



Policy scenarios to promote inclusive adaptation to and recovery from the Covid-19 crisis in Ecuador

By Carla Canelas and Juan David Robalino

Key messages

- Mean labour income fell by more than half in May 2020 as a result of the response to the Covid-19 pandemic, while the poverty rate more than doubled compared to the pre-pandemic levels seen in December 2019.
- Income inequality soared in May 2020, but had improved (for men more than for women) by September 2020.
- Government cash transfers in response to the crisis had a very limited impact on the aggregate average income. However, they may have been crucial for the subsistence of people living below the poverty line.

Context of the Covid-19 crisis in Ecuador

Ecuador was already dealing with one of its worst economic crises in decades when the sudden appearance and rapid spread of Covid-19 pushed governments worldwide to shut down their economies to limit contact and suppress transmission. During the first three months of the pandemic, Ecuador was among the countries hardest hit by the spread of the virus.

Even though it was one of the first countries to impose lockdown measures, an analysis of mortality data by The New York Times found that the overall number of deaths in Ecuador between March and October 2020 was 36,800 higher than in the same period in previous years: almost three times higher than the number of deaths officially reported.

The country's national lockdown also had a terrible impact on its labour market and on household finances. Given the delicate state of the Ecuadorian economy when Covid-19 arrived, it is important to evaluate its economic impact on the country's households and to identify the most vulnerable populations in order to ensure that policies and government transfers are effective in responding to the economic impact of the pandemic and similar public health emergencies in the future.

Methodology

This study is part of a broader research initiative on 'inclusive adaptation and recovery policies in response to the Covid-19 crisis in developing countries.' To allow for comparison across the different countries studied in the project, we follow a similar simulation methodology to estimate the effects of Covid-19 on the welfare of households.

We use three cross-section waves (December 2019, May 2020, and September 2020) from the National Survey of Employment and Unemployment. We start by estimating the post-pandemic income of individuals based on their pre-pandemic demographics and the economic sector in which they work. We then use these individual estimates to analyze average income changes for key demographic groups. We also simulate the impact of government cash transfers in response to the crisis by allocating the weighted shares of these funds to the qualifying individuals in our database.



Key findings

Shock to household income

The crisis affected individuals across the income distribution; only the top two deciles experienced a somewhat smaller initial shock and faster recovery. The populations most affected were informal workers, workers in small firms, workers in rural areas, Indigenous populations, households with young children, and households in the Amazon region.

In terms of gender, the labour income for men was slightly more affected than for women, yet women still earn less than men across the income distribution in all periods.

Furthermore, women's employment dropped by 26% in the first three months of the crisis, compared to a fall of 19% for men.

Income distribution for both genders was very affected by Covid-19 in May 2020, yet men's incomes had recovered considerably more than women's incomes by September. It is also worth noting that, in December 2019, 17% of those in Ecuador's labour force were unpaid workers, of whom 62% were women.

Table 1: Changes in income levels 2019/2020

	<u>December 2019</u>		<u>May 2020</u>		<u>September 2020</u>	
	Income	Income	Change (vs Dec 2019)	Income	Change (vs Dec 2019)	
Household per capita income	214.49	120.21	-43.95%	193.18	-9.93%	
Household per capita labour income	170.14	81.83	-51.90%	148.83	-12.52%	
Household per capita non-labour income	44.35	38.38	-13.46%	44.30	-0.13%	
Monthly individual labour income by gender						
Monthly labour income for men	474.01	216.82	-54.26%	412.60	-12.96%	
Monthly labour income for women	389.26	205.62	-47.18%	343.53	-11.75%	

Source: ENEMDU December 2019 and authors' simulations of post-COVID incomes

Government cash transfers related to COVID-19

Table 2 compares the mean household per capita income in December 2019 with the simulated income in September 2020, with and without the Government's cash transfers. We see that, in the aggregate, these transfers had very little effect, with the average monthly income increasing by only \$4 per month.

Yet, when considering only individuals below the poverty line, the average increase was \$6 per month, representing about 11% of their pre-pandemic average income and a recovery of 87% of the average loss in their household per capita income.

Table 2: Average household per capita income pre- and post-Covid-19 with and without public transfers

	<u>December 2019</u>		<u>Sept 2020 simulated income</u>	
	Income	Income	Without transfers	With transfers
All	214.49	193.19	193.19	197.99
Poor	54.24	47.53	47.53	53.36

Source: ENEMDU December 2019 and authors' simulations of post-COVID incomes

Poverty and inequality

Overall, the poverty rate more than doubled in May 2020, reaching 57%. In September it decreased to 30%, but this was still six percentage points higher than the rate in December 2019. In the aggregate, the Government interventions had almost no effect on the poverty rate: amounting to less than one percentage point.

Regarding inequality, Ecuador had a Gini coefficient of 0.46 in December 2019. This was higher than the average coefficients of the other Andean countries (Bolivia, Colombia and Peru average 0.448) and lower than the average for the Latin America and Caribbean region (0.51). Ecuador's Gini coefficient reached 0.52 in May 2020 (comparable to Brazil's Gini in 2019, the most unequal country in the region), and fell back down to 0.48 in September.

Our analysis of the percentile ratios of the distribution of household per capita income pre- and post-Covid-19 with and without transfers revealed significant disparities in the impact on the poorest, the middle class, and the richest (see Table 3).

The column on the first percentile ratio (p90/p10) shows that average household per capita income was already around eight times higher for individuals in the upper decile of the distribution (p90) before the pandemic, in December 2019, than for those in the lower decile (p10). The first three months of the Covid-19 crisis saw a ten-fold difference between these two deciles. By September, this gap – without considering Government cash transfers – had narrowed to 8.42. When the cash transfers are included, the equalizing impact was quite limited, reducing the p90/p10 ratio to 7.59.

Table 3: Inequality measures pre- and post-COVID

	Percentile ratios				Gini
	p90/p10	p90/p50	p50/p10	p75/p25	
December 2019 (pre-COVID)	7.65	2.81	2.72	2.88	0.46
May/June 2020 without transfers	10.43	3.63	2.87	3.28	0.52
May/June 2020 with transfers	8.77	3.61	2.43	3.14	0.50
September 2020 without transfers	8.42	3.05	2.76	2.97	0.48
September 2020 with transfers	7.59	3.05	2.49	3.01	0.47

Source:
ENEMDU December 2019
and authors' simulations



Conclusions and policy implications

At the time of writing (2021), our main recommendation to the Government of Ecuador to normalize economic activity was to invest more in Covid-19 vaccination. At that time only 15% of the population had received the first doses and the Government was struggling to procure more vaccines. However, the Government has done a great job getting vaccines over the past year, and more than 79 per cent of the population have now received two doses, and 25 per cent have had the third dose.

Beyond vaccines, future relief efforts in response to this pandemic and to any future public health crises should focus on informal workers, rural workers and poor households with young children. Given that 75% of Ecuador's workforce is in the informal sector with no access to social security benefits, investment in direct cash transfers is likely to be more effective than wage subsidies and unemployment benefits.

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