Macroeconomic policies for jobs-led growth and recovery following the COVID-19 pandemic, with emphasis on sub-Saharan Africa

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Introduction

The economic impact of the ongoing COVID-19 pandemic is global, and resulted in an economic recession in 2020 which is projected to last until 2024 or beyond (IMF 2021a). The IMF estimates that in 2020, world GDP contracted by 6 per cent, and reported that in that year there were only 16 countries with positive growth in GDP per capita. This contrasts with the aftermath of the global financial crisis of 2008, where nearly 80 countries registered positive growth in per capita income.

Countries in the sub-Saharan African (SSA) region have not been spared. Growth in 2021–22 is forecast to resume at a moderate average pace of 3 per cent. However, there might be long-lasting impacts of the pandemic, as the rollout of vaccines in the region is expected to lag behind that of advanced economies and major emerging and developing economies (EMDEs). In addition, SSA has economic structures which impose a huge challenge to recovery. These include pre-existing high levels of poverty and inequality (Islam 2018; WEF 2020); a large share of informal workers (ILO 2020a; UN 2020); relatively small public sectors and tax revenue bases (ILO 2011; IMF 2021b); a high prevalence of within-country unrest, violent riots and civil wars; limited fiscal space (IMF 2021c); and precarious access to international financial markets (Dupor 2020; Eichenbaum, Rebelo and Trabandt 2020).

Unlike a typical macroeconomic disturbance, the COVID-19 shock and the policies implemented to contain it have brought about simultaneous disruptions to demand (consumption and investment) and supply (production of goods and services) (Fernando and McKibbin 2021; Faria-e-Castor 2020; McKibbin and Fernando 2020). A crucial element is the sharp and sudden increase in unemployment. At the onset of the pandemic governments in SSA, like others worldwide, imposed stringent measures to contain the spread of the virus. Work-related mobility was severely affected in Q2/2020, resulting in both a supply- and demand-induced recession in the region (see figure 1 for selected countries in SSA).
A quick look at the stringency and disease dynamics clearly shows that there was little relationship between business closures and stay-at-home orders and various measures of economic harm related to the pandemic (Gregory, Menzio and Wiczer 2020). Put differently, COVID-19 drove a number of households into poverty, presenting a threat towards meeting sustainable development goals (SDGs), particularly on SDG 8 which promotes decent work. With weak fiscal positions severely constraining government support measures in many countries, an emphasis on ambitious reforms is needed to rekindle robust, sustainable and equitable growth. Nevertheless, many developing countries do not have sufficient financial, monetary and social instruments for the necessary immediate and long-term responses to the pandemic (ILO 2011; IMF 2021b and 2021c).

This article aims to identify policy responses that would promote short-term recovery from COVID-19 and long-term inclusive growth in SSA countries. It proposes policy initiatives that would allow an employment-led economic recovery, and hence support policymakers, specifically finance and labour ministries, as well as aligning social partners to promote job creation, job quality and job access interventions in both the short and long term.

**Macroeconomic effects of COVID-19**

In an attempt to sketch economic development in sub-Saharan Africa after COVID-19, figure 2 shows that 2020 growth was the worst on record, at an average -1.9 per cent. Large economies (Nigeria and South Africa) registered a deeper decline in GDP growth, leading to a large increase in poverty which can be explained by falls in aggregate household income. This will exacerbate the already high disparities in income, where the poor, particularly...
female-headed households, are disproportionately more disadvantaged in the COVID-19 era than before (UN 2020; IMF 2021b). Figure 3 shows that overall the reversal in per capita GDP is enormous and may take more than five years to recover potential. In 2021 the region’s economy is expected to expand at 3.4 per cent, but weaker than the 6 per cent for the rest of the world, amid a continued lack of access to vaccines and limited policy space to support the crisis response and recovery (IMF 2021b).
In trying to sustain livelihoods and the economy most governments have tried to mitigate the damage caused, through varied measures ranging from fiscal stimulus or expansionary monetary policy to preservation of the incomes of workers and companies during confinement. Monetary policy was eased, with interest rate cuts, enhanced asset purchase programmes, and targeted interventions in financial market segments under extreme stress (IMF n.d.; ILO 2020b; ILO n.d.). Table 1 presents a summary of macroeconomic policy responses.

<table>
<thead>
<tr>
<th>Macroeconomic policy implemented</th>
<th>Share implementing policies (%)</th>
</tr>
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<tr>
<td>1. Fiscal policies</td>
<td></td>
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<tr>
<td>1.1 Support to households, vulnerable population, and unemployed</td>
<td>89</td>
</tr>
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<td>1.2 Support to businesses and SMEs</td>
<td>92</td>
</tr>
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<td>1.3 Support to health sector</td>
<td>90</td>
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<td>2.1 Exchange rate and capital account management</td>
<td>4</td>
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<td>2.2 Interest rate cuts</td>
<td>85</td>
</tr>
<tr>
<td>2.3 Liquidity reserve requirement ratio cut</td>
<td>38</td>
</tr>
<tr>
<td>2.4 Direct liquidity provision</td>
<td>26</td>
</tr>
</tbody>
</table>

The IMF policy tracker (IMF n.d.) shows that financial market regulations were eased to support credit provision by financial institutions. Facing visible strain from the pandemic, central banks lowered the base policy rate. Banks and other lending institutions accessed support out of the emergency guaranteed credit to cushion against falling lending and non-performing loans, and large-scale guarantees of private debt. The majority of countries responded with fiscal policies to cushion households, vulnerable populations and the unemployed; they supported business and SMEs, and gave support to the health sectors. However, for the monetary policy response in SSA, only an interest cut was the most applied. In other countries, supply of subsidized food grains acted as a useful buffer keeping unemployment down and ensuring social stability. There have also been cash transfers to women and farmers, and small and medium micro-enterprises (SMMEs). Several countries created new laws to make unemployment insurance more financially attractive and inclusive to workers than it would normally be, and they also created programmes to subsidize employers with the goal of maintaining employment relationships.

Labour dynamics as an effect of the COVID-19 pandemic

To motivate for a tailored jobs-led recovery, there is a need to understand the avenues through which the pandemic has had an impact. Fernando and McKibbin (2021) consider three ways in which labour can be impacted by COVID-19:

(a) shock to labour supply;
(b) shock to total productivity; and
(c) shock to consumption.

(a) The shock to labour supply originates from the mortality and morbidity related to the infection. Many deaths mean a loss of existing and potential labour force for an economy. The morbidity has two shocks. First, the labour force cannot work if they catch or get exposed to the infection. Better health has an essential role the labour market, and in turn propels economic growth. Secondly, loss in labour supply will also come from a decrease in female labour participation and a loss in productive time due to caregiving for dependent children. The loss in labour supply differs by type of industry. Notable industries include tourism and hospitality, manufacturing, mining and education (ILO 2020b).

(b) The productivity shock is caused by the lockdowns imposed by governments to reduce the transmission of the virus. Productivity varies between essential and flexible jobs. Figure 4 demonstrates the decline in productivity for essential and flexible types of job.

(c) Shock to consumption is attributed to changes in household consumption arising from a variety of factors including changes in income from employment, changes in the value of future wealth due to the long-term implications of the current impacts from the pandemic, changes in relative prices of different sectors, changes in interest rates, and changes in the ability to consume certain goods and services as well as changes in consumer preferences.
Unemployment and working hours

In the wake of COVID-19, the loss in employment is depicted in three forms: unemployment rates, inactivity rate and underemployment. Both inactivity and underemployment were the most common (ILO 2020b). The SSA region and low-income countries had lower rates of job losses, which is indicative of the share that formal waged jobs have in these economies; most people are employed in the informal economy. Figure 5 provides detailed variations in job losses based on working hours lost. The second quarter (Q2/200) was severely impacted by COVID-19. On the other hand, the southern region of SSA was the most affected compared to the other zones.

Figure 4. Calibrated productivity shocks vs. flexible and essential jobs (in percentage shares)

Source: Gregory, Menzio and Wiczer 2020.

Figure 5. Working-hour losses in SSA and by subregion, quarterly and annual estimates (percentages of full-time equivalent jobs)

Source: ILO n.d.
Emerging forms of work

The ongoing pandemic is rapidly transforming how, and even where, people work. Three major outcomes have emerged: remote working, lay-offs, and continued commuting to work by critical workers. The share of people switching to remote work has increased. Remote working is an example of a business transformation that works on multiple levels. It serves the needs of individual employees, it provides businesses with new resilient and adaptive ways to engage with their ecosystem and deliver economic value, and it serves the larger community by addressing public health needs. Also emerging is the increase in the number of people working on digital application platforms. These changes in work and employment have immediate implications for the economy, and may lead to permanent shifts that last beyond the pandemic, but they also have implications for maintaining labour standards and maintaining tenets of decent work. But how many jobs can be carried out remotely? In most countries, the share of workers covered by teleworking or smart working arrangements (including fully working from home) in normal times is below 10 per cent. In SSA, the proportion is even smaller, compounded by the fact that there are fewer formal waged jobs. The majority will still need to go for work, clearly demonstrating the digital inequality that COVID-19 has imposed in low-income countries.

Policies for jobs-led growth and recovery

Continued uncertainty about the duration of the health crisis affects all aspects of the recovery path. Once the pandemic is over, a speedy recovery would require not only solid and informed policies, but also continued advances towards structural economic policy reforms (Fernando and McKibbin 2021).

Recovery plans for SSA must consider the prevailing structure of its economies. The reality is that much of the SSA economic growth in the last four decades did not translate into more and better jobs. Several structural rigidities impede further improvement in SSA’s job outcomes. Policies that are growth-oriented, that have worked for developed economies, have not worked to create productive employment in SSA. Proceeding with the same policies that focus on economic growth will maintain the same poor employment outcomes in the coming decades (Ajakaiye et al. 2016).

Policy remaking should address the key challenges of quantity, quality and accessibility of jobs. The ILO proposes four pillars that are key to promoting and achieving decent work through job creation, job quality and job access (figure 6). The first pillar addresses stimulating the economy and labour, which entails concrete proposals on how to make use of all the macroeconomic tools at our disposal. Fiscal and monetary policies have to work hand in hand to support workers and enterprises, especially in those sectors which are hardest hit, as well as to support the creation of decent work as a prerequisite for a “jobs-led” recovery that benefits all.
The second pillar relates to supporting businesses, jobs and incomes as governments strive to provide financial support to enterprises and workers. This includes social protection and employment services for those who lost their jobs and livelihoods during the crisis.

The third pillar focuses on the protection of workers in the workplace through the reinforcement of occupational safety and health policies and the promotion of labour rights with regard to new and emerging forms of work and working arrangements.

The fourth pillar focuses on utilizing social dialogue for solutions regarding a human-centred recovery. This pillar calls for strengthening the capacities of social partners and governments as well as strengthening social dialogue, collective bargaining and labour relations institutions and processes.

Motivating for employment-led macroeconomic policies

The post-pandemic recovery provides an opportunity for pro-employment policies that will alter productive transformation patterns. Required are prioritized economic policies (macro, sectoral/industrial, fiscal, monetary, trade, investment) that are targeted on employment and jobs. The policy-remaking should address the key challenges of quantity, quality and accessibility of jobs (Islam 2018; Parisotto and Ray 2017).
Strengthening the fundamentals of job creation

(i) Addressing employment targeting through fiscal, monetary and financial supports

Implementing the right macroeconomic policies (fiscal, monetary and financial supports) can enhance strong growth and job creation in the medium to long term. Investments in human capital must be accompanied by robust public and private investments in physical capital, and the adoption and maintenance of monetary and exchange rate policy stances that are conductive to growth. This requires analysis of employment needs in connection with output growth, coupled with the macroeconomic policy framework to promote sustainable growth.

Fiscal policies. Working mainly through taxes, public expenditures and subsidies, fiscal policies can have important implications for employment through their impact on economic activities. Adopting a more flexible fiscal policy to increase impact on job creation is desirable. Some of the options may include:

- Pro-employment budgeting that would allow investment in infrastructure that creates jobs directly while contributing to the longer-term development objective. Hence, countries that allocate a higher share of their government expenditure to infrastructure should be able to create a bigger impact on employment.

- Expenditures for supporting businesses (for example, cash incentives to specific sectors). These can help maintain profitability, but only indirectly contribute to preserving jobs or creating new ones.

- Targeted taxes regimes at SMEs to increase their survival and growth. For example, SMEs can be exempted from corporate income tax for the infancy years (e.g. 3 to 5 years), or exempt from the requirement to operate withholding, or could implement reduced tax rates for 3 to 5 years. Such initiatives would increase SME growth and in turn grow jobs in the sector.

Financial policies. The fiscal policy framework through its tax revenue and expenditure instruments can be complemented by the role of financial policies (which are closely related to at least monetary and exchange rate policies). Financial systems can play a vital role in supporting growth in employment generation and a poverty reduction strategy. SSA countries should enable a banking environment that would support both for capital allocation and credit provision, which are important employment-generating sources in low-income countries. A range of measures to support financial inclusion include:

- Access to finance for agriculture, using interest rate subsidies for direct commercial bank lending.

- Access to finance for SMEs based on credit lines by directing commercial bank lending to SMEs.

- Using the public banking system and development banks to leverage resources to support investment projects in basic infrastructure and job-generation activities.
Monetary policies. These work through interest rates and exchange rates. Pro-employment monetary policy elements include:

- Credit allocation policies, including concessionary loans and increased capitalization for development banks, loan guarantees, and asset-based reserve requirements.
- Capital management policies, by insulating domestic interest rates and exchange rates from international factors while avoiding financial instability, thus allowing more expansionary policy. Hence, the employment-targeting framework can use capital controls, which if they are properly implemented can reduce instability, help maintain an appropriate exchange rate level, and enhance macroeconomic autonomy.
- Setting targets for inflation within a range, or adopting a dual mandate for the central bank encompassing price stability and full employment.
- Strengthening supervisory and regulatory functions to promote effective and efficient systems of financial intermediation, ensuring an adequate supply of credit for small and young firms and start-ups.
- Enhancing financial inclusion of poor “unbanked” households and household enterprises.

Exchange rate policy and capital account management should aim at a competitive exchange rate to support both the export sector and import-competing industries. Pro-employment exchange rate policy and capital account management elements include:

- Using a managed float to gear towards a stable real exchange rate and avoid overvaluation.
- Building up foreign exchange reserves as a prudential buffer for self-insurance against market volatility, avoiding excessive accumulation.
- Engaging in active capital account management by reducing the impact of disruptive short-term capital flows and thus reducing exposure to international financial volatility and speculation.
- Monitoring external borrowing and currency mismatches by resident firms and banks.
- Ensuring conditions for cross-border long-term financial and productive investments that can stimulate structural transformation and employment creation.

An employment-targeting framework will work best if it is part of an overall employment-targeting macroeconomic strategy, and if the central bank is committed to cooperating with the government to implement such policies as make an employment-targeting approach effective. This was demonstrated in South Africa (Epstein 2008).

(ii) Promoting industrialization

To achieve maximum value emanating from the industrialization policy, countries must develop and prioritize industrial clusters. This would ensure competitiveness and create requisite jobs, skills learning and business opportunities. Alignment and integration of industrial policies requires strong collaboration between local, national, regional and international entities to maximize synergies. For example, linking export-oriented trade to an industrialization strategy should be designed to leverage the recently launched African Continental Free Trade Agreement.
(iii) Active labour market policies (ALMPs)

Active labour market programmes can be used to help people transition from inactivity to work or to access better jobs. ALMPs can be considered as part of the fiscal policies, but cover a wide range of interventions that can target labour supply with, for example, training programmes; and labour demand through, for example, public works projects or employment subsidies such as productive inclusion programmes (PIP) or the ILO’s Employment-Intensive Investment Programme (EIIP). Through PIP and EIIP, an economic stimulus payment of smaller size and targeted to a larger share of disadvantaged families and communities would provide a stronger boost to aggregate consumption.

Favourable fiscal and policy environment to promote sustainable enterprises

While macroeconomic conditions affect the overall economic performance of a country, the business environment has a direct bearing on the ability of enterprises to start and operate a business, and thus create jobs. However, the private sector in SSA is not sufficiently dynamic or sufficiently strong to create the numbers of firm-based wage jobs needed to absorb the available labour supply. Policies must exploit opportunities to create new and better paid jobs at different stages (production, processing, and marketing of agricultural produce) of the value chain, by providing development of an efficient processing industry. The role of publicly-owned, solidarity and social economy enterprises is also crucial for employment creation and income generation. Existing public-owned enterprises should be oriented, through appropriate policy, to embark on a pro-employment agenda.

Policies for sectoral employment creation to improve productivity and earnings

Sectoral employment creation can be achieved through several avenues, particularly targeted at the clusters identified in the industrialization strategy. Short-term sectoral policies, such as immediate financial support for investments in sectors that have been hit particularly hard by the COVID crisis, may take the form of financial relief, bailouts, bridging loans or grants (ILO 2021). A high rate of growth in productive sectoral employment would offer expanding opportunities for workers in low-productivity sectoral employment to move into better jobs (ILO 2011).

Policies to promote job access and inclusiveness

(i) Promoting job access to the vulnerable through employment and training programmes

These are particularly aimed at connecting vulnerable groups, such as women and youth, to better jobs, with high levels of investment designed with vulnerable populations as target beneficiary groups. Solutions should be based on a thorough understanding of youth livelihood and employment realities, so as to achieve adequate impact and scale. ALMPs are able to improve the labour market prospects of the workers. ALMPs can be combined with income support to be more effective in tackling poverty and helping laid-off workers find decent work.
(ii) Support to SME development for jobs in services and across other sectors

SMEs are active across the SSA economies, including in service sub-sectors with short-term jobs potential, such as transport, IT, tourism, food and beverages, and retail trade. With the scaling-up of infrastructure and agriculture value chains, SMEs will be able to seize some opportunities and create new jobs through backward and forward linkages, while promoting job access inclusiveness and access to the vulnerable.

Actualizing the pro-employment agenda

The promotion of integrated policies and programmes for a pro-employment agenda should, at the outset, be supported by structures for joint sector coordination in the development and implementation of pro-employment macroeconomic strategies. Policy implementation will involve aligning a number of enabling policies. Figure 7 identifies several such policies including those on national development, education and training, demographic transitions, wage policies and employment laws, collective bargaining for social protection and decent jobs, economic and social policies, and labour market policies and institutions.

Further, a number of key strategic actors or stakeholders are required. Table 2 summarizes strategic actors that must coordinate the various policies to achieve the pro-employment agenda. These include government, businesses, trade unions, academics, civil society organizations and development partners.
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Conclusions

The COVID-19 pandemic is having a profound impact on economic and labour markets in all countries and is underscoring the interdependence of humanity. It has devastating impacts on the world of work and has led to increased unemployment, underemployment, losses in income, and supply chain disruptions. This article is premised on the fact that a right policy mix would ensure that employment-led economic growth would reduce poverty, while ensuring delivery of the Decent Work Agenda. This should give more reason for workers’ organizations to engage further with governments and employers’ organizations at every stage in the formulation and implementation of economic policies. Workers’ organizations will need to champion a social contract and concerted actions by all stakeholders if the effects of the policies are to endure well beyond the current crisis and ensure profound implications for the achievement of social justice and decent work for all. The social contract has the potential to place people and the work they do at the centre of economic and social policy and business practice.

The bottom line to this process is the need to ensure a broad-based, job-rich recovery with decent work opportunities for all through integrated national employment policy responses, recognizing the important role of the public sector and sustainable enterprises (including the social and solidarity economy) in the formulation of macroeconomic and industrial policies.

It is argued therefore that a more holistic approach to employment promotion calls for employment policies, which include and go beyond labour market policies. The right policy mix is essential. Economic diversification policies, measures to facilitate formalization and expansion of enterprises, and the enforcement of labour standards can all contribute to broad-based development and the promotion of decent work. Productive transformation is underpinned by an enabling environment for enterprises and supportive macroeconomic policies. Labour and social protection institutions are equally important ingredients of economic growth, quality jobs and human development.
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