leveraging the systems and capacity of existing ones) will be necessary.*

Many of the countries that are vulnerable to the secondary economic impacts of COVID-19 are fragile and exposed to several exogenous shocks (droughts, earthquakes, floods etc.) and protracted conflicts, often occurring together or overlapping. This has obvious negative impacts on national economies, availability of jobs, market function and mobility that erode community and household resilience to further economic disruptions. Conflicts in particular may result in forced displacements of people often at scale, either internally (IDPs) or across borders (refugees). The humanitarian system classically targets these caseloads for assistance that is often unpredictable and short term (though in protracted crises, this can become more similar to longer term safety nets). In the context of COVID-19, this caseload will be of concern as intrinsically highly vulnerable to further shocks, and also in the case of IDPs and refugees due to overcrowded and unhygienic living conditions being ideal for the transmission of the virus. However, in some other respects, the economic factors associated with COVID-19 may not have the same level of impact on the classic humanitarian caseload as other groups: IDPs/ refugees may not be in a position to work; to receive remittances; or be exposed so much to market fluctuations. As for social protection systems, the humanitarian system may not be optimally positioned to provide assistance to those who are in need, although in general humanitarian agencies tend to be more agile and able to adapt quickly.

In order to draw more detailed conclusions, it is essential that country-level analysis of survey data is undertaken to understand livelihood groupings in rural and urban areas to assess who will be impacted and how much, the likelihood that these households have some kind of resilience in the form of liquid assets or whether they will be covered by existing social protection and if not how they could be identified for an expansion of programming.

As part of this process it is important to piece together how the economic factors often act in concert in a way that amplifies the impact on vulnerable household. This can include global factors such as economic decline in key trading partners; regional impacts such as loss of migrant jobs and remittances; to local elements such as commodity speculation and currency depreciation leading to shortages and inflation. Individual households may be impacted by several of these factors at the same time leading to a sudden and severe shock to their welfare and ability to withstand the crisis, especially in fragile states where any existing coping mechanisms will have been exhausted even before COVID-19. An example of this is Yemen, where lots of these things are acting together, compounded by conflict and the war economy.

Beyond the immediate impacts: what happens in the short and medium term?

**Macro level**

Beyond an immediate lockdown period, who will be affected and how depends very much on: global and domestic demand for goods and prices, the degree and nature of integration with these wider markets, and the extent to which supply chains continue to function.
In the short term there are a number of variables that will be important at the macro level: the role of remittances as a percentage of GDP, the level of international trade (exports and imports) as a percentage of GDP, sensitivity to specific commodity prices that are either exported (for example oil or copper) or imported (for example prices of cereals), levels of currency devaluation and expectations around further devaluation, the share of GDP coming from international tourism.

Exactly who will be impacted and how much will depend very much on how those macro variables play out in terms of household-level characteristics. The overall modelling assumption in this case is that traditionally poor and vulnerable groups are likely to be most affected by this kind of overall indirect shock. In general the expectation on overall cereals availability is so far good and low fuel prices should ensure that transportation costs remain low, so global food prices are not expected to rise (see FAO analysis). However, there could be local issues, such as commodity speculation and hoarding by large traders, and inflation could be triggered by currency devaluation, not to mention panic buying creating shortages, further price hikes and the conditions for civil unrest.

Particularly important questions will be:

- **For own-account farmers:** what happens to commodity prices both domestically and internationally, and how dependent is the household on sales vs purchases? To what extent can they switch to domestically-produced staples if food prices suddenly increase (e.g. cassava in SSA)?
- **For non-agricultural workers:** To what extent is production and/or distribution dependent on global vs local demand, and to what extent is this restricted? For employed non-agricultural workers (and/or those who are dependent contractors): to what extent has the demand for services at both domestic and international level been impacted?
- **For everyone:** Who is dependent on imported goods for basic needs, and what are the effects of price changes on the basket of goods purchased by different groups?

Given that there is so much uncertainty as to what will happen at a global level – given that this is impacting the entire world simultaneously – it is extremely difficult to predict what might happen in the short/medium term. It is however possible to examine some scenarios and make some hypotheses on the level of impact and the duration of the shock.

We would expect the short-term impacts to resolve fairly quickly, but the medium-term effects of a recession are likely to be worse: a ‘L-shaped’ recovery is more likely than an optimistic ‘V-shaped’ one. This medium-term recession is most likely to impact those in urban areas more than in rural ones, suggesting that, as in the immediate term, urban casual wage workers and those reliant on HEs will be most vulnerable.

### Micro level

Beyond the macro effects of prices and demand in the short- and medium-term, it is also important to recognise the micro effects that will operate after the lockdown.

Those households that are hit especially hard now will be employing various coping mechanisms to survive. They will be depleting any assets they have, which will have short- and medium-term effects especially for those reliant on HEs, as they may not have any capital to start up again once lockdowns are lifted.

There are also likely to be negative effects on children, as households who are pushed into destitution may remove children from school, put them to work, or take other decisions that risks their protection (including early marriage, trafficking, etc.). Women may also be disproportionately
affected as they generally shoulder the burden of caring for the sick, which may reduce their regular income opportunities (work/marketing etc.) and increase their risk to the virus and getting sick themselves. Under economic stress women may be exposed to higher risks of SGBV/IPV, perhaps more so if family members must stay at home\textsuperscript{22}.

For both these reasons, it is therefore important to ensure that any assistance continues beyond the immediate timeframe, to allow households to recover their livelihoods and make investments in their children, to avoid on-going negative long-term impacts to continue to reverberate.

**Planning ahead: the importance of additional unanticipated shocks**

Finally, it is important to remember that other shocks will continue to occur (natural disasters, conflict, etc.), and it will be important to prepare for these. Households that have been hit hard by public health interventions for the pandemic will have no bandwidth for dealing with further shocks.

\textsuperscript{22} See SPACE Gender and Inclusion document.
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