

Thematic Team on “Rigorous Impact Evaluation”

Protecting workers and firms in times of crisis: Key labour market policies for low- and middle-income countries

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Covid-19 has affected economies, firms and workers all over the world. What started out as a health crisis soon developed into a pandemic with severe economic and labour market impacts worldwide. Beginning in February 2020, public health measures such as social distancing, business lockdowns, travel bans and quarantines have reduced income-generating activities of both firms and workers. By August 2020, around 70% of countries still had mobility limitations in place that affected businesses and livelihoods (University of Oxford, 2020). It is thus not surprising that, as a result of the pandemic and corresponding public policy responses, the global economy has been hit very hard, surpassing previous crises (ILO, 2020): working hours decreased, unemployment rates soared, incomes were lost, and businesses closed.

Economic impacts are particularly severe in low- and middle-income countries (LMICs) for vulnerable groups like informal workers, women and youth, and also for small and medium-sized enterprises (SMEs). The crisis exacerbated inequalities and particularly affected those lacking sufficient social protection: informal workers are typically not covered by wage subsidies or unemployment insurance and do not benefit from formal company-level interventions. Households of

KEY MESSAGES

- The labour market crisis response can be organized during three phases: Assistance, Reorganization, and Resilience Building.
- In the assistance phase, countries need to limit detrimental employment and livelihood impacts and protect firms’ productive capacity, including facilitating alternative employment.
- During reorganization, countries need to exit from emergency measures and adopt more targeted policies while ensuring a successful transition to the new normal that puts people back to work.
- Ultimately, resilience for future crises needs to be improved by expanding social protection programmes as well as digital registry and payment systems.

informal workers often also do not receive food or cash transfers from social assistance programmes and without regular work cannot sustain their livelihoods for a long time (Gentilini et al., 2020). Women are particularly affected, as they are predominantly in charge of child-rearing and dependency care in addition to working in more vulnerable sectors (Carranza et al., 2020). Similarly, migrant workers are disproportionately suffering from the crisis due to lesser worker protections, riskier and more vulnerable jobs, and travel restrictions (Ratha et al., 2020). From a company perspective, impacts are likely to be felt more strongly in smaller enterprises that lack capital to absorb shocks for extended periods. Informal firms are worse off as they may not qualify for financial support.

This note describes key labour market and social protection policies in LMICs during the three distinct phases of crisis response: Assistance, Reorganization, and Resilience Building. In the first phase, policies should **assist** firms and workers in mitigating the immediate economic effects of public health containment measures. After the initial phase, as measures are eased and countries gradually reopen their economies, the focus of the policies switches to supporting firms and workers to **reorganize and adapt** to the new normal (Carranza et al., 2020). In the longer term, the goal of **building resilience** becomes central to cushion any further shock and help economies to fully recover. Measures in LMICs differ in comparison to high income countries as jobs are much less adaptable to working from home and thus more threatened by lockdowns (Hatayama et al., 2020). Throughout the brief, evidence from the academic literature is used to propose policy options for the three phases. These options are also set in relation to the current response by German development cooperation to support firms and workers in LMICs.

PROVIDING ASSISTANCE IN THE SHORT TERM

Early assistance measures should ease the immediate impact of the public health measures for otherwise competitive firms by reducing liquidity constraints and retaining employment

levels. Liquidity injections should be designed to enable crisis-affected firms to continue paying workers. One line of intervention to **keep businesses afloat** is to ease their access to financial means by issuing (and subsidizing) **new lines of credit**. For informal firms, microfinance institutions can be used to provide liquidity. For policies focusing on job retention, **wage subsidies** and temporary reductions of other labour costs such as social security contributions have proved to be successful in averting job losses.¹ The German “*Kurzarbeit*” (short-term work) programme is a prominent example of how an employment retention programme can be designed. Reaching the most vulnerable firms and workers is challenging in LMIC contexts, particularly in rural areas. Digital solutions such as digital payment systems using mobile phones or digital registries can help and should be explored if feasible.

Workers who lose their jobs need income protection to see their livelihoods secured. Among the most widely used instruments for quickly helping households in crisis are social assistance programmes, most prominently **cash transfers** to households. By September 2020, 156 of 188 countries have planned, are currently undertaking, or have ended a crisis-related cash transfer programme (Gentilini et al., 2020). There is a large evidence base demonstrating the positive effects of cash transfers on livelihoods, such as reducing poverty, improving health, connecting people to jobs, helping to manage economic and climatic crises, and generating economic multipliers for consumption smoothing (e.g. Tripathi et al., 2019; Garcia and Hill, 2010; Kabeer and Waddington, 2015). In a similar vein, the initial evidence collected on universal basic income programmes introduced in Kenya during the Covid-19 pandemic seems to confirm the positive effects of cash transfers. The experimental study reports significant improvements in wellbeing by mitigating the shock and related income losses for those that received the transfer relative to those that did not (Banerjee et al., 2020). Another advantage of cash transfers is the implicit inclusion of informal workers suffering income loss in the crisis response. The vast majority of informal working arrangements are in low-income countries, where

¹ Cahuc (2019) gives an overview of short-time work compensation schemes and Bruhn (2016) provides evidence for Mexico.

around 80% of workers are informal (Merotto et al., 2018). Broadening the coverage of cash transfers can help expand social registries from the poorest to all vulnerable households. This builds resilience for future crises. For formal workers, existing unemployment benefit systems can be strengthened and expanded to cover more workers during the crisis. Unemployment benefits not only compensate for income loss but can also prevent previously formal (waged) workers from having to continue working in informal employment, as a review of 14 countries worldwide demonstrates (Peyron-Bista et al., 2014).

The German government reacted to the pandemic with an adjustment of the main labour market objectives in its Covid-19 emergency development cooperation response from creating jobs to securing jobs, as well as securing incomes, i.e. assisting affected households and firms financially (BMZ, 2020). As an early crisis response, the German government decided to adjust the focus of employment-related development programmes from job creation to job preservation. This includes the concrete provision of digital solutions as well as support in the adaptation of new hygiene measures in programmes already in place. In addition, the emphasis on providing and expanding cash transfer interventions at the development bank KfW includes, for example, new programmes focusing on cash transfers and the integration of vulnerable workers in India, and cash transfers combined with the provision of short-time work in Brazil. Liquidity is injected into firms by reprogramming and increasing the value of existing funds as well as providing credit lines to give immediate support to enterprises. These approaches cover mostly formal firms.

REORGANIZATION AND RESILIENCE BUILDING IN THE MEDIUM AND LONG TERM

Emergency policies need to be replaced with tailored support for workers and firms in the phases of reorganization and resilience building.

Almost all countries across the globe set up schemes to assist workers and firms in the initial phase of the crisis. This increased fiscal spending but – depending on the country’s fiscal space – may only last for a short time. Better targeted policies are needed in the next step. This includes programmes that inject liquidity not into a broad

range of firms but rather into those that are viable and innovative as they adapt to the new normal. Here a focus on green jobs or jobs in support of sustainable structural transformation can help target company support measures during the reorganization phase. Furthermore, in low and lower-to-middle-income countries household enterprises and micro-enterprises would benefit from specially targeted interventions as most workers are employed in such arrangements. Existing microfinance networks could provide a way of channelling such funds to these enterprises. For workers, programmes with wage subsidies for all can be replaced with programmes that promote employment amongst vulnerable groups.

Active labour market programmes can support the adaptation of policies to the shifting nature of the crisis from easing the initial impact to the restructuring phase. Information from past labour market programmes can be used to devise new ones, adapted to a medium- and longer-term perspective. **Public works**, for example, played an important part in the recovery from previous shocks like the financial crisis of 2008–10 (Azam et al., 2013). Such programmes can help to provide adequate protection to low-income jobseekers and steer the economy towards a sustainable recovery without reducing incentives to find a job once the economy rebounds (see, e.g., Subbarao et al., 2012; Gehrke and Hartwig, 2018; Nair et al., 2018). Given the nature of Covid-19, adaptations to labour-intensive public works are nonetheless needed. Programmes must ensure that participants maintain physical distancing and wear protective equipment. During the pandemic, a special interest in public goods and services from public works arises, particularly in the short term. Participants could, for example, support tracing of infections, sanitation, and mask production as the health crisis endures. In the meantime, governments can work on the development of new programmes for the recovery. In this context, innovative **digital public works** could be explored for urban areas with technological backing. They could pay a double dividend, by helping especially younger informal workers obtain jobs and gather work experience during the pandemic, while improving the digital skills of this marginalized group (Weber, 2020).

Investing in skills and training, especially with a focus on digital solutions, can be a viable long-term investment. Investments in skills are another key policy intervention during an economic crisis as 1) they are typically more effective (Card et al., 2018) and 2) opportunity costs of investing into reskilling and training are lower. While programmes focusing on, e.g., skills in the digital sector and green jobs make sense, the actual possibility of implementing skills programmes in a (partial) lockdown environment needs to be assessed in the specific context. One such example may be the adaptation of technical and vocational education and training (TVET) programmes to the Covid-19 context to increase employability. One aspect of a medium- to long-term strategy would be to strengthen the resilience of TVET systems, especially with regard to a structural embedding of digital technologies in TVET delivery, methods and personnel qualification. This can also contribute to a better future match of TVET skills supply to demand.

Extending the coverage to vulnerable populations is crucial for future social protection programmes. In LMICs, the scope and scale of worker and social protection measures need to be expanded for higher resilience in future crises. This is true for vulnerable workers, such as low-income, informal and low-skilled workers, as well as women. They often work in sectors where physical presence is required, such as health services, but protection is low. Hence, during and beyond Covid-19, programmes that ensure safe working conditions and social protection are essential for the new normal. At the same time, a new generation of young jobseekers – the so-called “Covid-19” generation – should be another main target for policies to avoid long-term “scarring effects” (see, e.g., Gregg and Tominey, 2005). These effects materialize when young workers enter the labour market during a recession, leading to suboptimal and delayed first job matches, which in turn adversely affect their long-term labour market career and income.

SUMMARY AND RECOMMENDATIONS

Covid-19 will have lasting effects on development policies. The virus severely disrupted the global economy. While there is a positive outlook for the development of a vaccine or an effective treatment

in 2021, economies worldwide will probably be affected for much longer. In development countries, Covid-19 is reversing the successes that have been made in terms of poverty alleviation and the Sustainable Development Goals (SDGs) (UN, 2020). Hence, drawing up tailored responses and preparations for the different stages is key to minimizing long-lasting effects and avoiding a reset of past achievements in development policy-making.

This note suggests a tailored mix of labour market and social protection policies to mitigate the economic and social impacts of Covid-19, staggered along three stages of the crisis: assistance, reorganization, and resilience building.

Initial public health measures during the pandemic, such as social distancing and lockdowns, led to an abrupt downturn of the global economy. In this situation it is important to support workers and firms with financial means. The response should be swift and pay attention to vulnerable groups, including informal workers. After an initial phase of assistance, programmes need to adapt to the “new normal”, where some initial restrictions are loosened while others remain intact. This could be achieved by better targeting viable firms adapted to Covid-19 in sectors contributing to the SDGs. From a worker perspective, programmes need to adapt to ensure the support of the most affected and vulnerable groups, including young people who enter the labour market for the first time or the Covid-19 unemployed. Active labour market programmes adapted to a changed environment – such as modified public works or skills training systems – can be another key element of crisis mitigation policies. For resilience building, it is important to improve worker protection for future crises. This implies the broadening of social protection systems to cover more, and especially vulnerable, workers and households. Given the unique nature of the pandemic, the response will also hinge on taking new routes. In order to obtain evidence on the effectiveness of new or modified programmes, rigorous testing and evaluations can help improve social protection and jobs policies (Haushofer and Metcalf, 2020).

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The thematic team on „Rigorous Impact Evaluation“ is contributing to a more systematic integration of rigorous impact evaluations and the use of their results in German Development Cooperation. Evidence-based policy and program design is crucial to increasing the effectiveness of German Development Cooperation and thus to promoting sustainable development. To this end, the thematic team brings together experts from BMZ, evaluation, academia and governmental as well as civil society implementing organizations.

Short explanatory video on the subject of “rigorous impact evaluations” (in German):
<https://youtu.be/2iVqBhooeA8>