Managing the Employment Impacts of the COVID-19 Crisis: Policy Options for Relief and Restructuring

Eliana Carranza, Thomas Farole, Ugo Gentilini, Matteo Morgandi, Truman Packard, Indhira Santos, and Michael Weber
MANAGING THE EMPLOYMENT IMPACTS OF THE COVID-19 CRISIS: POLICY OPTIONS FOR RELIEF AND RESTRUCTURING

Eliana Carranza, Thomas Farole, Ugo Gentilini, Matteo Morgandi, Truman Packard, Indhira Santos, and Michael Weber

1 The note was prepared under the guidance of Ian Walker (Practice Manager, Jobs Group).
EXECUTIVE SUMMARY

This note discusses policy options for managing the employment impacts of the COVID-19 crisis aimed at relief and restructuring. The relief phase corresponds to an initial COVID-19 phase when the health emergency dominates, lockdowns are common, and the focus is on saving lives, providing support to workers and households to manage the income shock and to firms to say afloat and, often retain workers; the restructuring phase, in turn, corresponds to a second phase when countries turn to implementing policies that set the stage for a resilient recovery through more targeted policies that balance the need for continued government support with the need to adapt to structural changes created by the crisis. The note pays attention to the labor market and institutional context of most low and middle-income countries where informality is large and where existing institutions often lack mechanisms to effectively reach businesses and workers in the informal economy. The note covers complementary policies aimed, in the relief phase, at: 1) Helping businesses survive and retain workers; 2) providing protection for those who do lose their jobs and see their livelihoods significantly affected; and 3) facilitating alternative employment and employability support for those who are out of work (collectively known as active labor market programs, ALMP). The note further differentiates between these relief responses and the restructuring response when countries start to reopen for businesses and policies need to aim to support firms’ and workers’ transition to a “new normal”, hopefully a “better normal” that supports a resilient recovery.

The main message of the note is that, to provide relief governments need to support the spending capacity of individuals who lose income while at the same time supporting firms to keep paying their workers and to start up production again after the crisis passes without a huge raft of debt that makes them insolvent, illiquid or both. Despite risks, if governments fail to do this, there are likely to be large secondary demand effects that reinforce the problem through the common multipliers. As economies start to open again, governments need to devise an exit strategy from emergency measures put in place in the relief phase. The need for government support will continue—particularly in terms of income support for the poor and vulnerable, but policies can be more targeted: (i) supporting employability among the” COVID-19 Generation”—recent graduates, first-time jobseekers, and workers who lost their jobs during this crisis to avoid long term scarring effects, and moving from subsidies aimed at retaining workers to subsidies aimed at job creation; and (ii) supporting firms that are most capable of maintaining and creating productive jobs, moving away from more broad-based support.
INTRODUCTION

THE NATURE OF THE CRISIS

The COVID-19 crisis is not only a health crisis, but also an economic and employment one. The COVID-19 pandemic has had devastating effects on economies and workers across the globe. As of June 2020, 9 in 10 workers reside in countries where workplace closures remain in place. Between April and June, total hours worked were almost 20 percent below the average in the last quarter of 2019. Three quarters of informal employment worldwide are estimated to be significantly impacted by the lockdown measures or working in the hardest-hit sectors. Women and youth are being disproportionately affected, worsening existing inequalities in the world of work. Workers and their families are hurting: the global extreme poverty rate is expected to rise from about 8 percent in 2019 to over 9 percent in 2020. That’s the first time in over two decades that global extreme poverty will increase.

A health crisis rapidly became a labor market crisis, affecting both the supply and the demand for labor. The rate of contagion, illness and mortality made public health measures – travel bans, quarantines and other mobility constraints – imperative, meaning many workers could not get to work; some, still cannot or are dissuaded from doing so; when people do work, productivity—and with that, incomes—are affected. In terms of labor demand, global and local supply chains have been disrupted; across many countries, businesses closed or remained open only limited hours; even when operating, lower consumer demand affects earnings. The ongoing crisis, and the uncertainty surrounding its duration and overall impacts, create an environment where investments and new hiring are deterred even after the worse of the health crisis passes. Permanent business closures, rising unemployment and loss of livelihoods are big concerns.

Impacts on the economy, while widespread, have hit some groups particularly hard. Impacts are being gender-differentiated. While the rate of COVID-related deaths and positive tests are higher among men than among women, women are particularly affected by both the supply and demand side shocks of the crisis given their disproportionate responsibilities for caring for children and the ill; and given the vulnerability of the sectors in which they predominate. While the impacts are felt across the board, continuing operations is particularly challenging for micro, small and medium enterprises, which have fewer effective instruments at their disposal to manage shocks. For similar reasons, non-wage workers and wage workers on temporary contracts or in the informal sector, are also disproportionately affected. In many countries, many workers in these vulnerable jobs are women. Even when the health crisis ebbs.

---

2 ILO 2020.
4 Gaddis and Beegle 2020.
6 The increase in unemployment and worsening working conditions appear to be hitting hardest sectors and occupations that are predominantly female and public-facing (e.g., fashion, retail, hospitality, travelling, leisure, etc.). Moreover, in many countries, women are more likely to work in vulnerable, low-paying informal jobs where there are few protections and where the reach of government programs.
and measures that restrict work and mobility ease, some industries, such as tourism, face a longer route to recovery than others.\footnote{ILO 2020.}

**How these shocks play out and how governments best respond depends on the length of time between decline and recovery, itself mediated by how long social distancing measures last.**\footnote{Gourinchas (2020).} One unique aspect of the current crisis is the need to discourage production and consumption on public health grounds during the relief phase. This makes the extent and duration of the contraction, and the likely pace of recovery, difficult to predict and introduces variation in the timing of crisis across countries. While necessary, the longer the public health crisis goes on and the longer and more expansive social isolation measures are, the greater the risk of scarring and of permanent damage to an economy’s ability to bounce back. This can happen both through the destruction of otherwise viable businesses and jobs; and through secondary multiplier effects, as falling firm and household incomes from those hit by the shut-down spill over into negative multiplier effects that further curtail demand. The amount of scarring and speed of recovery are also endogenous to government policy interventions. And fiscal, political economy, and local and global economic considerations also shape the nature of the crisis and countries’ responses.

**Employment impacts can be severe and risk long-lasting effects, if responses are not swift and comprehensive.** This note first covers policy responses to provide relief to individuals and firms amidst an employment crisis, that is, what governments can do while the most stringent public health measures are still imperative. The measures discussed err on the side of doing too much rather than too little, and—while overall being complementary, there are risks of inefficiencies.\footnote{For example, some support could go to businesses that were not financially viable even before the crisis, or some efforts to expand coverage of employment programs to informal workers could lead to difficult to detect duplications with programs aimed at expanding social assistance. Overall, measures that protect employment can delay reallocation, particularly in cases of businesses or jobs that are no longer sustainable.} Given the severity of expected impacts, both risks are probably acceptable in most cases.\footnote{Baldwin and Weder di Mauro (2020).} As the health crisis subsides or if the health crisis continues beyond the three or four months that countries have prepared for, a different package of measures would be required, as economies reopen. In the following stage of the crisis, during restructuring, the focus is to continue support of firms and workers to help them transition to a “new normal” and avoid scarring effects that would extend the impacts of the crisis in the long-term and would risk a resilient recovery.
1. PROVIDING RELIEF TO WORKERS, HOUSEHOLDS AND FIRMS AMIDST COVID-19

Managing the employment crisis requires supporting both businesses and workers. Given the nature of the employment crisis amidst COVID-19, governments need to address two immediate, interconnected, issues. First, supporting workers whose livelihoods are affected because they are unable to work because of quarantine, health concerns or sickness; or have seen their income from self-employment fall due to lower demand; or because their place of work has been closed, has laid-off employees, or has asked for employees to work fewer hours. Second, the need to provide businesses that have been forced to close or are seeing their revenues decrease significantly with the liquidity necessary to survive the shock, meet payroll and other running costs, and be ready to recover when the economy picks up. Lessons from previous crises clearly warn against the medium and long-term costs of letting a liquidity crisis turn into a solvency crisis.

Hence, during the relief phase, we focus on interrelated policies aimed at: 1) Helping businesses survive and retain workers; 2) providing protection for those who lose their jobs and see their livelihoods significantly affected; and 3) facilitating alternative employment or employability support for those who are out of work (ALMP).

HELPING BUSINESSES SURVIVE AND RETAIN WORKERS

A. Providing liquidity to firms to avoid closures and layoffs

In the context of the COVID-19 crisis, firms face multiple shocks that threaten their viability. First, firms face a supply shock. Formal movement restrictions and health concerns have led to a collapse in the supply of labor and goods; so, firms have found it increasingly difficult to access supplies and labor to enable them to stay in operation; in many cases, emergency decrees legally oblige businesses to close. Second, they face an evolving demand shock. In some sectors like travel and hospitality, public health concerns have dramatically reduced demand (and may continue to do so for some time). Across the board, declining incomes (as a result of rising unemployment and underemployment) and wealth (as a result of deteriorating financial markets) are depressing demand. Faced with these shocks, firms that hope to stay in business need to maximize liquidity. One way to do this is to access additional working capital, through a loan or other form of credit, or by deferring payback on existing loans. But in many cases, the shocks in the real economy are accompanied by a financial market shock, as a result of increasing risk, blocking access of firms – especially SMEs – to working capital as well as trade finance at precisely the time they need it most. In the absence of access to additional credit, firms may either need to shut down completely

12 The risk of a financial shock may be compounded by policies that are meant to address the risks of supply and demand shocks. Notably forbearance policies (e.g. requiring that banks allow deferral of mortgage and other loan payments, restructure loans, etc) risk further reducing liquidity in the financial system.
or sharply cut costs, which typically means cutting variable costs (the largest of which, for most firms, is labor) and/or deferring payments (and possibly higher financing costs later).

In this context, government policies designed to secure jobs by avoiding the failure of otherwise viable firms focus primarily on helping maximize liquidity (cashflow) in firms.\(^{13}\) This will allow firms to continue to pay workers and other key bills (e.g. rent, utilities, etc). What is unique in the current crisis is that public health imperatives of the pandemic, at least in the short term, take precedence over keeping firms operating.\(^ {14}\) The policy objective is to allow firms to maintain at least part of their workforce and remain viable even while stopping operations temporarily.

These interventions can be organized into two broad types:

1. **Injecting cash into firms:** This has most commonly focused on improving access to credit by governments (central banks) issuing lines of credit, in some cases at subsidized rates, with banks, often backed up with credit guarantees by government or risk-sharing between governments and banks. Export credit guarantees are also common in countries where SMEs rely significantly on export markets. In some situations, governments may inject liquidity directly into firms through direct provision of loans or grants. This is most common with large firms in key industries (e.g. banking, automotive manufacturing, airlines) with the state taking an equity position or even fully nationalizing.\(^ {15}\) Governments may also look to promote factoring\(^ {16}\) or other mechanisms to provide credit within supply chains, for example through warehouse receipts in the agricultural sector. Note, however, that many of these measures are designed primarily to keep businesses operating through the crisis, which may be less relevant (at least in some sectors) during a public health crisis where social distancing is paramount. A more radical approach\(^ {17}\) than simply providing credit to firms would be for the government to essentially socialize all losses by acting as a ‘buyer of last resort’, providing cash directly (or through tax credits) to compensate for revenue loss induced by the crisis.

\(^{13}\) Note that governments of course also typically intervene to stimulate demand, for example through direct subsidies to households, tax relief, and public investment, among other means.

\(^{14}\) An exception to this is specific industries that are particularly important during the crisis, including the health sector (e.g. manufacturers of drugs, medical equipment, testing, etc) and food production. During the initial stages of the coronavirus crisis China took a number of policy steps designed to get credit to the health sector specifically and enable them to quickly ramp up production.

\(^{15}\) For example, during the global financial crisis, a number of banks were fully or partially nationalized in Europe and the US and the US’s ‘big three’ automakers received financial bailouts in return for equity. Recently, during the ongoing covid-19 crisis, Italy announced it would renationalize Alitalia Airlines, and New Zealand provided a bailout to Air New Zealand in return for a significant increase in its majority equity stake. While this was sensible in these cases, taking on equity is not easy to do when the shock is very generalized in that many firms across many sectors receive support. More importantly, government taking equity in a company is a complex process as it requires determining an appropriate valuation and then ongoing monitoring and deciding when to cash out. This is only appropriate for firms that are publicly traded— for others, it is much easier and more appropriate to provide capital through loans rather than equity.

\(^{16}\) Factoring is a financial instrument that allows for firms to sell their accounts receivable (i.e. the money owed to them from customers to whom they have already delivered products or services but not yet been paid) in order to obtain capital more quickly.

2. **Retaining existing cashflow**: These interventions focus on lowering, removing, and deferring payments in order to preserve existing cashflow in firms. This category tends to focus on firm outgoings over which governments have direct control or can easily influence. It includes a wide range of measures, such as: *debt payment deferral and debt restructuring* (often in parallel with the above credit injection measures); *deferrals of payments on taxes and in some cases utilities and/or rent; accelerated depreciation to reduce tax obligations; speeding up payments on government contracts or repayments from government (e.g. VAT or duty drawback reimbursement).*

i. **Injecting cash into firms**  
*Measures to support firms’ liquidity in the 2008-10 global financial crisis included the following:*

- **Greece** introduced a successful credit guarantee scheme for working capital through a public-private risk sharing scheme where the Government covers 80% of the risks and banks 20%. The scheme offers fixed interest rate loans for SMEs which have recorded profits in the last three years.
- **Canada** made a C$100m capital injection to the Business Development Bank of Canada for a working capital guarantee program.
- **France** increased its credit guarantee programs to allow it to cover up to €4 billion of new loans mainly targeted to SMEs, with a specific focus on short-term credit.
- **Korea** increased SME lending by US$35.7 billion in 2009 by expanding guarantees for guarantee organizations as well as bank capitalization and increasing SME lending by state-run banks.
- **UK** introduced the Enterprise Finance Guarantee Scheme, a US$2 billion scheme whereby government will guarantee bank lending to viable businesses to ensure for working capital from 3 months to 10-year maturity.
- **Mexico** introduced a factoring and supply chain financing scheme through Nacional Financiera (NAFIN), a state-owned development bank to link large, creditworthy buyer firms with small, risky firms unable to access formal finance through an online factoring platform. To support the program, the government passed an e-commerce law that gave electronic messages the same legal validity as written documents. It also made interest payments on factoring made by small suppliers tax deductible, which helped keep factoring costs low.

*In the current crisis, many countries have already put in place similar measures, as follows:*

- **Singapore** has introduced government co-financing of working capital loans through banks.
- **South Korea** established a US$1.1b ‘emergency management’ fund that aimed to provide liquidity to SMEs. However, the procedure for preparing and evaluating applications has been found to take several months, which was too long to prevent many businesses from failing.
- **Seattle** established a Small Business Stabilization Fund with the objective to "mitigate barriers to capital for Seattle's most vulnerable businesses" amid the coronavirus outbreak. The US$2.5m fund provides businesses up to US$10,000 of financial support.
• **New York (USA)** is considering a plan to provide up to US$75,000 in interest-free loans to businesses with fewer than 100 employees that experience at least a 25% drop in sales as a result of the corona virus. For microbusinesses—those with less than five employees—the city will provide grants that cover 40% of payroll costs for two months.

• **Chile** announced US$3 billion in loan guarantees to small and medium businesses, defined by sales volumes. This liquidity injection for small businesses, is intended to sustain running costs, including payroll, and expands loan guarantees available through an existing credit facility for SMEs. The government’s effort is targeted at firms that account for 84% of employment.

• **Bangladesh** introduced US$600 million working capital loans to retain employment in the export garment sector; it also introduced a program of up to US$6 billion subsidized interest rates on working capital loans to businesses.

• **Malaysia** set up a US$ 11.7 billion fund for working capital loan guarantees for all COVID-19 affected businesses.

• **Albania’s** government established a US$136m sovereign guarantee to provide loans for working capital for all private companies that were tax-compliant and solvent before the pandemic. The government will guarantee 60 percent of the loans, with the interest rate capped at 5%.

ii. **Retaining existing cashflow**

*SOME EXAMPLES OF INTERVENTIONS DURING THE GLOBAL FINANCIAL CRISIS ARE AS FOLLOWS:*

• **Japan** introduced a temporary (2 year) reduction in the corporate tax rate from 22% to 18% for the SMEs.

• **Canada** increased the income threshold for which the small business rate applies.

• **Czech Republic, France, and Spain** rapidly speeded up refunds on VAT payments.

• **UK** introduced a ‘Prompt Payment’ program for government contracts, ensuring payment within 10 days.

• **USA’s** Stimulus Package enabled SMEs to expense up to US$250,000 in property purchased in the 2008 tax year and granted a 50% bonus depreciation allowance for 2008 capital asset purchases acquired in 2008.

*EXAMPLES OF INTERVENTIONS DURING THE CORONAVIRUS CRISIS:*

• **Italy** has extended tax deadlines for companies in affected areas and introduced a moratorium on loan repayments for some SMEs.

• **China** has temporarily waived social security contributions for businesses.

• **Singapore’s** 2020 budget includes corporate income tax rebates of up to 25% of total tax payable in 2020; faster write-down for investment incurred in 2021; and increased flexibility in rental payments for commercial enterprises on government properties.
• **Seattle (USA)** is allowing eligible businesses to defer business and occupation taxes, and provide technical assistance to business owners seeking relief from the U.S. Small Business Administration.

• **Egypt** introduced a 3-month deferral for utility payments.

• **Pakistan** introduced deferrals on payments for energy and allowed banks to defer clients’ payments on principal loan obligations for up to one year.

• **Russia** introduced deferrals on tax payments for most affected companies, deferrals on social contributions for SMEs in affected sectors for 6 months, and deferral on rent payments to all levels of government until the end of the year plus zero rent to the federal government for three months for SMEs in affected sectors.

The above policies also help accelerate the recovery, but targeted policies may also be needed. By maintaining the workforce, firms avoid having to rehire when demand conditions return. This not only saves time and cost of finding new workers, but has significant productivity benefits, as it allows firms to retain a knowledgeable and trained workforce. Interventions to support firms’ viability during the crisis can also be leveraged to help firms adjust to what may be a rapidly evolving external environment during the recovery phase. Such policies may include, for example, support to firms to transition to digital platforms including business to consumer (B2C) and business to business (B2B). It also includes more traditional measures like improving access to or lowering the cost of basic infrastructure and services required for production and commercialization—e.g. electricity, transportation, etc., as well as provision of investment capital (rather than just short-term working capital).

The key benefit of interventions targeted to firms is that they are relatively straightforward to deliver and can relatively quickly impact the balance sheet of firms. The experience from the global financial crisis, where interventions to keep businesses afloat (outside of large banks and national champion firms) were seen by many to be ‘too little too late’, suggests the need to move quickly and on a large scale.

In designing and implementing policies targeting firms, three main challenges and risks can be considered:

• **Universal versus targeted support:** While any universal provision of subsidy to firms will clearly result in significant loss and inefficiency, the general consensus, particularly when the depth of the contraction and shape of the recovery remains uncertain, is that the speed of response is far more important than its efficiency. Therefore, in the early stages of the crisis, it is normally not advisable to target firms for support with the aim of promoting allocative efficiency. After all, the loss of firms and jobs in a shock like COVID-19 does not involve an efficient reallocation—it is pure destruction. That said, there remain questions over whether government should provide support to the enterprise sector on a universal basis or should target specific industries that are particularly hard hit (e.g. in the case of COVID-19, travel and transport, hospitality). Moreover, to support the social contract, governments may wish to limit support to SMEs or at least preclude that large corporations benefit almost exclusively from the subsidies. Governments may also
consider targeting firms and sectors that are labor intensive, that deliver essential services, and that serve the poor.

- **Getting credit to firms**: This second concern is over how effectively banks will pass on subsidized or guaranteed credit to the businesses that are most in need. During the 2008-10 global financial crisis, in many countries, many banks used increased access to credit to strengthen their own balance sheets, and not enough was passed on, particularly to SMEs. This can partly be addressed in policy design. One of the most important findings from previous crises is that providing government guarantees in addition to just providing a capital injection is critical to ensure on-lending of SME credit. This suggests the value of conditioning public support to first-tier financial institutions on their willingness to pass it on to lower levels. For example, governments can make the credit subsidy conditional on a certain level of disbursement or set quotas for disbursement to certain industries, firm size categories (e.g. SMEs), etc. or pay a bonus for certain disbursement targets. Another option is that governments can intervene directly – bypassing banks and disbursing loans, grants, etc. directly to the targeted firms. However, while this may be relevant in specific technical contexts or where there is a particular problem of viability or governance in the banking system, for large-scale universal interventions the banking system will typically be in a much better position to efficiently allocate credit (see example below from Korea on the establishment of a fund to be disbursed directly from government, which has been less effective).

- **Link between firm support and worker retention**: If the priority goal is protecting jobs rather than firms, per se, there is an obvious risk that the opposite happens – i.e. that the interventions help ensure the firm survives but that it still retrenches workers. Again, this is partly a design issue that can be addressed through conditionalities, such as setting requirements that firms retain workers (something which can be relatively easily monitored in the formal sector of most countries). This might amount to a decision to provide fiscal resources to furloughed firms to pay a high proportion of their wage bills until production can restart, as has been agreed in Germany and the UK, among others, to avoid the unemployment insurance systems being overwhelmed and to help workers and firms maintain a link that is easier to recapture as the economy starts to recover. In countries without unemployment insurance systems, this might be an even more attractive option. It is also another example where the speed and efficiency of intervention may be more important than the effectiveness of targeting and monitoring – i.e. some firms may get subsidized and still shed workers, but in most cases, workers will be retained. Moreover, with formal firms there are mechanisms the government can put in place to pro-rate or claw back payments (e.g. converting a grant into a loan or creating a tax debit) if needed. For example, in the US’s ‘Paycheck Protection Program’, loans are extended to firms with the intention of preserving jobs; after a certain period of time, the loans are converted to grants at a rate proportional to the share of workers that the firm retained.

*Delivering support to informal firms*
The above-mentioned measures work relatively well in an environment where most firms are formal. But in much of the world, the private sector and jobs are largely informal. Informal firms may be microenterprises, but many will be small and even medium enterprises, employing 10 or more workers. These firms may or may not be completely unlicensed, but they are often not on tax registries, and may not have relationships with the formal banking sector. A starting point here is to recognize that, while innovative approaches may be made to reach these firms, it will be difficult and large gaps will inevitably remain. For this reason, it is normally best to focus during the early relief stage not on informal firms but rather on the workers in these firms. And this is best done through household-level social protection measures that go beyond the poor and includes low income informal workers. These measures may be particularly important for women, given the nature of their employment.

Where governments are able to target support to informal firms, potential measures may include:

- **Injecting cash into informal firms**: Like the approach taken for formal firms, governments can provide loans (possibly at subsidized rates) and grants as well as repayment suspension for informal firms using existing institutions that already serve these groups, notably micro-credit institutions and informal sector organizations. This is being done or planned in countries such as Bangladesh and Mongolia. Factoring services and supply chain credit initiatives, which are particularly relevant for SMEs (see example from Mexico below) are also relevant in an informal environment.

- **Allowing informal firms to retain their cashflow**: Possible measures include the reduction, elimination or deferral of utility and rent payments of informal firms. Suspending VAT collection from small businesses can possibly help redirect some purchases towards small, informal firms. However, in countries that are in the early phases of expanding general taxation systems through VAT, there is a risk that the suspension of VAT could weaken the system and be difficult to roll back later. In any case, such measures may be less relevant in the context of the relief phase of the public health crisis where the objective is not to maintain operations but rather maintain viability in the absence of or with limited operations.

**B. Fostering worker retention in firms through employment subsidies**

Employment subsidies can help firms to retain employees who would otherwise be furloughed or laid off while production is halted or experiencing significant disruptions. Employment subsidies take the form of transfers to employers or workers, which can partially or fully cover wages and other payroll-associated costs such as social security contributions or income taxes. Employment subsidies change labor demand incentives for employers and labor supply incentives for workers. During and after recessions, when labor demand is low relative to supply, employment subsidies can boost employment by reducing the effective wages paid by firms and raising the wages received by workers.\(^\text{18}\) Cash transfers to workers,

---

\(^{18}\) Ultimately, whether the subsidies have larger impact on employment or wages depends on the elasticities of labor supply and labor demand. While there is uncertainty about the values of these elasticities, especially for narrowly defined groups of workers, calculations suggest that potential effects of on wage rates are as important as those on employment (Almeida et al., 2014; Chetty et al., 2011).
while helping them weather the crisis, do not do much to spur wage employment to the extent that the problem is the deficient demand for labor.

In the context of COVID-19, employment subsidies can deliver first-order effects on employment and are a good complement to policies directed at helping firms manage a period of inactivity or significant disruptions to production. As other policies aimed at providing liquidity to firms, the reduction in payroll costs resulting from employment subsidies improves firms cash flow.\(^1\) However, employment subsidies incentivize firms to preserve employment, while other policies supporting firms’ liquidity do so less effectively, if at all.\(^2\) Loans or capital grants alone, for example, may actually lead firms to substitute away from labor by lowering the relative price of capital.

Employment subsidies have been used extensively in the past as an effective short-term countercyclical measure. A broad body of evidence emphasizes the potential value of employment subsidies, when properly designed and implemented. Mixed assessments of wage subsidies usually relate to programs targeting the disadvantaged or promoting job creation in “normal” times. Instead, past experience during economic downturns suggests that wage subsidies can indeed help avert job destruction.\(^3\) Well-known concerns about the economic efficiency effects of employment subsidies are less salient when they are used counter-cyclically.\(^4\)

This said, the costs and benefits of wage subsidies need to be weighed against the costs and benefits of alternative policies for protecting income, such as unemployment insurance or social assistance. The latter allow breaking the employment relationship which imposes future job search costs. But for the same reason, they interfere less with the process of job creation and destruction and avoid the risk of supporting so called “zombie” firms and jobs, that may be unsustainable. In any case, wage subsidies aimed at job retention need to be of short-duration and time-bound and should quickly evolve into more targeted support to avoid becoming an obstacle to necessary structural change.

Five key design considerations can help ensure the effectiveness of wage subsidies in the COVID-19 crisis. First, subsidies need to be sizeable, to ensure high take-up and encourage large-scale worker retention.\(^5\) Sizable in the current context means that subsidies cover all or a significant share of a firm’s wage bill, while providing reasonable support to workers. Given fiscal constraints, this may require a reduction in workers’ take-home pay, especially among high-earners. Second, subsidies need to be (at

---

\(^1\) Instead, severance pay required upon termination of employment or payroll contributions that continue during furloughs, reduce the firms cash flow.

\(^2\) See Newmark (2011) for a theoretical discussion and empirical assessment of employment subsidies and other policies in the context of the Great Recession in the United States.

\(^3\) See, for example Cahuc (2019) for a review of short-time work compensation schemes and Bruhn (2016) for Mexico.

\(^4\) The deadweight losses that arise when firms retain workers whose productivity is below the market wage are offset by the avoidance of social costs from high unemployment and of the negative spillover effects from unemployment on workers’ future productivity. Windfall wastage, that happens when a subsidy supports workers who would have been hired or retained in any case, will be less likely, given the contraction in aggregate labor demand. Substitution effects linked to the replacement of some workers by others are also less likely, when subsidies are tied to a firm’s pre-crisis employment level and in a setting where firms want to avoid losing their investments in firm-specific human capital. Stigmatization of workers, who may be perceived as inferior by employers, is less probable in economic downturns when unemployment shocks are systemic rather than rather than idiosyncratic.

\(^5\) Often, wage subsidies tend to be set too low or the administrative costs tend to be too high vis a vis the net benefit for firms of retaining workers. See, for example, the case of South Africa (Levinsohn et al 2014).
least temporarily) conditioned on workers’ retention and allow for no work or flexible work arrangements. Third, subsidies need to be broad-based in terms of firms’ coverage, focusing—when possible and consistent with the nature of the shock in the particular country—on sectors most affected. Fourth, countries that plan to set up a subsidy scheme should start preparations quickly as setting one up takes time. Fifth, subsidies need to be a temporary measure, a short-term response to the crisis. When normal business hours resume the subsidy scheme should be wound down, to avoid firms keeping workers on reduced hours for too long.

In the context of the pandemic, generous temporary employment subsidies may be combined with reduced work hours and flexibility in work arrangements. While production is halted, firms should be required to pay only for hours worked—which can be reduced to zero, while governments subsidize the remainder up to a percentage of the full worker salary—from a fraction to a 100 percent, or a fixed amount per worker with a ceiling. Wage subsidies, when possible, should be combined with sick-leave days and additional family leave subsidized by the state to those affected by the virus, caring for the ill or for young children. In exchange for generous subsidies, conditions on workers’ retention can be tightened. Effective communication, social dialogue and clear commitments between firms, workers and the government are also critical to limit job losses in the crisis.

In response to the COVID-19 crisis, many countries have already put in place generous wage subsidies, often combined with flexibility in work arrangements:

- In Austria, a temporary compensation scheme allows employers to reduce work hours and guarantees workers their full salary for 3 months, with the employer paying only for actual time worked and the government paying for the remaining work hours, including taxes and contributions. This benefit is paid only after workers have exhausted all accumulated overtime and work leave, and conditional working for at least 10 percent of the regular work hours.
- In Germany, a similar scheme of reduced work hour and government-supported salaries has been put in place. Subsidies amount to 60 percent of lost after-tax wages (67 percent if the worker has at least one child) plus social security contributions (up to a maximum of 6,700 euros per month). Businesses can participate in the scheme if 10 percent of their workers lose more than 10 percent of their earnings due to the crisis.
- In Denmark, Italy, and the UK, employees of companies that have interrupted their activities will collect most of their salary from the state. In Denmark, the state pays 90 percent of a worker’s salary, up to a cap of approximately US$4,000 per month. In Italy and the UK, the state pays 80 percent of the salary (up to a maximum of 1,130 and 2,714 euros per month, respectively).
- In New Zealand, among firms affected by COVID, full-time workers, making more than 20 hours per week, receive a lump sum payment of US$350 per week and part-time workers US$208 per week, covering 12 weeks. The wage subsidies apply to all self-employed workers and employers (provided their workers do not already work from home and cannot perform their jobs remotely).
- In Poland, employers are allowed to reduce work hours by up to 80 percent of regular hours, with the state and firms sharing the payment of wages for actual time worked. Alternatively, firms can halt production and reduce wage payments to half the regular amount; with the state covering
the other half almost in full. In addition, self-employed and workers under civil law contracts can receive from the state up to 80% of the minimum wage.

- In **Bolivia**, the government is creating a fund of approximately $US 219 million to provide soft loans to micro, small and medium businesses companies so that they may pay wage bills without layoffs for two months (companies can withdraw $US 1230 per employee, repayable in 18 months).

- In **Colombia**, the government announced a payroll subsidy equivalent to 50 percent of the minimum wage per worker for businesses with a fall of over 20 percent in revenues for a period of three months.

- In **Nepal**, informal sector workers who have lost their jobs due to the ongoing crisis will be given the opportunity to participate in public-works projects for a subsistence wage or receive 25 percent of local daily wage should they choose not to participate.

- In **Serbia**, measures included wage subsidies, including payment of minimum wages for all SME employees and entrepreneurs for three months and payment of 50 percent of the net minimum wage for three months for employees in large private sector companies and for employees who are currently not working.

- In **Thailand**, SMEs can deduct from taxes three times the amount paid in salaries to workers affiliated to the Social Security Office between April and July 2020, up to US$457 per worker per month. Beneficiary firms are required to maintain employment levels equal to the number insured workers according to social security records at the end of December 2019.\(^{24}\)

- In **Timor-Leste**, measures included wage subsidies (60 percent of the wage cost) for formal sector employees (for 30,000 workers).

There are significant differences in the design of wage subsidy schemes for COVID-19 between high-income countries, on the one hand, and middle and low-income countries, on the other. Most COVID-19 wage subsidy programs pay a certain proportion of a worker’s salary or a given amount of money per month for 2-3 months per worker. That said, there is variation in the details of the programs, based on countries’ fiscal space, the impact of the crisis, and countries’ economic structure and political economy. In most advanced countries, given the larger fiscal space and given the nature of the crisis and containment measures (e.g. mandated lockdowns across the economy), subsidies often have not targeted specific sectors—they have been largely broad-based. In most countries, subsidies have also covered all registered workers in all registered firms. In contrast, countries with more limited fiscal space and more clear-cut sector impacts tend to target specific sectors: Indonesia focused, at least initially, on manufacturing workers that earn below a threshold; countries dependent on tourism have also often focused on supporting firms and workers in that sector as well as related ones, such as transport.

**Most advanced countries covered all firms within sectors, but other countries are being more targeted in their wage subsidies.** In terms of firm size, there is a clear rationale to target micro and small and medium-sized enterprises given that they have less liquidity and face larger constraints to access external finance. This is the approach followed in many developing countries. But there is also an argument to support large firms with many employees or have a critical impact on the rest of the economy through value chains, as the objective of the wage subsidies is to avoid workers being fired and also maintaining

\(^{24}\) Gentilini et al (2020).
key economic structures—such as value chains—working. Some countries, including Australia, Canada, Croatia, Netherlands, Mongolia and Poland, direct wage subsidies at firms that report a certain decline in revenues or profit. This is likely harder to measure in developing countries, and, if the shock is widespread, may not be necessary. In Austria and Germany, for example, short-term wage subsidies during the global financial crisis targeted firms that had experienced a specific shortfall in revenues/profits, but both countries abandoned these conditions in the current crisis. That said, as the depth of the health crisis ebbs, and the scheme ends, any follow-up support scheme would benefit from more consideration to the viability of the firm.

In terms of generosity, in advanced countries, wage subsidies typically cover between 60-80 percent of worker salaries, including a maximum amount per worker (a cap), with schemes significantly less generous in the rest of the world. In some of the advanced countries, schemes often also have a sliding scale where they pay a higher proportion of the salary for the low-income workers and a lower proportion to higher earners, up to a maximum. In developing countries, is may be more practical and less costly to pay everyone a certain percentage of the minimum wage. And this is what most countries are doing, notwithstanding variations in terms of generosity: Serbia and the Dominican Republic are paying the equivalent of 50 percent of the minimum wage; Poland 40 percent. The key is to ensure that all workers take home a minimum amount that is enough to cover basic expenses, that workers keep their employment relationship, and that firms do not need to fire workers and pay severance.

Subsidies tend to be accompanied by important conditions for beneficiary firms. Most schemes impose strict limits on firing workers, especially if subsidies are generous. An often-overlooked design issue, however, relates to requirements for firms to pay for the non-subsidized part of the wage. In the cases where wage subsidies do not cover most of the individual wages (for example, when you pay a fixed percentage of the minimum wage to all workers), a number of countries (e.g. Bulgaria, the Dominican Republic, Montenegro) require firms to pay part of the uncovered individual salaries, up to a certain amount or the rest of the full salary. In fact, many countries have legal limits on how much and how long wages can be “lowered” for workers (and also on the conditions that allow for this). For example, if the government provides a wage subsidy that is equivalent to 30 percent of the salary of the workers, then the firm may be required to pay the other 70 percent. While such a condition is sensible as the severity of the crisis passes, in the depth of the current crisis, it may undermine the effectiveness of crisis response since participating firms may still run out of cashflow very quickly and be forced to close.

Beyond the general parameters of wage subsidies, some countries are implementing promising innovations. In Montenegro, for example, together with a wage subsidy program aimed at limiting layoffs in formal wage employment, there is also a subsidy for new employment in the amount of 70 percent of the gross minimum wage for at least 6 months for entrepreneurs, micro, small and medium-sized companies who register new employees in April and who were simultaneously registered as unemployed persons with the Employment Agency of Montenegro. This type of scheme can be helpful to incentivize the formalization of informal workers in formal firms and may be helpful when transitioning to the next phase of the crisis. In Bulgaria, firms can hire workers that are in unpaid leave in other firms. This measure can support households’ income, reduce fiscal costs and facilitate labor reallocation across firms at a time
when some sectors or firms are suffering but others may have shortage of workers. The measure can also provide needed flexibility to the market when moving to the next phase of the crisis.\textsuperscript{25}

**A key limitation of employment subsidies is that they usually cover only formal wage workers and the registered self-employed.** Having a counter-cyclical wage subsidy policy in place may increase the incentives for informal firms and workers to register themselves, so they can qualify. A number of countries have also put in place complementary schemes to support registered non-wage workers and, in settings where informality is the norm, to support informal workers. The former is more common in advanced economies, where self-employed and freelancers are often registered; France, Germany, Greece, Italy, New Zealand have specific support schemes for these group. Informal sector workers are also being explicitly supported in many developing countries—e.g. Argentina, Cabo Verde, Ecuador, Egypt, Mauritius, Morocco, the Philippines, Rwanda, Togo—typically through social assistance (cash transfers and sometimes also public works). In most cases, the best way to quickly support informal wage workers and the informal self-employed is through cash transfer and social assistance systems, whose scope and benefit amounts can be quickly expanded when there are mechanisms in place to identify and register potential beneficiaries, such as social or civil registries, or property registries, for example. In expanding these registries, governments can work closely with organizations that work with the informal sector, such as informal business associations or microcredit organizations. In addition, governments can take advantage of administrative data for existing government programs—beyond social assistance--, including not only current but also past beneficiaries.

**SUPPORTING HOUSEHOLDS**

**A. Cash transfers and other safety nets**

**Cash transfers are among the most widely used social protection programs worldwide.** In general, about one-third of COVID-19 responses across countries thus far are some form of cash transfers. Part of the reason for such widespread adoption is the strong empirical evidence underpinning those schemes. Evidence shows that cash transfers reduce poverty, are spent wisely by beneficiaries, and generate economic multipliers: in Africa, for every dollar of cash injected, between $1.27—$2.6 are generated in the local economy. Cash transfers also provide access to human capital services (Brazil, Philippines, Madagascar); connect people to jobs (Ethiopia); facilitate reforms (India, Dominican Republic, Indonesia); help manage economic and climatic crises (Latvia, Mozambique); reduce gender-based violence (Mali, Ecuador); and improve social cohesion (Lesotho). However, taken in isolation cash transfers have limited impacts on dimensions like chronic malnutrition or long-term unemployment.

**In recent years, cash transfer programs have been used widely as crisis response mechanisms, including in the context of economic downturns.**\textsuperscript{26} In fact, the rapid expansion of well-designed and adequately financed cash transfer programs provides both social and economic stability during a crisis. An increase in both automatic and discretionary cash transfers spending acts as a powerful counter-cyclical policy response. In the aftermath of the financial crisis of a decade ago, the use of both automatic (e.g., United

\textsuperscript{25} For more details, on key design and implementation parameters of wage subsidies during COVID-19, see Santos (2020).

\textsuperscript{26} World Bank (2020); Gentilini et al (2018).
Crisis response programs range from scaling-up existing targeted guaranteed-minimum income (GMI) schemes – or even introducing new ones – to establishing universal schemes. In their ‘pure’ form, GMI programs tend to be observed mainly in higher-income contexts. This is because they can be administratively demanding and require credible income data to determine the amount of the “top up” to reach the guaranteed minimum level. For example, Greece’s Social Solidarity Income Program, implemented nationwide in 2017 after pilots in 2016, is a GMI program that covers 6.5% of the population. Targeting the extremely poor, it provides an amount equivalent to 69% of the income of households in the first decile households and has significantly reduced the poverty gap and inequality. Yet it faced challenges in reaching many intended beneficiaries. In other countries, a mix of targeting methods are deployed in various ways, with their scalability hinging on the level of complexity and delivery capacity of the countries. On the opposite end of the spectrum, crisis-hit countries like Australia in 2009 have opted for simpler one-off payments of cash to whole the population. A similar approach was adopted by Kuwait in 2011, and it is currently implemented in Hong-Kong, Japan, Serbia, Singapore and Vanuatu.

In general, the scale up of cash transfers in crises such as the current pandemic puts a premium on simplicity, speed and broad-based coverage. Countries have increased coverage substantially, at times to quasi-universal and, in 6 occasions, universal levels. As with other interventions, these high coverage programs are temporary, including implementing one-off “helicopter money” type interventions. Yet, there are debates on whether such schemes should be maintained post-COVID-19 and come to replace or complement more targeted schemes. Such decisions require the careful pondering of key trade-offs, including on how universal schemes compare to alternatives in terms of coverage, adequacy, incentives, incidence, costs, political economy and delivery. No program scores highly on all those possible parameters of performance: as such, policymakers will likely seek the programs or set of measures that most closely attain an ‘optimal equilibrium’ in a given context.\textsuperscript{27}

In between, other safety net options include expanding quasi-cash transfers. The SNAP program, a central element of the safety net in the United States, covers one in seven Americans and provides electronic vouchers for food amounting to $148-563 depending on household size. Estimates of its impact on economic activity during a downturn show a multiplier of 1.79; the program is also highly countercyclical: between 2008 and 2012, about 2/3 of beneficiaries exited within 2 years, almost half re-entered within 1 year (Alderman et al 2017). In Indonesia, the Rastra food subsidy was introduced in the aftermath of the Asian financial crisis to provide households with rice but has thus far performed below potential and faced challenges relating to the quality, quantity, and frequency of rice distribution (Timmer et al. 2018). With the BPNT program introduced in 2017 to gradually convert Rastra to direct e-voucher transfers, 92% of beneficiaries surveyed prefer the new program due to improve food quality and convenience.

Special consideration is warranted for the poorest of the poor. Ongoing economic inclusion programs provide a coordinated package of “bundled interventions” for the poor, and now operate at considerable scale. Recent estimates suggest that approximately 180 ongoing economic inclusion projects across 74

\textsuperscript{27} Gentilini et al (2020).
countries are now reaching an estimated 55.4 million individuals. For such beneficiaries, disruption in program services is a likelihood. The emphasis on social distancing strikes to key aspects of program design i.e. coaching, community gatherings. In the short term, there are opportunities to support these beneficiaries with a core package of support such as continuity of direct cash transfers or in-kind benefits. Moving into the medium term - as the fall out unfolds, and where social tensions emerge - there is a strong opportunity to scale up these interventions and modalities of response – with an emphasis on self-employment opportunities, linkages to markets and promoting resilience.

Generating temporary jobs through public works programs, such as Latvia’s Workplace with Stipend program, can also play a role in helping the government addressing temporary unemployment. Those registered as unemployed could participate in the program for up to six months, and the program was quickly oversubscribed; more than 110,000 temporary jobs were created between 2009-2011, and beneficiary incomes were 37% greater than non-beneficiaries. Other programs incentivize those with low to moderate incomes to stay in the formal workforce, such as the Earned Income Tax Credit in the U.S., which provides tax credits equal to a fixed percentage of earnings up to a maximum amount – the program has been found to have increased the employment rates of single mothers by 2-10 percentage points. We discuss the possible role of public works in more detail below.

In the context of COVID-19, social assistance programs have been scaled up by over 230%, with about 15% of the world’s population (but only 2% in Africa) receiving at least one COVID-related cash payment, and more than 271 programs been introduced, expanded or adapted to respond to the pandemic. Examples include the following:

- Anticipating payments of future cash transfer programs, like in Colombia and Indonesia;
- Ensuring additional payments from existing schemes, often on a one-off basis (e.g., Argentina, Armenia, Australia, Turkey);
- Providing more generous benefit levels (e.g., China);
- Increasing the coverage of existing cash schemes (e.g., Brazil);
- Enhancing program agility by suspending conditionalities, like in the UK and Italy;
- Proving a universal, one-off cash payment to all citizens, such as in Hong-Kong and Singapore.

These changes have occurred relatively rapidly, especially in high and middle-income countries. Currently, no country in Sub-Saharan Africa appears to have planned for pandemic-sensitive safety nets.

B. Income Protection for the Unemployed: Severance Pay and Unemployment Benefits

As companies around the world cut production and close workplaces due to the COVID19 pandemic, millions of jobs could be destroyed. This could leave massive numbers unemployed and make job search harder for those already unemployed.

Severance pay and unemployment benefit schemes are designed to provide income protection to workers who have lost their jobs and to facilitate transitions between jobs. There are, however, important differences between the two. Severance pay is regulated by labor law and based on the concept

---

of employer liability; whereas unemployment benefits are financed collectively by workers’ contributions, and their payment is secured, regardless of the situation of employers. There is a considerable issue regarding nonpayment of severance pay by employers, especially during economic crises, so this section focuses on the role unemployment benefit systems can play during a crisis.

The primary objective of unemployment benefit schemes, as an integral part of the social protection system, is to provide adequate income protection to the unemployed while also serving employment policy goals. Such schemes aim to (a) guarantee an appropriate level of income during periods of unemployment; (b) provide better protection of workers at a relatively low cost, involving risk pooling and redistribution; and (c) integrate unemployment payments with active labor market policies that facilitate effective job search and matching, additional training, or other assistance. Beneficiaries are typically required to look actively for work and/or participate in a training program to promote their job prospects.  

Studies on the role of unemployment benefits highlight the welfare-increasing effect of unemployment benefits, which is particularly important in the presence of inefficient private insurance markets and high-risk aversion during economic downturns. From a macro-economic perspective, unemployment benefits have a stabilizing and consumption smoothing impact on the economy as they support the demand for goods and services. The allow households to maintain their income and consumption during unemployment. This, in turn, reduces the urgency of job search, which leads to a substitution effect between work and leisure. The substitution effect and the income effect have contrasting welfare implications. Some studies suggest that higher benefit levels and longer benefit duration tend to be associated with longer spells of unemployment and, among other things, can lead to a decline in the intensity of job search. But there is also evidence that beneficiaries with longer benefit duration find jobs at higher wages and with longer tenure, because they are better-matched to the jobs. In developing countries, where the informal economy predominates, unemployment benefits may help prevent formal laid-off formal sector employees from adding to the ranks of the informal economy during economic downturns.

In response to the crisis, countries with existing UI programs can scale up their unemployment benefits to cover more unemployed workers for longer. Parameters of unemployment benefit schemes can be modified to better cater to the needs of the unemployed. For example, eligibility criteria can be temporarily lowered so more workers receive the benefit. This can take the form of shortened vesting (contribution) periods for benefit entitlement; or simpler remote (online) registration procedures to reduce waiting times. Self-employed workers can be covered using a special facility under the umbrella of the unemployment benefit system. Conditionalities that can lead to benefit suspension or reduction can be relaxed. Unemployment benefit systems often require jobseekers to participate in active labor market programs, such as training courses and/or require the acceptance of job offers. Such rules may run counter to the ‘social distancing’ requirements of the COVID-19 pandemic and may need to be temporarily lifted. Related measures to mitigate moral hazard - such as the need to proof job search - can likewise be

31 EC (2006); Arias et al. (2014); Lalive, Ours, and Zweimüller (2006).
32 Nekoei and Weber (2017); Caliento et al. (2013); Tatsiramos (2009); Acemoglu and Shimer (2000).
33 Peyron-Bista et al. (2014).
relaxed as they may hamper the scaling up of the program. There are also crisis-specific modifications that can improve the effect of unemployment benefits. Benefit levels can be increased by introducing a minimum amount, thus increasing the income replacement rate, or by raising caps, or by providing lump sum payments. Such adaptations should be designed, especially, to protect low income workers. Benefit duration periods can also be extended so that participants keep income protection during the crisis.

**Public funding is crucial for extending unemployment benefit schemes in times of crisis.** Well-designed unemployment benefit schemes incorporate automatic or semi-automatic measures that extent the protection depending on economic indicators. They require government support to enable the scaling up, guarantee its operation and cover subsequent deficits.

**In exceptional circumstances, when no public funding is available, countries are also considering more flexible funding approaches – e.g. by temporarily reallocating savings for long-term benefits to UI.** In countries with no fiscal space but with large mandates for old-age pensions savings, unemployment benefits can be increased by allowing individuals to borrow from their mandated savings. For example, during the 2008 financial crisis Mexico – which lacked a proper unemployment benefit system - facilitated the withdrawal of savings from mandatory individual pension accounts. When growth slowed in 2015 causing a spike in unemployment, Indonesia gave dismissed workers access to their retirement savings accounts, but without setting any limits, fines or interest rates for repayments. However, giving people access to their old-age savings raises risks they will not have an adequate account balance to finance their retirement needs. For this reason, such measures should be taken only as an extreme resort, as they imply a shift of the crisis burden away from the state and reduce workers’ future pensions entitlements. These measures, when taken, need to come with clear limitations and target those in need.

**Unemployment benefit systems can also leverage crisis-specific interventions.** In the Netherlands, for example, employers can apply for a permit for a reduction in working time. Employees can then receive a temporary unemployment benefit for hours not worked, while remaining fully employed. The permit is valid for a period of a maximum of 6 weeks and can be extended for up to 24 weeks. Employers must meet the following conditions: (i) the company has been affected by a situation that does not fall under the ordinary business risks (such as COVID-19); (ii) during a period of 2 to 24 weeks, sales are at least 20% lower than normal.

**Developing countries without unemployment benefit systems could consider putting one in place ahead of future crises.** The few unemployment benefit schemes that exist in low and middle-income countries suffer from low coverage and favor relatively better-off formal wage earners. Even among people who have lost formal jobs, only a small share of these unemployed actually receive benefits because they have not met eligibility requirements - relatively stable tenure and continuous periods of contributions. This is an obstacle to coverage for youth and other first-time jobseekers for whom sustained periods of prior contribution are difficult. Many unemployment benefit systems also have very short pay-out periods, unrelated to median duration of unemployment which can extend further during a crisis. So, expanding coverage of UI benefits either by loosening eligibility requirements or by extending their duration during a downturn can further their reach to a greater number of workers, though

34 Robalino, Newhouse, and Rother (2012).
admittedly not the most vulnerable. Where their financing is supplemented by budget transfers, UI plans can be regressive. This issue is particularly pronounced in developing countries with dual labor markets. However, better designs of unemployment benefit systems can mitigate such issues with minimum income support, progressive taxation, and unemployment savings accounts. Such adaptations to the developing country context could help lower- and middle-income countries’ macro-economy and better protect their workers.

Given the sensitivity of income-protection policies, it is important to have a broad social dialogue involving key stakeholders when designing or changing an unemployment benefit scheme. ILO assessments of country responses to the COVID-19 crisis highlight that social dialogue has been supportive in the early stages of the crisis response in many countries, helping to achieve consensus on policy measures to protect workers and enterprises particularly hard hit by the crisis.

**ADAPTING EXISTING ALMP TO SERVE AS EFFECTIVE CRISIS RESPONSE TOOLS**

Short term income support responses are normally used to leverage other labor market policy instruments to support job search and reintegration to work. Systems that integrate UI benefits with other services often aim to move beneficiaries away from financial support through policies that mandate job search activities to help them get back to work. These programs are more common in high income and high middle-income countries.

However, during the COVID-19 crisis, governments will need to tweak labor programs’ design for them to be workable. Some program rules that may need to be waived temporarily include:

1. Mobility restrictions hamper claimants’ the ability to apply for services or benefits in person or to obtain necessary documentation from different agencies (many of which may not be operating);
2. Conditionalities such as job search or training can be unviable, which could invalidate unemployment insurance eligibility;
3. Rules that exclude workers on short term or freelance contracts or with insufficient contribution density;
4. Social assistance (an alternative for those without unemployment insurance) may need to waive means test rules that rely on previous tax declarations; or that exclude owners of assets such as homes and cars.

Active labor market policies can also support business continuity. In the short run, to allow businesses and services to continue operating safely and serve the population, relevant services could include:

- Supporting small businesses to develop e-commerce so they can continue trading and serving customers at a distance;

---

• Improving health and safety standards for preparation, handling and local delivery of food and merchandise;
• Expanding payment systems (mobile, and online) with low transaction costs for small businesses and connection with financial services (including credit);
• Reduced or subsidized fees for internet connectivity;
• Online training for furloughed workers;
• Special rules regarding workplace safety will have to be drafted and more strictly enforced in the aftermath of the crisis.

Together with wage subsidies, some countries—especially in East Asia—are strengthening their active labor market programs, particularly intermediation services and skills training. This is the case, for example, in China, Indonesia, Malaysia and the Philippines. In Indonesia, for example, Kartu Pra-Kerja, a program that provides subsidized vouchers for unemployed workers for skilling and re-skilling has doubled in its allocated budget. The program will be accessible to an estimated 5.6 million informal workers and small and micro enterprises who have been affected by COVID-19. The Indonesia National Police will have a program similar to Kartu Pra Kerja, called Safety Program, specifically targeting bus, truck, and taxi drivers, covering an estimated 197,000 beneficiaries.

Countries are increasingly considering public works as well as they can provide temporary employment to laid-off workers. In the absence of unemployment benefit schemes or training systems, public works can provide a source of income and job experience for low-income workers. In past crises, they have played an important role in absorbing the unemployed in developing countries and made a difference, especially among the vulnerable and the poor. Jobseekers in the agricultural or urban informal sector can benefit from public works in times of crisis. Public work programs that are well designed in terms of the length of the employment contract and the level of wages can provide adequate protection to low-income jobseekers without reducing incentives to work or search for jobs that arise when the economy rebounds.

Existing public work (PW) programs can be scaled up and modified to counter the jobs crisis. Most countries that deployed public works effectively during past crises already had systems in place. For the workers, these programs establish a minimum income and give them work experience which improves their future employability. Beneficiaries are usually well targeted and receive on the job training. The more innovative programs provide soft skills training on top of technical skills. Existing PW programs are focused mainly on public infrastructure such as the construction and maintenance of piped water, electricity and gas, sewage, roads, schools, hospitals and other social facilities. Some countries already

39 Robalino, Newhouse, and Rother (2012).
40 Nair et al. (2018), Gehrke and Hartwig (2018), Subbarao et al. (2012).
41 Robalino, Newhouse, and Rother (2012).
have “banks” of pre-approved projects submitted by municipalities for implementation during a future crisis; countries that plan ahead are able to more effectively deploy public works in the times of crisis.

**The cost-effectiveness of PWs depends on their policy goal.** The complexities of developing and managing projects that involve construction are typically large. This puts the efficiency of traditional public works as a tool for building infrastructure into question.\(^4^2\) If the goal is to create jobs, countries might end up choosing production technologies that are too costly for the projects at hand and give less attention to issues related to the quality and durability of the infrastructure being created. If the goal is to protect incomes during periods of unemployment, public works may not necessarily be superior to direct transfers. If the goal is to provide training and experience, building training systems and providing wage subsidies to increase hiring probabilities may be better. However, if the goal is a mix of the above and an excess labor supply needs to be absorbed in the short-term, traditional public works may be well justified. Their expected impact should, however, be weighed against their cost and compared to policy alternatives. An alternative model might be a combination of cash transfers to protect the most vulnerable with stimulus packages invested in infrastructure through “regular” channels instead of through traditional public works.\(^4^3\)

**While the scaling up or activation of public works will take time, to mitigate the looming jobs crisis it is important to start the preparation process as early as possible.** This includes: (i) identifying the communities to be targeted (ii) lining-up ready-to-implement interventions; and (iii) defining health and safety norms, to conduct public works prudently in the aftermath of the pandemic.

In the short run, public works can be made more COVID-19-sensitive.\(^4^4\) Countries can adapt existing public work programs to the crisis; or design new approaches for quick deployment. Drawing from international experiences with current and past pandemics, there is emerging evidence and options on ways to adapt public works to COVID-19. These include programs in the Central African Republic, DRC, Kenya and Philippines, for example, as well as in several high-income contexts. Activities can be devised to dovetail the work of community health workers and broader public health interventions, such as support for tracing, sanitation, fumigation, and mask production. In a number of cases, those programs are implemented in urban areas, with specific parameters to be calibrated in line with prevailing social distancing policy. The crisis can also be an opportunity to expand public works into new areas, including “digital” or “remote” public works. These adaptations can build upon the increasing availability of digital devices and infrastructure in developing countries.\(^4^5\) They can meet ‘social distancing’ requirements and mitigate the health concerns that may linger at later stages of the crisis. “Digital” public works may also help reduce the stigmatizing of participating workers and can expand the scope of PW well beyond the

\(^{4^2}\) Flyvbjerg, Skamris Holm, and Buhl (2002).

\(^{4^3}\) Ribe, Robalino, and Walker (2012).

\(^{4^4}\) Bance and Gentilini (2020); Weber (2020)

\(^{4^5}\) For 2019, the estimated percentage of households with Internet access in developing countries is **46.7**, up from **17.4** in 2009. Over the same period, mobile cellular subscriptions and active mobile broadband usage **expanded exponentially in developing countries**. However, the least developed countries are still lagging with only **19.1** percent Internet access. See: [http://www.itu.int/ict/statistics](http://www.itu.int/ict/statistics)
traditional activities of construction and maintenance of physical infrastructure. They can also increase the cost-effectiveness of PW. Such new approaches may be particularly attractive to poorer urban communities where the basic infrastructure is already in place. Particularly, vulnerable youth and women could benefit who are typically also hardest hit by economic crises. However, the design of these digital public works would need to account for any access limitations these groups may face and involve investments to bridge the digital divide. Finally, public works could also contribute to a sustainable recovery if, for example, they contribute to “building back better”, including “building back greener”.

The Informal Sector

Developing effective and quick measures to manage the employment impacts of the crisis is particularly challenging in low- and middle-income countries, where informal employment and informal businesses are the norm. Most employment in low- and middle-income countries is informal. Most firms are also informal. Formal wage employment, with a labor contract, social insurance and health benefits, covers only 20 percent of jobs in low-income countries, and half of this is in the public sector. Whereas wage employment accounts for two-thirds of all jobs in UMICs, and 90 percent in HICs, formal wage work in UMICs is estimated to be only about half of all jobs. Reaching informal workers and businesses is difficult because they are often not registered and are often cut off from formal credit institution. That makes tax relief schemes that depend on registration with the tax authority; wage subsidies that depend on tax or social security administration registration; or credit-related measures that depend on linkages with formal credit institutions less effective tools than they are in more advanced economies.

Possible options to reach the informal sector include the following:

- Support formal sector businesses that have value chain linkages to informal businesses—e.g. as input suppliers.

- Work through micro-credit organizations and informal business associations. Governments can use these organizations as intermediaries in the provision of liquidity to help informal businesses in their networks stay afloat during the crisis and facilitate recovery afterwards.

- Support informal workers through household-level interventions, by expanding social registries beyond the poorest so they cover less-poor households with informal jobs that might be vulnerable to income shocks in a crisis. Many informal workers are self-employed or work in household enterprises. This requires collecting information on potential beneficiaries, their identities and location. Partnering with organizations that already work with informal businesses can help create a registration system for this purpose. In Togo, for example, a new mobile cash-transfer program, NOVISSI, aiming to support informal workers was launched in April. Eligible

---

applicants receive a state grant of at least 30 percent of the minimum wage, with payouts from CFAF 10,500 ($18) to CFAF 20,000 ($34). Almost two thirds of the beneficiaries are women. The Novissi program was revised in late June with eligibility limited to workers in specific districts recording a high contagion rate. In total, 1.4 million individuals have registered and close to 600,000 have received a NOVISSI payment so far.\footnote{IMF 2020.}

For many low and middle-income countries, there is a small, but rapidly closing, window of opportunity to prepare—not only for the imminent health crisis—but also for the subsequent employment crisis. Since most countries do not have effective mechanisms in place to reach most informal businesses and workers, solutions need to be pragmatic and will often be imperfect. They are likely to leave some without support, even if they need it. Where the crisis is still in an early stage, there could be a short window of opportunity (weeks, not months) to improve mechanisms to reach those not covered by social registries/ assistance programs or by schemes for formal wage workers (like wage subsidies).
2. RESTRUCTURING: SUPPORTING WORKERS’ AND FIRMS’ TRANSITION TO “NEW NORMAL” FOR A RESILIENT RECOVERY

As countries gradually re-open for business and ease lockdowns and physical distancing measures, the goals and instruments of employment-related policies changes. The process of reopening, however, is bound to be slow, and measures are often being reintroduced if infections rise again.

The relaxation of lockdowns and other crisis measures is unlikely to mark a return to business as usual; rather, it is likely to be a transition to a “new normal”. This “new normal” is a first stage toward a recovery. As strict lockdown measures are eased and markets return to some sort of “new-normal” functioning, the initial phase of relief will give way to a restructuring phase. With likely variations across contexts, economic activity will gradually return but it will still be far from normal for workers and firms. After all, the impacts of rising unemployment and underemployment will not disappear and labor market conditions may still worsen as emergency measures are phased out.

As a first step, countries will need to have an exit strategy from current emergency measures. Countries around the world have responded strongly to the crisis, often setting up record-setting support packages for firms and workers aimed at sustaining livelihoods, saving jobs and preserving the production capacity of firms. But these measures, given their nature and the fiscal cost, need to be time-bound. When countries reach the first stage of recovery, it is time to think about abandoning or adapting these measures as necessary. In the case of support to firms, this means paying more attention to firms’ viability and supporting innovation and investments to adapt to the new reality of doing business. For workers, wage subsidies aimed at preserving employment can gradually shift towards promoting employment, complemented-by measures to support employability of vulnerable groups, particularly women. This exit strategy will need to be differentiated by sectors, as some may recover faster than others and uncertainty, physical distancing and mobility restrictions are more binding in some activities than others.

Changing market conditions in this phase, not to mention rising fiscal constraints, means that support to firms will need to adjust. Specifically, with the return of demand (if not to pre-crisis levels) and fewer restrictions on access to supplies, government policy should shift from blanket support to all firms to preserve jobs to targeted support to firms that are most capable of maintaining and creating productive jobs (with viability determined through financial system processes). The important point here is that the impact of the crisis (and the nature of the recovery) will not have been homogenous across sectors and firms. With market conditions back to a “new normal”, some firms will be in a position to resume, grow, and create jobs, while others will remain at high risks of insolvency.

However, even those that are productive and capable of becoming job creators will likely continue to face a credit crunch, as risk aversion in the financial sector is likely to be high. Therefore, continued
support through the provision of access to credit will be needed, including for working capital but also increasingly to support firms undertaking new investments or (re-) entering export markets. In this context, credit guarantees will continue to play an important role. In all countries, supporting access to finance in the post-crisis recovery period will require close attention to the health of the financial sector. In low and middle-income countries, particularly those with large informal and microenterprise sectors, support to ensuring the liquidity and viability of microfinance institutions will be particularly important. At the same time that governments continue to promote access to working capital and investment capital, they may start scaling back provisions to forego or defer payments (e.g. on taxes, utilities, loans, etc.). Such shifts in the nature of support will automatically adjust the targeting of government support toward firms that are in recovery and growth mode; it will also help restore the health of key supply sectors.

**Government support to firms in the restructuring stage can also be effective in enabling firms to adjust to the “new normal” and to promote the aims of “building back better” for a resilient recovery.** For example, fiscal incentives may promote adoption of technologies needed to support remote working and/or business-to-business and business-to-consumer interchange. There may also be incentives made available to firms to undertake retraining of workers and to promote upskilling among the workforce.

Similarly, the COVID-19 “new normal” will require governments to continue implementing strong actions in support of workers. Three pillars can help set the stage for supporting workers and the overall recovery of labor markets:

1. **First, get the timing right for tailored support to the “COVID-19 Generation” of workers.** Timing is key. From previous crises, we have learned that workers who start looking for a job during a recession, experience significant negative impacts on employment and income compared to those with better “timing”. 48 Recent graduates, first-time jobseekers, and workers who lost their jobs during this crisis form the core of the “COVID-19 Generation”. Many women—who carry a disproportionate share of family and household responsibilities, particularly in the face of school closures—are also at a particularly high risk of being scarred. They and should be the main target of policies to avoid long-term impacts. The longer they are out of work or underemployed, the more difficult it will be to reverse the adverse impacts of the crisis. Since “scarring” effects tend to be particularly pervasive among low-skilled and more vulnerable workers, further focusing on the needs of these groups is critical.

   “Traditional” wage subsidies aimed at supporting new hiring are an important tool; so are other complementary measures aimed at supporting employability, including technical and socio-emotional skills training aimed at reskilling or upskilling workers, childcare support, and intermediation services aimed at facilitating job transitions. 49 Technology can boost the implementation of these labor market programs and help speed up and improve the quality of

48 Yagan 2019; Cockx and Ghirelli 2016; and Umkehrer 2019.
49 For more details and examples of policies that can be implemented in these areas, see Rahman et al (2020) and Hoftijzer et al (2020).
job matches, particularly in the face of structural changes to skills demands and increased demand for intermediation services emerging from job creation and destruction dynamics in the wake of the crisis. Hence, technology can help minimize physical contact but also make programs and interventions better targeted and more cost-effective.\footnote{In the context of the 2008 financial crisis, a number of countries expanded their scholarships programs to students and made terms more flexible for tuition subsidies (particularly in universities) in order to delay entry into the labor market and, hence, the risks of scarring. In the current crisis, we have seen some extension regarding program conditions but mostly in response to the temporary suspension of classes, closures or early termination of study terms. That said, some countries, for example Indonesia, are considering using incentives such as scholarships to keep students in the education system longer amidst an unfavorable labor market.}

2. \textbf{Second, worker protection measures should expand to cover more workers and work safety conditions require upgrading to allow for a safe return to work.} In addition to the updating and enforcement of occupational health regulations, efforts are needed to reach informal and low-income workers in low- and middle-income countries, even in the relief phase. These workers often have no other option but to go out and work. Work in the informal economy can also often entail high exposure to germs, health and environmental hazards and overall unsafe working conditions without protective labor regulations in place. It is important that governments and larger firms make efforts to provide a safe and hazard-free workplace. Since low-income workers are the least likely to have access to work protection measures or information on how to work more safely, deliberate efforts are needed to reach them. The free or subsidized provision of basic protection gear (such as masks) and portable infrastructure (such as for handwashing as seen in Rwanda) and partnering with informal sector associations to disseminate information and help enforce social distancing measures could be helpful. Ghana’s Ministry of Local Government, for example, has begun to provide free sanitary equipment in markets across the country in an attempt to improve personal hygiene and disinfection.

3. \textbf{Third, stimulate overall labor demand and livelihoods.} Even as businesses reopen, local and international value chains may have fractured, and many countries are or will be in a recession. This causes a potentially vicious circle that will depress labor demand for longer, even after the health emergency eases. Hence, stimulating labor demand through the tax system and government spending—including social assistance programs — will be critical. Particularly for informal workers and household enterprises in developing countries, social assistance programs should continue to help sustain livelihoods. They can be phased out at a slower pace than other COVID-19 emergency measures. Public works, including innovative digital and green public works, are also important policy instruments that can help stimulate labor demand towards the eventual recovery.


Gourinchas, P. 2020. “Flattening the Pandemic and Recession Curves” Available at: https://drive.google.com/file/d/1mwMDiPQK88x27JznMkWzEQpUVm8Vb4WI/view, accessed 03/21/2020.


Most Recent Jobs Working Papers:

Parikh, Vismay; Shakya, Anupama

47. Jobs Interventions for Refugees and Internally Displaced Persons [2020]
Schuettler, Kirsten; Caron, Laura

46. Market study to understand job growth potential in SMEs in Nepal [2020]

45. Allocating Subsidies for Private Investments to Maximize Jobs Impacts [2020]
Robalino, David; Romero, Jose Manuel; Walker, Ian

44. Olive Oil, Medicinal and Aromatic Plants, and Tomatoes in North-West Tunisia: A Roadmap to Developing Competitive Advantage on Strategic Markets [2020]
Salhab, Jade; Weber, Michael; Paganini, Tindaro; Khamassi, Faten; Bellagha, Sihem; Hadj, Housssem Bel; Laabidi, Fatma

Weber, Michael; Salhab, Jade.

42. Olive Oil in the North-West of Tunisia: Findings from a Value Chain and Jobs Survey [2020]
Weber, Michael; Salhab, Jade; Tsatsimpe, Keratilwe; Sanchez-Quintela, Sonia.

41. Medicinal and Aromatic Plants in the North-West of Tunisia: Findings from a Value Chain and Jobs Survey [2020]
Weber, Michael; Salhab, Jade; Sanchez-Quintela, Sonia; Tsatsimpe, Keratilwe

40. The Future of Work in Agriculture - Some Reflections [2020]
Luc Christiaensen, Zachariah Rutledge, and J. Edward Taylor

Click here for full Jobs Paper Series