



# A WORSENING POVERTY LANDSCAPE WITH COVID-19<sup>A</sup>

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## INTRODUCTION

The Covid-19 pandemic has impacted health, income and education alike. The UN has warned that human development faces an unprecedented hit due to the pandemic. These impacts will be felt not only in the short term but also over the long term as people's life chances – especially among the poorest and most disadvantaged – are impacted by missed learning opportunities, widespread job losses and more insecure and lower-paid work. In the worst cases, this will affect basic food security and nutrition. Preliminary estimates from the UN suggest that the Covid-19 pandemic could increase the number of undernourished people by between 83 and 132 million people in 2020.<sup>1</sup> As a result, the crisis will undermine sustainable development progress for years to come.

Covid-19 has caused the world's deepest recession since the Great Depression<sup>2</sup> and has impacted countries at all income and development levels.<sup>3</sup> Growth is projected to decline by almost 5% globally in 2020 according to the International Monetary Fund (IMF), with some countries expected to experience output losses of more than 10% in 2020.<sup>4</sup> As countries around the world struggle with second – or

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even third – outbreaks of the virus, as well as localised spikes in infection rates, the prospects of a swift economic recovery look increasingly unlikely.

The situation is of particular concern in developing countries, especially the least developed countries (LDCs) and fragile states where poverty and deprivation were widespread and macroeconomic positions were weak even prior to the crisis. With capacities to respond to the crisis unequal among countries, recovery will also be uneven, further exacerbating global inequalities.

Research by Development Initiatives (DI) and the Overseas Development Institute (ODI) highlights concerns that the poorest regions within countries are not well targeted by domestic government resources or donor aid, adding to concerns that the poorest and most vulnerable regions (and the communities within them) will be left even further behind due to Covid-19.<sup>5</sup>

In this chapter we explore how the Covid-19 pandemic is impacting the landscape of global poverty and analyse what this means for aid financing looking forward.

## THE ERADICATION OF EXTREME POVERTY IS FURTHER OUT OF REACH

The Covid-19 pandemic has exacerbated long-standing challenges in tackling extreme poverty and deprivation around the world. Even prior to the pandemic, the world was not on track to meet Sustainable Development Goal (SDG) target 1.1 – to eradicate extreme poverty by 2030. In 2018, almost 10% of the global population was living in extreme poverty, defined as living on less than US\$1.90 per day. Most of the extreme poor reside in South Asia and sub-Saharan Africa, with the latter having just over 40% of its population living in extreme poverty in 2020.<sup>6</sup>

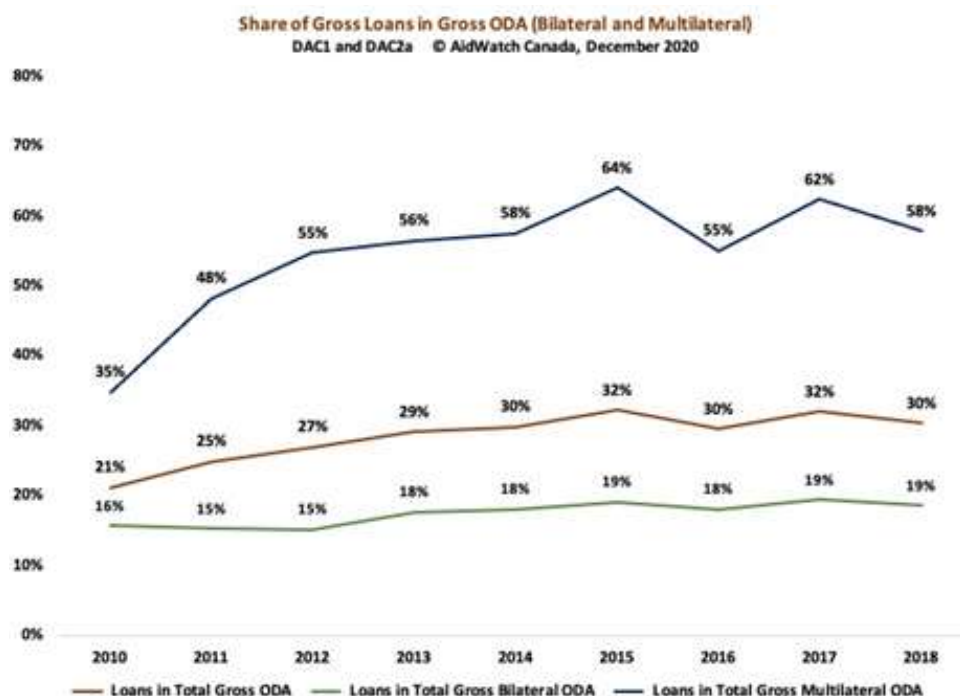
Before Covid-19, baseline projections suggested that 6% of the global population would still be living in extreme poverty in 2030 (missing the SDG target date), and that the vast majority would be concentrated in fragile contexts in sub-Saharan Africa.<sup>7</sup> Only 15% of LDCs' economies were growing at the level of 7% per annum needed to eradicate extreme poverty by 2030, according to the World Bank,<sup>8</sup> and our models have drawn similar conclusions. However, the fallout from the pandemic threatens to rapidly increase the incidence of extreme poverty globally and to undo decades of progress in the fight against poverty.

Our analysis shows that the average low-income country will see its extreme poverty

headcount increase by 2.5% in 2020 due to Covid-19 (Figure 1). This compares with 1% for lower and upper middle-income countries combined. In sub-Saharan Africa, the number of people living in extreme poverty is expected to increase from 40% to 43%, and in South Asia from 6% to 8%. The Middle East and North Africa is also projected to experience a 2% increase in extreme poverty levels in 2020, from 7% to 9%, largely driven by countries in the region affected by conflict and fragility. Countries experiencing protracted crises (not shown) are expected to see an average 2% increase in extreme poverty in 2020 due to Covid-19.<sup>9</sup>

These projections are based on estimates that global Gross Domestic Product (GDP) growth will contract by 5% in 2020, as per current IMF estimates. With this baseline scenario, it is estimated that 88 million people worldwide will be pushed into extreme poverty this year. With a downside scenario, however, based on global growth contracting by 8% in 2020, the number increases to 115 million. South Asia will be the region hardest hit, with 49 million additional people (almost 57 million under the downside scenario) pushed into extreme poverty. Sub-Saharan Africa would be the next most affected region, with between 26 and 40 million

**FIGURE 1: DESPITE THE PANDEMIC DRIVING INCREASES IN POVERTY, DISTRIBUTION REMAINS SIMILAR PRE- AND POST-COVID-19, COVID-19 IMPACTS ON EXTREME POVERTY BY COUNTRY GROUPING, BASELINE SCENARIO, 2020**



additional people predicted to be pushed into extreme poverty.<sup>10</sup>

At slightly higher poverty lines, the regional distribution of additional people falling into poverty changes markedly. World Bank data suggests that at a US\$3.20 poverty line (the international poverty line for lower middle-income countries) with the baseline scenario of a 5% global drop in GDP in 2020, an additional 177 million people are expected to be pushed into poverty worldwide, two-thirds of whom are living in South Asia. This rises to 223 million people with the downside scenario.<sup>11</sup> At the US\$5.50 poverty line (the international poverty line for upper middle-income countries) a further 177 million people will become poor in 2020 due to Covid-19, mostly throughout East Asia and the Pacific.<sup>12</sup>

It is important to note that these slightly higher income levels reflect national poverty lines and show that poverty eradication is far from

attained once the extreme poverty threshold of US\$1.90 a day has been reached. Indeed, in sub-Saharan Africa and South Asia, progress against the slightly higher international poverty lines has been much slower than at the extreme poverty line, suggesting that many people have barely progressed out of extreme poverty.

Beyond the headline numbers, some countries are forecast to be harder hit than others. For example, Zimbabwe is projected to see a 6% increase in the incidence of extreme poverty in 2020 due to Covid-19; Burkina Faso, Niger, Rwanda, São Tomé and Príncipe, and Sierra Leone are all forecast to see a 5% rise; Belize, Botswana, Guinea-Bissau, the Solomon Islands and Tanzania stand at a 4% increase.<sup>13</sup>

With the exception of Belize, these countries are all classified as LDCs with moderate-to-high extreme poverty rates. Most are also in sub-Saharan Africa. Poorer countries may

be more vulnerable to higher increases in poverty because of the significant size of the poor population and the extent of the informal sector, which is characterised by low and variable income and wage levels and non-existent job protection. Low-income populations are also at greater risk because they lack the ability to provide emergency funds when a shock occurs; similarly, low-income governments lack the capacity and financing needed to mitigate the worst impacts of the crisis on these same populations (as shown in the next section).

Projecting what happens in 2021 and beyond comes with even more uncertainty. Recent forecasts from the World Bank suggest that the number of people in extreme poverty is expected to decrease in most world regions from 2021 to 2030. Sub-Saharan Africa is an exception, where the number of people in extreme poverty is expected to continue to increase until 2030, in part due to high population growth within the region. Extreme poverty is therefore predicted to become

increasingly concentrated in the region, where people face multiple monetary and non-monetary deprivations. The data also shows the enduring negative effect of conflict and fragility on extreme poverty levels.

Under all scenarios, reaching the SDG target 1.1 of eradicating extreme poverty by 2030 appears increasingly out of reach. Reaching this target without the Covid-19 crisis would have required all countries to grow at 7% annually, which for the sub-Saharan African countries represents more than a quadrupling of the growth rates observed between 2008 and 2018. Now, with the Covid-19 crisis, the outlook is even bleaker. With a baseline scenario in which growth contracts by 5% in 2020 and the same rates of growth are seen between 2021 and 2030 as between 2008 and 2018, the number of people living in extreme poverty globally will still stand at 573 million or 6.7% of the global population in 2030. With the downside scenario of an 8% drop in GDP combined with historical growth rates, the number will rise to 597 million or 7% of the world population.<sup>14</sup>

## COVID-19 IS EXACERBATING LONGSTANDING INEQUALITIES

The Covid-19 pandemic is having a disproportionate impact on population groups in society, worsening poverty for some more than others and exacerbating inequalities within countries as well as between them. These impacts are felt most by women and girls who are comparatively earning less, saving less and holding more insecure jobs. Their capacity to absorb economic shocks is therefore less than that of men. The vast majority of women's employment – 70% according to UN Women – is in the informal economy with few protections against dismissal or for paid sick leave and limited access to social protection.<sup>15</sup>

Women have also been hard hit by the impacts on particular industries, such as manufacturing and tourism. The UN World Tourism Organisation estimates that more than half of tourism workers are women.<sup>16</sup>

The impacts of the Covid-19 global recession will result in a prolonged dip in women's incomes and could reverse recent gains in labour force participation, with compounded impacts for women already living in poverty. Unpaid care work has also increased, with children out of school and heightened care needs of older people putting an additional strain and demand on women and girls. Gender-based violence has increased as countries around the world have implemented lockdowns. The health of women may also be impacted by the reallocation of resources and priorities, away from sexual and reproductive health services. All of these impacts are further amplified in contexts of poverty, fragility and conflict. SDG 5 on gender equality has been put even further out of reach due to Covid-19.



At the same time, there are concerns about the impact of Covid-19 on the world's children and young people, especially from disadvantaged families, who have been affected by widespread school closures and loss of learning, and now an increasingly difficult labour market. The UN estimates that nine in ten children worldwide have been impacted by school closures, representing the largest ever change in the 'effective out-of-school' rate, opening new gaps in human development as children from poorer families are less able to access remote learning opportunities.<sup>17</sup>

The International Labour Organisation (ILO) estimates that 400 million jobs could be lost worldwide due to Covid-19. It estimates that global labour income has declined by 10.7% in the first three-quarters of 2020, amounting to income losses of US\$3.5 trillion worldwide. The biggest drop has been in lower middle-income countries, where labour income losses reached 15.1%. In Africa, the total working-hour loss in the second quarter of 2020 is estimated at 12.1%, or 45 million full-time equivalent (FTE) jobs, up from the previous estimate of 9.5%.<sup>18</sup>

Crucially, the decline in income is due to an increase in inactivity rather than unemployment. This has important implications. Experience from earlier crises shows that activating inactive people is even harder than re-employing the unemployed, so higher inactivity rates are likely to make the job recovery more difficult.

Moreover, younger people have been hit particularly hard by the economic impacts of the Covid-19 pandemic and even prior to the crisis experienced more elevated unemployment levels, especially in many developing countries. Global youth unemployment jumped after the 2008 global financial crisis and has yet to recover. There is a danger that they will face long-term labour market disadvantages. This is of particular concern in Africa where demographics are shifting steadily towards a younger population. By 2050, sub-Saharan Africa will be home to one-third of the world's young people (i.e. those under 24 years old).

## **CLIMATE CHANGE DISPROPORTIONATELY AFFECTS THE POOREST PEOPLE**

Other global challenges will also hinder the world's progress toward SDG 1. It is widely accepted that humans have created the conditions for diseases such as Covid-19 to emerge through relentless – and accelerated – pressure on ecosystems worldwide.<sup>19</sup> The UN reported recently that the world had failed to meet a single Aichi biodiversity target in full.<sup>20</sup> These conditions threaten to worsen poverty and increasingly become a source of major conflict in, and migration from, the poorest countries.

In addition, climate change will have major impact on the number of people living in extreme poverty around the world. Climate change disproportionately affects people in poverty, who have fewer resources to mitigate the negative impacts and less capacity to

adapt. The poorest people are particularly dependent on the natural environment for their subsistence. Their livelihoods are already being hard hit by more frequent and severe extreme weather events, such as droughts, storms and floods.<sup>21</sup> People in poverty also have unequal access to environmental resources and derive a smaller share of the value obtained by the exploitation of those resources.

People in poverty spend a larger share of their incomes on food and are therefore particularly vulnerable to fluctuations in the prices and availability of key food staples, which can be impacted by changing climate conditions. According to World Bank forecasts on the impacts of climate change on poverty, fluctuations in food prices will play the largest role in pushing people into extreme poverty

in sub-Saharan Africa and South Asia over the next decade, where the largest populations of

people in extreme poverty reside. Indeed, they will play a larger role than natural disasters.<sup>22</sup>

### **‘BUILD BACK BETTER’ MUST FOCUS ON THE POOREST PEOPLE AND PLACES**

Some analysts have pointed to low overall infection and death rates from Covid-19 in some of the world’s poorest countries as evidence that they have been spared the worst impacts of the virus.<sup>23</sup> The reality is, however, that due to lower testing and administrative capacities, the prevalence of Covid-19 in many developing countries remains uncertain. In addition, it may be too early to say where some countries are on the infection curve.

Because our world is highly interconnected, the poorest countries and most disadvantaged communities have not been spared the immense social and economic impact of the virus. Sharp falls in demand in high- and middle-income countries for commodities, certain manufactured products and tourism services have all impacted income, livelihoods and jobs.

### **CONCLUSION**

Our analysis shows that the poorest people and places are at heightened risk of being left behind due to Covid-19, which will have a devastating and long-term impact on human development. In terms of increases in the percentage of people in extreme poverty, these are most concentrated in countries with moderate-to-high extreme poverty rates, predominantly in sub-Saharan Africa. In terms of the number of people living in extreme poverty, as well as those at the slightly higher poverty line of US\$3.20 per day, the increases are particularly notable in high-population countries in South Asia.

Countries have different capacities to respond to – and recover from – the crisis. This includes the ability to mobilise and deploy financing to support the most vulnerable. While countries in South Asia can be expected to experience a quicker economic rebound from the Covid-19 crisis, recovery will be even more challenging across the LDCs and fragile states where SDG financing gaps were already severe prior to the crisis. This risks further exacerbating inequalities between the poorest and the richest countries.

In this context, the ‘build back better’ message of the international community must put the poorest people and places at the centre.

## ENDNOTES

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