International Labour Organization

Global challenges – Global solutions: COVID-19 and the Employment Policy Response

Transcript for:

How the COVID-19 pandemic is impacting jobs and livelihoods in the world's Least Developed Countries

Interview with Aurelio Parisotto, Head of the ILO's Employment and Economic Analysis Unit

Introduction by host:

We hear a lot about how the COVID-19 pandemic is impacting labor markets and livelihoods in advanced economies. But what is the impact on the world's least developed countries or LDCs? Together, they account for 1.3 per cent of global GDP, 13 per cent of the world's population and 40 per cent of the world's poor. Thirty-three (33) LDCs are in sub-Saharan Africa, 13 in Asia Pacific, and one in the Americas.

LDCs are facing declining employment rates or severe job losses in some sectors. What is more, according to a new ILO publication, there appears to be a reduction in incomes across all sectors. Many people in LDCs are self-employed and cannot afford to remain idle, so they are working even longer hours while earning less.

With us today is the Head of the ILO's Employment and Economic Analysis Unit, Aurelio Parisotto. At a recent webinar, he presented preliminary evidence of the pandemic's impact on LDCs gleaned from a range of ad hoc country studies and outlined policy responses aimed at promoting a job-rich recovery that leaves no one behind. Aurelio, welcome to the podcast.

My first question is, what has been the impact of the COVID-19 pandemic on employment and income in LDCs, both in the short and long term?

Thank you, Tom, for your question. And let me say, I'm very glad I can contribute and participate in your podcast series and share some of the findings from my work. I should say at the outset that even for most advanced economies, the evidence on the number of jobs lost as a result of COVID-19 is very scant and this is particularly true for the LDCs. There are, however, quite a large number of ad hoc studies, enterprise surveys, household telephone surveys, rapid assessment, et cetera, that are being conducted by governments, international organizations, trade unions, NGOs, so we skim through quite a large number of those. And in all LDC countries, while this is a very diverse group, but in all countries we found example of declines in employment rates and significant job losses in sectors such as commerce, food, transportation, personal services, and domestic work.

The agriculture sector, which accounts for more than half of the workforce in the LDCs, was also affected because of restriction to mobility. Perhaps even more relevant, as you mentioned in your introduction, was the reduction in incomes across all sectors, with 80 to 90 per cent of the respondents to surveys in Bangladesh, Senegal, Timor-Leste, Uganda, Yemen, experiencing reduced earnings. An income channel is a stronger indicator of distress than just the simple numbers of jobs.

Many people in the LDCs work as self-employed and they cannot afford to remain idle. They do not have the luxury of telework. Also, it's important, we found signs of the so-called scarring effects, with micro and small businesses closing shop and workers falling more deeply into informality, poverty, and hunger.

I think it's important, if we want to really understand the full impact, to set those fragmented pieces of evidence into context. And the context is that the labor markets in the LDCs are suffering from simultaneous shocks on different fronts, with compounding reinforcing effect.

The first effect is because of containment measures and social distancing that affect directly domestic activity. So they're eating up from the urban informal economy that in earlier crises has acted as a buffer. We found clear evidence, for example, in Malawi, a telephone service in an urban area found that 88 per cent of businesses in the services sector report a lower or no sales revenue. In Senegal, we did a qualitative assessment, again in the urban informal economy, with 40 per cent of interviewed workers that had lost their jobs.

At the same time, and even without a single case of infection, because of the contraction in global value chains, sharp drop in export, remittances, foreign investment, there are significant formal job losses in manufacturing, construction, tourism and mining. This sectoral contraction spread to the economy quite rapidly. Given the lack of social protection, there are no automatic stabilizers and very limited fiscal support.

And finally, there are indirect effects of the pandemic on health, nutrition, education, just think of school closures, that have long-term negative effects on growth. So the overall result is a massive macroeconomic shock, really a recessionary downward spiral.

The LDCs account for 13 per cent of the world population, as you mentioned before, but only 2 per cent of the global confirmed cases of COVID-19. So it is a sad paradox that for poor countries that are relatively less affected by the public health effects, they might end up being the ones more likely to suffer the most, economically and socially.

So what are some of the emergency policy responses that have been introduced? And can you provide a few examples of country-level responses?

Well, the LDC acted fast to close their borders and to provide emergency lifelines to vulnerable households, workers and businesses. So they found new ways to reach out to people in the informal economy, which is a striking new feature of this crisis. For example, in Ethiopia or Lesotho, governments have broadened the coverage of traditional existing safety nets, like cash transfers to vulnerable families, to cover the people newly affected by the crisis. Other countries like Senegal opted for in-kind support. So in Senegal, they organized the distribution of food for 10 million out of a population of 16 million people.

Governments also look for innovative solutions. For example, in Togo, a new mobile cash transfer program was launched and was able to encompass about 1.4 million informal workers, and they used a dataset that was in place for voter registration. Countries also made use of casual work and labour-intensive public works programs, for example, Cambodia, Guinea, Nepal. E-commerce received a strong push, as well as mobile payment systems and so-called digital finance, very good examples in Bangladesh, Uganda and Rwanda.

It's important to underline that much ingenuity could also be found in the response by the private sector. With booming delivery services or some firms that were able to reorient production to supply local hospitals with medical equipment made with local inputs.

There was a critical constraint and this was the lack of fiscal space. Fiscal support across low-income economy was on average 1.4 per cent of GDP, according to the IMF, so much below the size of the economic shocks that have affected households and enterprises. And part of the packages consisted of budget allocation away from capital expenditure, so countries gave up on critical infrastructure investment, for example.

So just to give a comparison, the fiscal packages to tackle the pandemic in the advanced economy on average accounted for 8 per cent of the GDP and up to 16 per cent if we include the support to firms in the form of grant and loan guarantees, so a major difference.

That's all very interesting. And I think one of the more interesting findings that you've touched upon involves the use of new technologies. So how is tech having an impact on the LDCs now?

Well, there are many examples of, I would call them pockets of success, islands of productivity thanks to the use of new technologies. Many countries have made money transfer through mobile banking systems. Central banks acted to reduce fees and facilitate cashless transaction, for example.

E-governance has also been introduced, with countries having digital national ID card schemes. Just think of digital Bangladesh. And there is a potential to improve the delivery of public services, and this was clear in part of the response to the crisis.

Also, new high-frequency sources of data have been used to monitor the labor market. So using some of those sources, for instance, we ran an ad hoc rapid labor force survey in Ethiopia, together with the National Job Creation Commission.

But also more broadly, solar panels, for example, are increasingly adopted, allowing for decentralized energy production. There are examples of countries experimenting with water-saving precision agriculture. Also digital platforms for delivery, services, or for education and training, are flourishing in many of these countries.

And what is interesting, in my view, is often they are a result of startups for young entrepreneurs. And this is important because we should keep in mind that the population in the LDCs is very young. On average, about half are below 20 years old. So this is particularly important.

So what is needed for LDCs to recover from the crisis?

Fiscal support will remain critical. LDCs will have to continue to use the limited fiscal space they have to provide relief to the most vulnerable groups. But at the same time, they will have to help restart the economy, stabilize the labor market by creating new jobs. So they will have to do more with less.

A strong employment policy will be central, with improved design and implementation. The ILO, we suggest strong national plans for a job-rich recovery, close coordination across different government agencies, with reliable and timely labor market information to facilitate monitoring of progress, and social dialogue to ensure accountability.

Productive transformation is a critical underpinning through strategic interaction between public agencies and private sector. Labor market programs, employment services, training, financial institutions, can play a role as key facilitator. And one encouraging development in the response to COVID-19 so far, for instance, is much greater attention being paid by governments to the needs of micro and small businesses in many countries.

The real problem is that fiscal space is not only limited, but is also shrinking as a result of declining tax revenues, in export, in remittances. At the same time, the payments for external debt are increasing, so international assistance will be essential. Many countries risk not to be able to make it on their own. And there's some positive development, for example, the G20 global initiative on debt suspension, but much more should be done.

So looking ahead, what does the future of work look like for the LDCs, and how can they adapt to new emerging drivers of growth and productivity so that no one is left behind?

Well, there remains huge uncertainty as to the future course of the pandemic and its economic fallout. But one global trend that is of great concern to us is a steep and prolonged fall in the demand for low-paid unskilled labor because of cyclical and structural factors.

A cyclical factor is that the pandemic is generating a massive job crisis in advanced, emerging and developing economies that affects mainly unskilled and low-skilled workers. There's plenty of evidence coming out on that. As the lockdowns are lifted and economic activities regain their normal pace, some of those losses will be recuperated. Some economic sectors may recover very quickly, in fact. But there will be substantive gaps in the labor market and it may take years before we go back to the pre-crisis levels.

The cyclical effects are compounded by structural changes in production and distribution. There is an acceleration towards a reliance on teleworking arrangements, e-commerce, automation, artificial intelligence. And once adopted, those changes gain momentum and produce shifts in production processes and business models. The impact on employment will be diverse. Precarious delivery jobs, for instance, are increasing right now, following the expansion of e-commerce. But according to most experts and observers, the net effect is likely to add to a lower appetite for unskilled work.

The LDCs are poorly placed to take advantage of those changes. The ITC infrastructure is poor. Only 20 per cent of people on average have access to the internet. Firms are too small. Few workers have the relevant skills. And as economies deglobalize, the labor cost advantages of producing in developing countries will be farther reduced.

At the same time, public and private sector responses to the COVID-19 crisis in the LDCs have shown much ingenuity and resourcefulness. So countries will need to review their development strategies to better target their policy to new employment opportunities in local and regional production systems from IT-enabled innovation or new and emerging sectors. So those bottom-up initiatives will have to meet with public support and private investment, with an important role to be played by international assistance.

The ILO will call for investment in infrastructure, institution, and capabilities, in order to build a better future of work, and this is especially relevant for the LDCs. Investment in broadband transmission, transportation, renewable energy, will be a key facilitator. Inclusive institutions will make sure that the labor market and economy are well run and public resources are used productively. And educated and trained people will provide the engine to trigger positive change and boost resilience.

And I'd like to emphasize that young people will be important players. Based on the current demographic trends, by 2050, one in four of the youth in the world, people from 15 to 24 years old, will be born in an LDC. And those young women and men will be a tremendous asset, an indispensable asset for future growth and prosperity.

Moderator out:

Thank you very much, Aurelio, for that fascinating and interesting overview. Across the board, the pandemic has been changing the conversation on the future of work. Nowhere is this more relevant than in the LDCs, which were already facing a steep and prolonged fall in the demand for low-paid unskilled labor. The new challenges for LDCs will be enormous.

Yet, there is some ground for optimism. Innovation and entrepreneurship are expanding markets, reducing energy costs, and increasing productivity in a wide range of economic sectors. Technology can also help facilitate access to credit, a transition to more formal business operations, and more targeted, coordinated, and transparent policy interventions. The potential is there. Now's the time to identify what works and find ways to build back better.

I'm Tom Netter, and you've been listening to the ILO podcast series, Global Challenges - Global Solutions: COVID-19 and the Employment Policy Response. Thank you for your time.