Managing the Employment Impacts of the COVID-19 Crisis
Policy Options for the Short Term[1]

This note discusses short-term policy options for managing the employment impacts of the COVID-19 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 sector. The note covers complementary policies aimed 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 (ALMP).

The main message is that countries need to support the spending capacity of households 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. If countries fail to do this, there are likely to be large secondary demand effects that reinforce the problem through the common multipliers.

The Nature of the Crisis

The COVID-19 crisis is not only a health crisis, but also an economic and employment one. Although it is early, impacts are starting to be seen in official statistics. Labor market prospects appear to be worsening rapidly, and expected impacts are large. The ILO estimates a significant rise in unemployment and underemployment as a result of the crisis. Preliminary ILO estimates point to a rise in global unemployment of between 5.3 million ("low" scenario) and 24.7 million ("high" scenario) from a base level of 188 million in 2019. For comparison, the global financial crisis of 2008-9 increased unemployment by 22 million.[2] However, this might turn out to be an underestimate. Private sector analysts are already predicting much greater output and employment shocks in the absence of powerful policy responses (e.g. Goldman Sachs).

A crisis that started as a supply-side shock for labor markets has rapidly evolved into a joint supply and demand crisis. Due to health concerns, illness, travel bans, quarantine measures and other mobility constraints, many workers cannot get to work; when they do work, productivity—and with that, often incomes, are affected. In terms of labor demand, global and local supply chains have been disrupted; across many countries, businesses have been closed or remain open only limited hours; even when operating, lower consumer demand affects earnings. The ongoing crisis, and the uncertainty surrounding its duration and impacts, create an environment where investments and new hiring are deterred. Permanent business closures, rising unemployment and loss of livelihoods are big concerns.

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[2] ILO (2020).

Impacts in the economy, while widespread, are likely to hit some groups particularly hard. While impacts are felt across the board, continuing operations is likely to be 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 in temporary contracts or in the informal sector, are also likely to be disproportionally affected. Even when the health crisis ebbs and measures that restrict work and mobility ease, some industries may face a longer route to recovery than others.

How these shocks play out and how governments best respond depends on the length of time between decline and recovery (i.e. will it be a 'v-shaped' or 'u-shaped' recession), itself mediated by how long social distancing measures last.[3] One unique aspect of the current crisis is the need to discourage production and consumption on public health grounds. At the current stage of the COVID-19 crisis, the problem is primarily a labor demand shock linked to initiatives to control the epidemic that is expected to be largely temporary in nature. Of course, 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 a draft toward a 'u-shaped pattern. 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.

Even in the case of a 'V-shaped' crisis with a relatively quick "bounce back" recovery, the employment impacts can be severe and risk long-lasting effects, if responses are not swift and comprehensive. This note focuses on the short-term responses to the employment crisis, that is, what governments can do while the public health crisis is still ongoing. The measures discussed err on the side of doing too much rather than too little, and—being complementary — risk overlaps in terms of beneficiaries and creating some duplication. Given the severity of expected impacts, both risks are probably acceptable in most cases.[4] As the health crisis subsides or if the health crisis continues beyond the two or three months that countries are currently preparing for, a different package of measures would be required.

A Policy Response for the Short-Term

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 workers 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 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.

[3] Gourinchas (2020).
[4] Baldwin and Weder di Mauro (2020).

Hence, we focus on interrelated policies aimed at: The note covers complementary 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).

1. Helping businesses survive and retain workers

1a. Providing liquidity to firms to avoid closures and layoffs

In the context of the COVID crisis, firms face multiple shocks that threaten their viability. First, firms face a *supply shock*. Formal movement restrictions and health concerns are leading to a collapse in the supply of labor and goods; so, firms find 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. Across the board, declining incomes (as a result of rising unemployment) and wealth (as a result of deteriorating financial markets) are leading to depressed demand. Faced with these shocks, firms that hope to stay in business need to maximize liquidity. One way to do this is access additional working capital, through obtaining 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*[5], as a result of increasing risk, blocking access of firms – especially SMEs – to working capital as well trade finance at precisely the time they need it most need it. In the absence of access to additional credit, firms may either need to shut down completely or sharply cut costs, which typically means cutting variable costs (the largest of which, for most firms, is labor) and/or deferring payments.

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[6] **so that they can continue to pay workers and other key bills (e.g. rent, utilities, etc), as well as preserve the network of economic linkages so that firms can respond when market conditions rebound.** What is unique in the current crisis is that the overarching priority to address public health concerns means that the objective, at least in the short term, is not necessarily to keep firms operating[7], but rather to allow them to maintain their workforce and remain viable even while stopping operations.

These interventions can be organized into two very broad types:

1. **<u>Injecting cash into firms</u>**: This has most commonly focused on improving access to credit. Most commonly this is done through governments (central banks) issuing *lines of credit*, in some cases

[5] 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.
[6] 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.
[7] 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.

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.[8] Governments may also look to promote *factoring* 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[9] 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.

2. **<u>Retaining existing cashflow</u>**: 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; speeding up payments on government contracts or repayments from government (e.g. VAT or duty drawback reimbursement)*.

As the crisis response will eventually shift toward the recovery stage, it is important that the above interventions also support firms to be prepared to re-start operations quickly and to adjust to what may be a rapidly evolving external environment. This 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--eg. electricity, transportation, etc.,* as well as provision of investment capital (rather than just short-term working capital).

The key benefit of these interventions targeting 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.

Three main 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 in a 'v-shaped' crisis, is that the speed of response is far more important than its efficiency. That said, there remain questions over whether government should provide support to the enterprise sector on a

[8] 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 covd-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.

[9] See https://www.theguardian.com/commentisfree/2020/mar/17/governments-crisis-coronavirus-business

universal basis or should target specific industries that are particularly hard hit (e.g. in the case of the corona-virus, travel and transport, hospitality). Again, however, given the extraordinary nature of the crisis, there remain strong arguments to take a universal approach.

- *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 ultimate 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 already been agreed in Germany and the UK, among others, to avoid the unemployment insurance systems being overwhelmed. In countries without UI 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.

Delivering support to informal firms

The above-mentioned measures work can relatively well in an environment where most firms are formal. But in much of the world, the private sector and jobs are largely informal. The 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, etc. 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, any measures targeting informal firms must be combined with expansion of social assistance measures that goes beyond the poor and includes informal workers.

Among the measures that can be considered for informal firms are:

- **Injecting cash into informal firms**: Like the approach taken for formal firms, governments can provide loans 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. 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 a public health crisis where the objective is not to maintain operations but rather maintain viability in the absence of operations.

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.

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 U$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.
- **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.

1B. Fostering worker retention in firms through employment subsidies

Employment subsidies can help firms to bridge a period of inactivity while retaining employees who might otherwise be laid off and face a potentially long unemployment episode. Employment subsidies can take the form of wage subsidies or reductions in other payroll-associated costs. Wage subsidies are direct transfers to employers/firms or individual workers aimed at covering wages, in full or in part. Subsidies to other payroll costs may instead cover shares of income taxes, social security contributions, or combinations thereof. The general principle of wage subsidies is that by reducing labor costs to firms, they encourage them to hire more workers than they would otherwise hire, and may also increase wages. The magnitude of the increases in jobs and wages depends on the elasticities of labor supply and labor demand. In the current context of the COVID-driven recession, the idea is to prevent or reduce layoffs and salary cuts, even if workers might have been furloughed and production is halted.

The reduction payroll costs resulting from employment subsidies can also be viewed as a fiscal stimulus to firms. They are an alternative to subsidized loans or capital grants given to firms, conditional on maintaining the payroll. Both types of policies have been used extensively in the past. Rather than being equivalent or substitute policies, they should be thought of as complementary, with some important differences. An advantage of employment subsidies is that firms can still decide on the optimal level of hiring (at the subsidized labor cost). Capital grants that are conditional on maintaining employment levels give firms less discretion.

The scale of the COVID crisis requires a high level of subsidy, which will carry a high fiscal cost. 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.[10] As a result, few firms take them up. In the current situation of the COVID crisis, subsidies will need to cover a large proportion of wages, and most likely combined with (at least temporary) flexibility in regulations around working hours and arrangements. In exchange for generous subsidies, conditions on workers' retention can also be tightened. In major OECD economies wage subsidies for furloughed workers have been set as high as 90% in Denmark and 80% in the UK.

The economic efficiency costs of wage subsidies are less of a concern when they are used counter-cyclically. Among the problems often observed with wage subsidies are efficiency costs and substitution effects, but they are likely to be lower in the current crisis, where firms face a covariate demand shock rather than idiosyncratic difficulties that are specific to individual businesses. *Efficiency costs* arise when a wage subsidy induces the hiring of more workers (or laying off fewer workers) than what the firm would demand, at a total subsidized wage level that is higher than their marginal productivity within the firm. **"**Deadweight loss" occurs if a subsidy supports workers who would have been hired or retained in any case, regardless of whether subsidies were offered or not (also known as windfall wastage). *Substitution effects* can occur when a wage subsidy leads to the replacement of ineligible workers by otherwise similar eligible workers. Efficiency costs can be justified by the avoidance of the high social costs of unemployment and of negative human capital spillover effects. Substitution effects are also less likely if subsidy is offered to all employees, not just to new hires and can also be avoided by conditions that forbid layoffs.

Other risks are also lessened in the current situation. When a wage subsidy is aimed at employment retention during a temporary slowdown, issues of low-take up are unlikely, because firms that have already invested in selecting and training their workers and will usually be keen to retain them. Moreover, during the COVID-19 crisis, wage subsidies should not have a stigmatizing effect – the beneficiary workers are unlikely to be perceived as inferior by employers. To avoid the risks of "picking winners", subsidies should be available to all firms, which is also consistent with the nature of the current shock. When wage subsidies are combined with reductions in time worked, there is a risk that firms will keep reduced hours for too-long, so, when normal business opening hours resume, the program's rules will need to be revised.

In the context of the current crisis, several countries have already put in place wage subsidies, most often generous and combined with increased flexibility for firms in terms of work arrangements:

[10] See, for example, the case of South Africa (Levinsohn et al 2014).

- In **Austria**, a short-time work compensation scheme was launched that allows the reduction in work-time to zero hours with employers paying only for actual time worked and the government covering the rest, including taxes and contributions. In terms of conditions, workers have to consume all accumulated overtime and leave first and, over the course of the next 3 months, the employee must work at least 10 percent of normal hours.
- In **Denmark**, **Italy**, and the **UK**, to discourage layoffs during the crisis, employees of companies that have interrupted their activities receive a significant share of their salary paid by the state. In Denmark, the state pays up to 90 percent of the salary, up to about US$4,000 a month; in Italy and the UK, it is 80 percent of the salary.
- In **New Zealand**, $5.1 billion in wage subsidies was committed for affected businesses in all sectors and regions. Full-time workers (more than 20 hours/week) will receive $585/week, with $350 paid to part-time workers. The subsidy is paid as a lump sum and covers 12 weeks per employee. The maximum each business can receive is set at $150,000. The wage subsidies will apply to all employers in New Zealand – including self-employed people – providing they do not already work from home and cannot perform their jobs remotely.
- In **Poland**, employers facing turnover decline can lower working time to 80%, with 40% of average wages covered by the state while firms cover the remaining 40%. Or, companies can halt production, with wages reduced to half of regular level; in which case the state will cover almost half of the remuneration. In addition, one-person companies and people working based on civil law contracts could get up to 80% of minimum wage.
- In **Thailand**, SMEs can deduct for tax purposes three times the cost of salary payments made between April and July 2020 for employees enrolled in Social Security with a salary of up to 15,000 baht/person/month. Beneficiary firms must maintain employment equal to the number insured for social security at end-December 2019.[11]

Wage subsidies combined with special sick leave days should be granted to those affected by the virus and the cost should be subsidized by the government. Many countries have also asked firms to give vacation time (including in advance).

The experience of previous periods of economic downturn suggests that wage subsidies can indeed help in retaining employment.[12] Wage subsidies have proved effective at preventing employment destruction during a large scale crisis such as COVID-19. Negative assessments of wage subsidies usually relate to programs targeting the disadvantaged or promoting job creation in "normal" economic times. However, getting the subsidy programs up-to-speed can take time. Effective communication, social dialogue and clear commitments by the government are critical to limit job losses in the crisis.

How to expand wage subsidies beyond formal businesses and formal wage employees? In countries with large informal sectors there is often a social registry and governments often coordinates with organizations that work with the informal sector, such as informal business associations. Mechanisms may already exist to quickly sign-up beneficiaries (either online or with the support of local organizations). In

[11] Gentilini et al (2020).
[12] See, for example Cahuc (2019) for a review of short-time work compensation schemes and Bruhn (2016) for Mexico.

such settings, wage subsidies could potentially be expanded to informal wage workers as well. For example, wage workers (or to job seekers) could be given vouchers that can be redeemed by the employer against social contributions, or otherwise reimbursed against the wages paid.

2. Supporting households

2a. Cash transfers and other safety nets

Cash transfers are among the most widely used social protection programs worldwide. In general, over 500 million people are covered by those measures in low and middle-income countries – a level that reaches nearly 800 million if public works schemes are included (see later section).

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.[13] 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 States and Denmark) and discretionary stabilizers (in most member states of the European Union) significantly cushioned the impact of the recession. According to one estimate, the combination of safety nets, unemployment benefits and tax changes reduced the unemployment shock by 60%.

A common type of crisis response involves scaling-up existing guaranteed-minimum income (GMI) schemes – or even introducing new ones. For example, Greece's Social Solidarity Income Program, implemented nation-wide 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. On the opposite end of the spectrum, crisis-hit countries like Australia in 2009 have opted for one-off payments of cash to whole the population. A similar approach was adopted by Kuwait in 2011.

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

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[13] World Bank (2020), mimeo; Gentilini et al (2018).

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.

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.

Currently, there are at least 30 cash transfers programs that have been introduced, expanded or adapted to respond to the Coronavirus pandemic. Examples include the following:[14]

- 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.

2b. 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.

[14] Gentilini et al (2020).

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.[15]

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.[16] 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.[17] 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.[18] 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.[19]

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 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

[15] Kuddo, Robalino, and Weber (2015).
[16] Chetty (2004, 2008); Chetty and Looney (2006).
[17] EC (2006); Arias et al. (2014); Lalive, Ours, and Zweimüller (2006).
[18] Nekoei and Weber (2017); Caliento et al. (2013); Tatsiramos (2009); Acemoglu and Shimer (2000).
[19] Peyron-Bista et al. (2014).

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.

To reduce the fiscal impact, countries can also consider more flexible funding approaches – e.g. by reallocating savings for long-term benefits to UI. In countries with large mandates for old-age pensions savings, unemployment benefits can be increased by allowing individuals to borrow from old-age pension savings. During the 2008 financial crisis Mexico – which lacked a proper unemployment benefit system - facilitated the withdrawal of savings from mandatory individual pension accounts.[20] However, such measures imply a shift of the crisis burden away from the state and reduce workers' future pensions entitlements.

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.[21]

Developing countries without unemployment benefit systems could consider putting one in place ahead of future crises.[22] Social assistance transfers often effectively reach the wider population, but many unemployed benefit schemes suffer from low coverage and favor higher income, formal wage earners. Often, only a small share of the unemployed are receiving benefits, either because they were not in a formal sector job and are thus ineligible - a basic issue for youth and first-time jobseekers - or because their unemployment benefits have expired. So, expanding UI benefits or extending their duration during a downturn will most likely not benefit the majority of workers, and especially not the most vulnerable. As a result, UI subsidies can be regressive. This issue is particularly pronounced in developing countries with dual labor markets and weak labor market and social security institutions. In contrast, in developed economies, unemployment benefits, together with minimum income support and progressive taxation, have contributed greatly to reducing the depth and the duration of past recessions and have stabilized labor markets and consumption of goods and services. Adaptations of unemployment benefit systems to the developing economy context could help these countries benefit the macro-economy and better protect their workers.

[20] Robalino, Newhouse, and Rother (2012).
[21] See: https://www.jdsupra.com/legalnews/employment-alert-covid-19-netherlands-39563/, accessed 03/23/2020.
[22] Robalino and Weber (2013); Vodopivec (2004).

3. Adapting existing Active Labor Market Programs 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.

However, during the COVID 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.

Public works 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.[23] Jobseekers in the agricultural or urban informal sector can benefit from public works in times of crisis.[24] 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.[25]

[23] Almeida and Galasso (2010), Galasso and Ravallion (2004), Jalan and Ravallion (2003).
[24] Robalino, Newhouse, and Rother (2012).
[25] Nair et al. (2018), Gehrke and Hartwig (2018), Subbarao et al. (2012).

In the short run, countries can adapt existing public work programs to the crisis; or design new approaches for quick deployment. 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. The crisis can also be an opportunity to expand public works into new areas, including "digital" public works or public "remote" work which can help 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 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 vulnerable youth and women, who are typically also hardest hit by economic crises.

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.[26] 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 have "banks" of pre-approved projects submitted by municipalities for implementation during a future crisis.

Depending on the policy goals, traditional public works may not necessarily be a cost-effective intervention. 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.[27] 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.[28]

The Informal Sector

[26] Robalino, Newhouse, and Rother (2012).
[27] Flyvbjerg, Skamris Holm, and Buhl (2002).
[28] Ribe, Robalino, and Walker (2012).

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.

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).

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