# THE IMPACT OF THE COVID-19 CRISIS ON DEVELOPING COUNTRIES

**Taking stock of the COVID-19 crisis: the impact on the labour market and how countries have responded**

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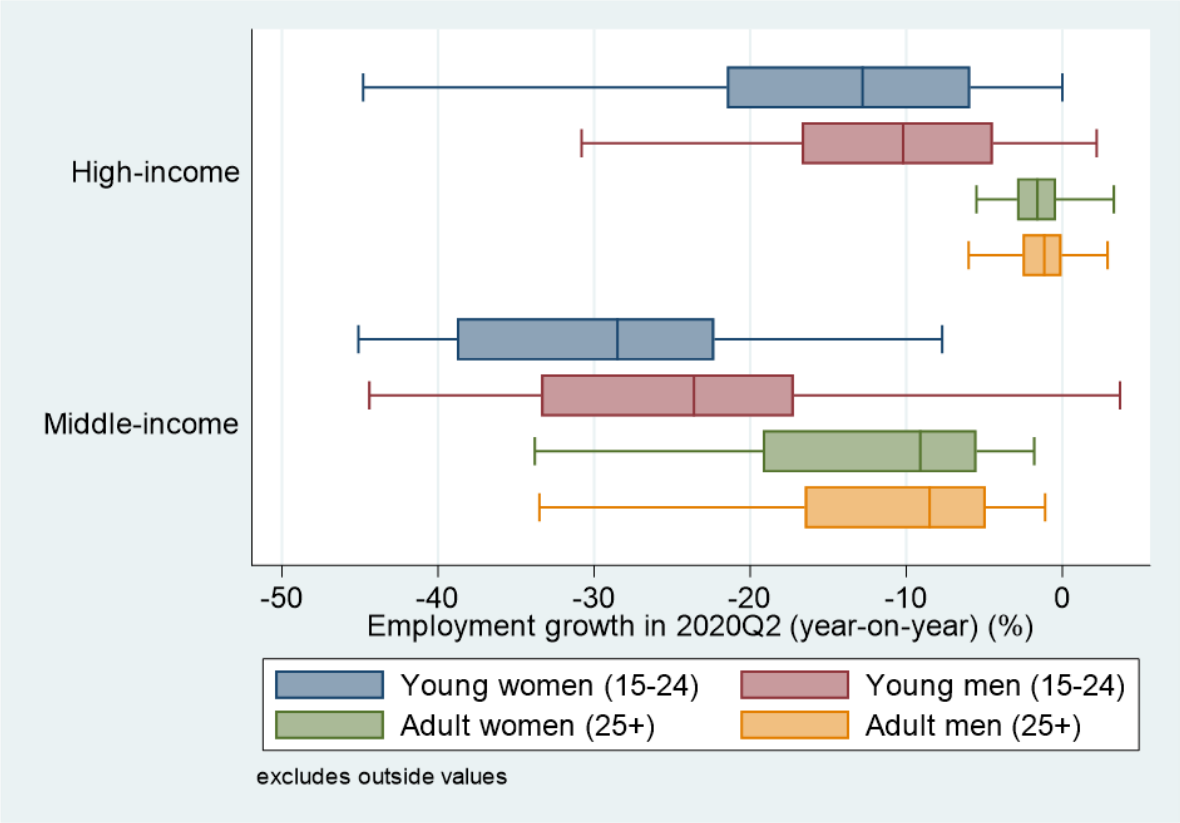
# OUTLINE

A. The labour market effects of COVID-19 in developing economies

B. Divergent recovery paths

C. Policy priorities

# A1. EMPLOYMENT LOSSES WERE MOST PRONOUNCED IN MIDDLE-INCOME COUNTRIES (MICs), SEVERELY HURTING YOUNG WOMEN AND MEN …




Change in employment for youth and adults in 59 middle- and high-income countries*
2020 Q2
(year-on-year) (%)

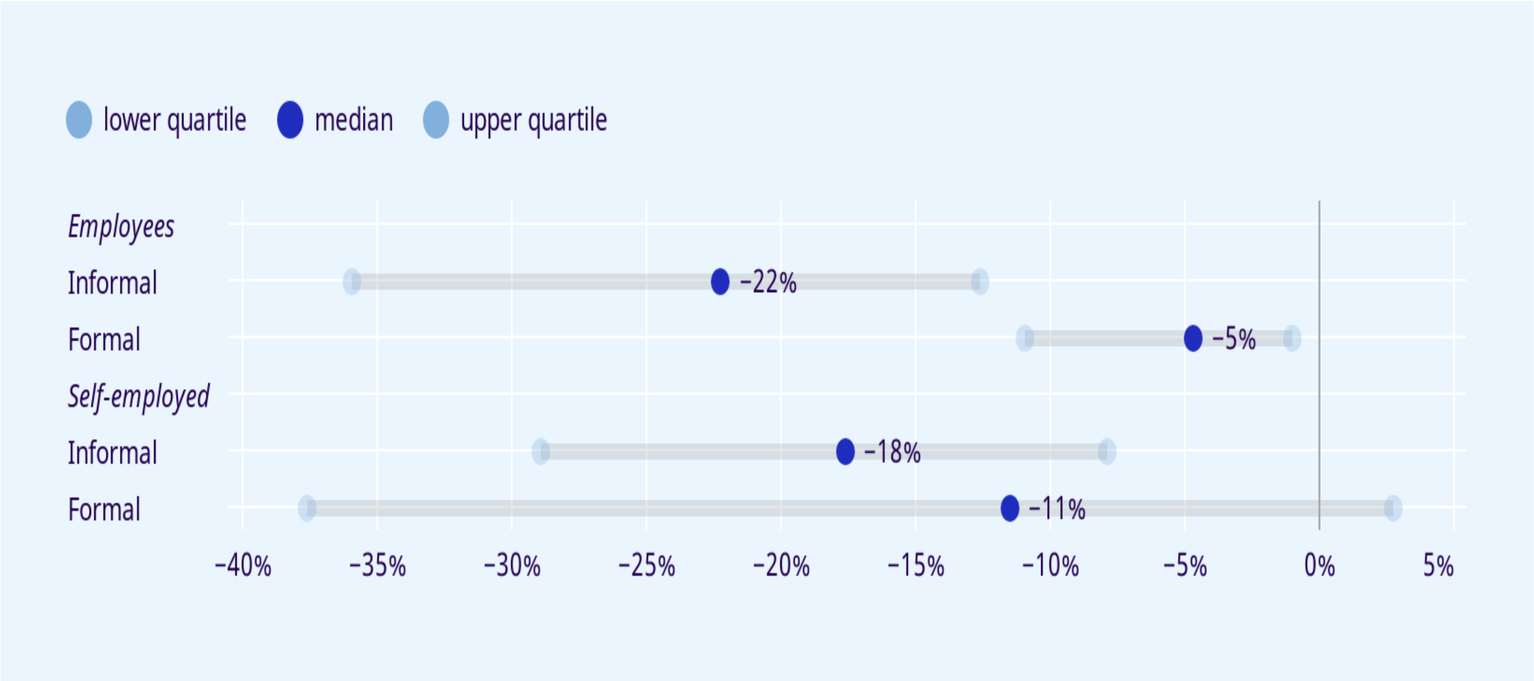
Source: ILO Statistical Brief, *An update on the youth labour market impact of the COVID-19 crisis*, forthcoming, May 2021

* Simple unweighted country averages for which data is available: Argentina (urban and metropolitan areas only), Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Georgia, Greece, Hong Kong, China, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Rep., Latvia, Lithuania, Luxembourg, Macau, China, Malta, Moldova, Rep., Montenegro, Netherlands, New Zealand, North Macedonia, Norway, Occupied Palestinian Territory, Peru, Philippines, Poland, Portugal, Romania, Saint Lucia, Serbia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Taiwan, China, Thailand, Turkey, Ukraine, United Kingdom, United States and Viet Nam.

# A2. ... AND WORKERS IN THE INFORMAL ECONOMY

## Change in formal and informal employment by status in selected MICs

Year-on-year, 2020 Q2 (%)



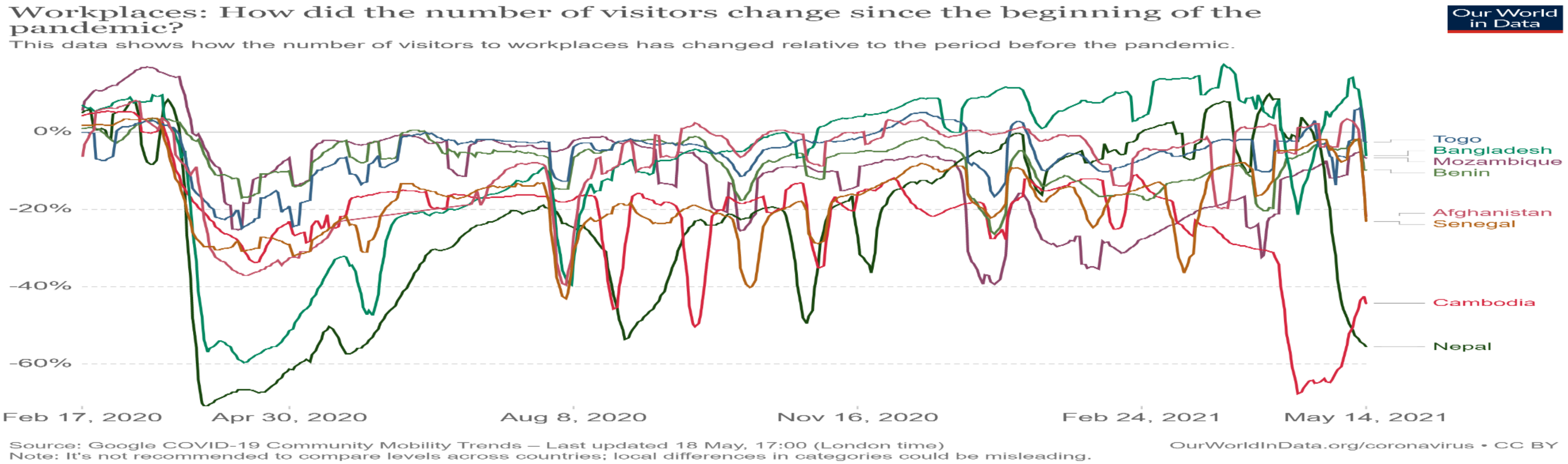

Notes: The chart shows the simple median employment growth with respect to the same quarter in 2019 across 12 countries with available data in 2020Q2: Argentina, Brazil, Chile, Costa Rica, Georgia, Mongolia, North Macedonia, Occupied Palestinian Territory, Peru, Serbia, South Africa, Viet Nam. The lower and upper quartile show the value of the 25th and 75th percentile of country observations, respectively.
Source: Calculations based on ILOSTAT harmonized microdata repository

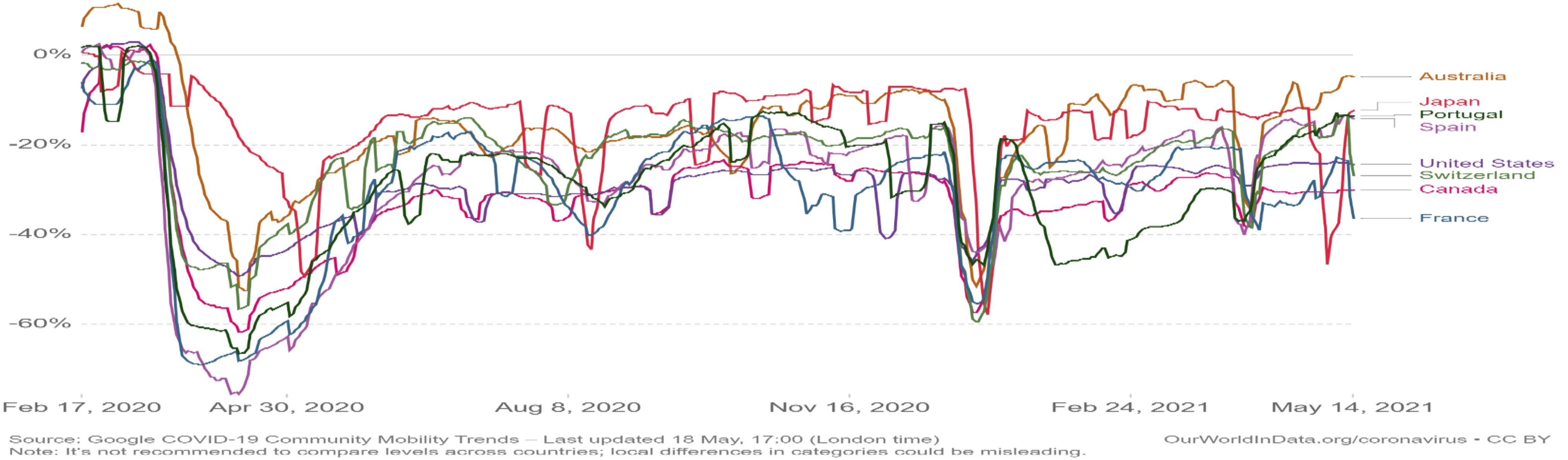
# A3. MULTIPLE SHOCKS HAD A SIGNIFICANT IMPACT ON JOBS AND INCOMES IN DEVELOPING COUNTRIES

The effects of lockdowns and containment measures were compounded by:

- **The sectoral composition of output** – in most middle income countries a large share of employment is in services that are difficult to deliver digitally
- **Limited fiscal space** – in the absence of government support, contractionary effects in hard-hit sectors could spread rapidly throughout the whole economy
- **The structure of the labour market** – because of high levels of informal and precarious work and weak social protection, people could not afford not to go to work, at times rendering lockdowns less effective and fuelling contagion. At same time, they were likely to experience wage cuts, reduced incomes and underemployment

# A4 HIGH SHARE OF OAWs IN AGRICULTURE AND SOFTER LOCKDOWNS IN THE LDCs




Source: Google COVID-19 Community Mobility Trends, Our World in Data, accessed 20 May 2021

# A5. EMPLOYMENT DECLINED LESS IN THE LDCs...

*In Bangladesh*, as of April, an estimated US$3.15billion in orders has been lost, affecting 1,136 factories. The drop in demand has resulted with one-in-three factories laying-off workers, affecting more than 2.26 million garment workers. According to another impact assessment of 4,287 randomised interviews, **89.6% of households experienced reduced incomes, with the majority having inadequate food access (94.8%)**

*In Ethiopia,* employment rates **declined** by 7% (April), **rebounded** by 3% (May), **stabilised** at 86% (June-August), and **converged to pre-COVID levels** in September. However, workers have less stable, lower quality jobs. Respondents reporting **household income losses**: 52% (April), 55% (May), 63% (June), 57% (July), 46% (August) and 41% (September)

*In Senegal,* an ILO qualitative assessment of 7 sectors in the informal economy (e.g. food industry, trade, and catering, events and leisure) found that **40% of interviewed workers lost their jobs, while 62% faced reduced incomes.** Meanwhile, a rapid assessment based on mobile phone surveys of over 1,000 respondents found that 86.6% experienced reduced incomes because of restrictions put in place resulting from COVID-19

*In Sierra Leone,* a randomised telephone survey found that **57% of surveyed employers reported laying-off workers, while 37% reduced working hours.** As of June 2020, the food insecure population reached 63% (compared to 53% last year)

*In Zambia*, one study estimates that 393,433 jobs will be lost in **6 impacted sectors** by the end of 2020, which are mostly concentrated in the informal sector (76%). Consequently, the poverty headcount ratio is expected to increase from 60.3% to 67.1%

...

Source: Parisotto, A.; Elsheiki, A. 2021. "*COVID-19, jobs and the future of work in the LDCs: A (disheartening) preliminary account*". ILO Working Paper 20. Geneva, ILO

# A6. ... BUT INCOME LOSSES AND SCARRING EFFECTS ARE VERY SEVERE

World Bank harmonized dataset of phone household surveys in 31 developing countries (April–May 2020)

| | Respondents who stopped working, either temporarily or permanently, in the aftermath of the pandemic (%) | Households reporting a decrease in total income (%) | Children who did not continue in alternative learning activities as schools closed (%) |
|---|---|---|---|
| Middle income countries (MICs) | 43.9 [1] | 68.7 [2] | 15.5 [3] |
| Least Developed Countries (LDCs) | 26.6 [4] | 57.6 [5] | 55.5 [6] |

1= 20 countries; 2= 15 countries; 3= 17 countries; 4= 11 countries; 5=5 countries; 6= 10 countries

**In the LDCs, the decline in employment rates was significant but did not fully capture the extent of the long-term damage on the labour market**

**Decline in incomes are causing significant increases in poverty and a change in the profile of the poor - more urban, more literate, more non-farm**

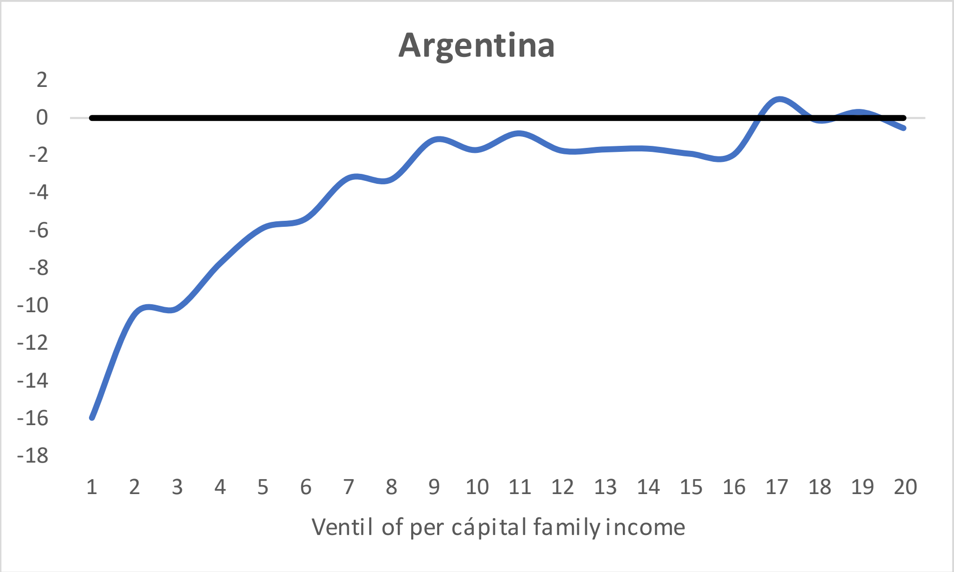
Source: Bundervoet et al., “The Short-Term Impacts of COVID-19 on Households in Developing Countries”, World Bank Policy Research Working Paper 9582, April 2021

# A7. A MAJOR REVERSAL IN POVERTY REDUCTION

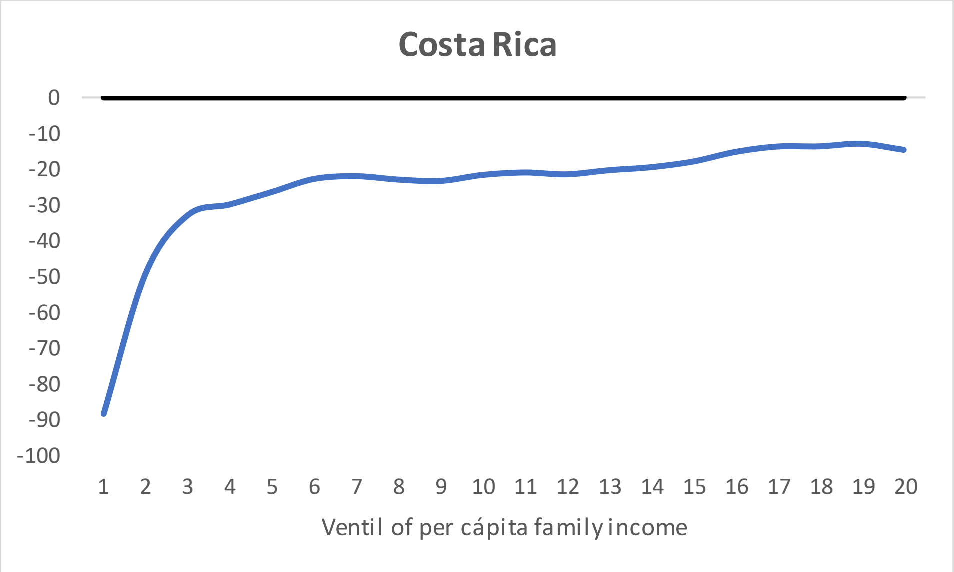
119 mn individuals falling into extreme poverty in 2020 (<$1.90 a day), 228 mn into poverty (<$3.20 a day); 4/5 of the total new poor are in MICs, mainly in South Asia and SSA
*Source: WB GEP January 2021 baseline estimates*.

But <u>all</u> countries are probably experiencing worsening income distribution

**Change in real per capita family income between 2019 and 2020, by income ventile (%)**




QIV2019-QIII2020




July2019-July2020

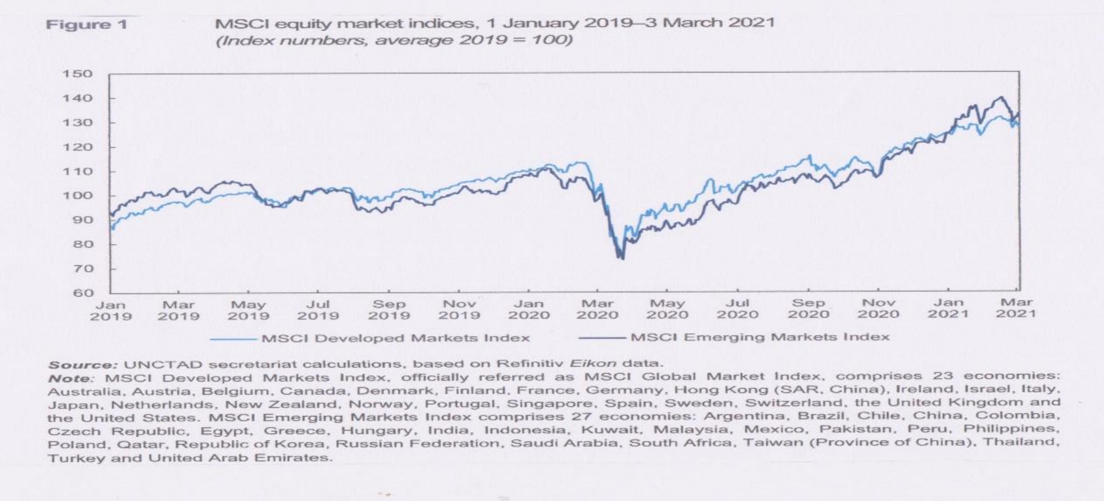
SOURCE: *LABOUR OVERVIEW IN TIMES OF COVID-19*, ILO OFFICE FOR LATIN AMERICA AND THE CARIBBEAN, APRIL 2021

# B1. STRONG MACROECONOMIC SUPPORT AND VACCINES ARE PROMOTING A FAST REBOUND IN ADVANCED ECONOMIES

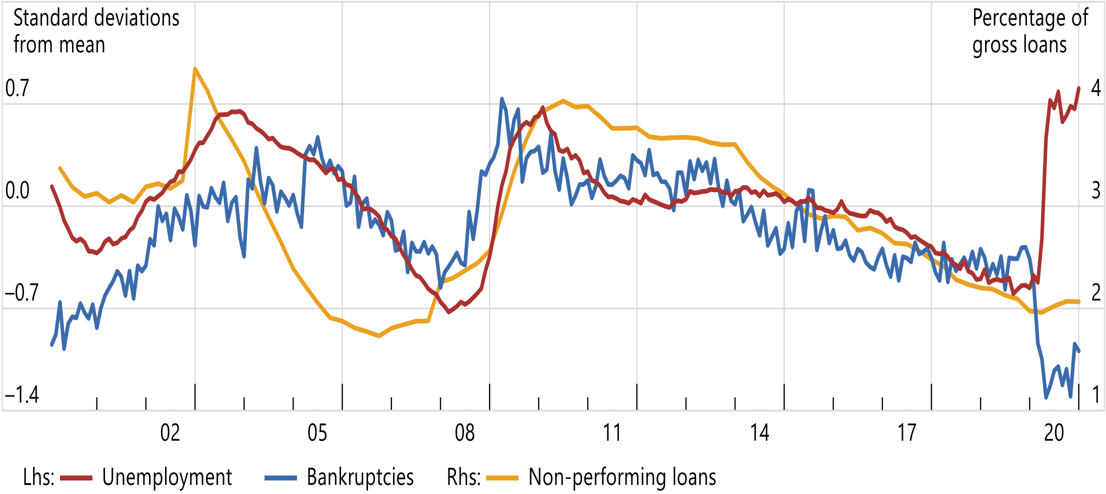
- ❑ Buoyant equity markets
- ❑ Remarkable financial stability
- ❑ Decline in bankruptcies
- ❑ Fast rebound in industrial activity
- ❑ Accelerated structural change

Large firms are massively investing in telework, digital workplaces, e-commerce, digital platforms, automation and artificial intelligence

Adapting to these trends will be challenging for SMEs and low-skilled workers in both developed and developing countries.




Source: UNCTAD, TDR update March 2021

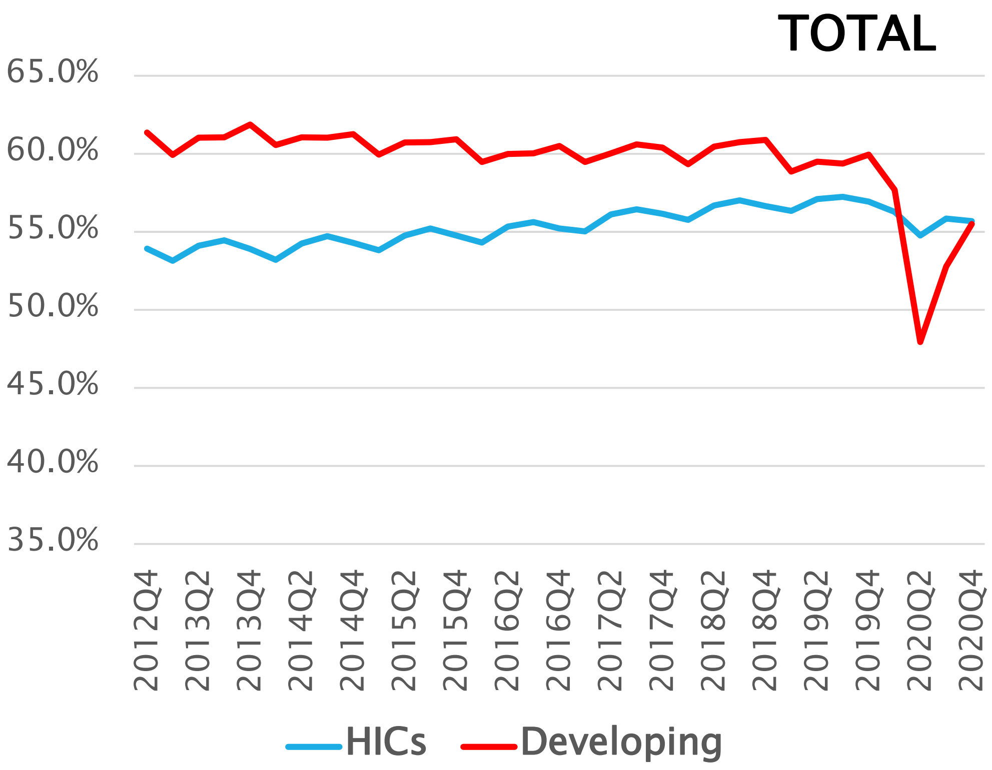


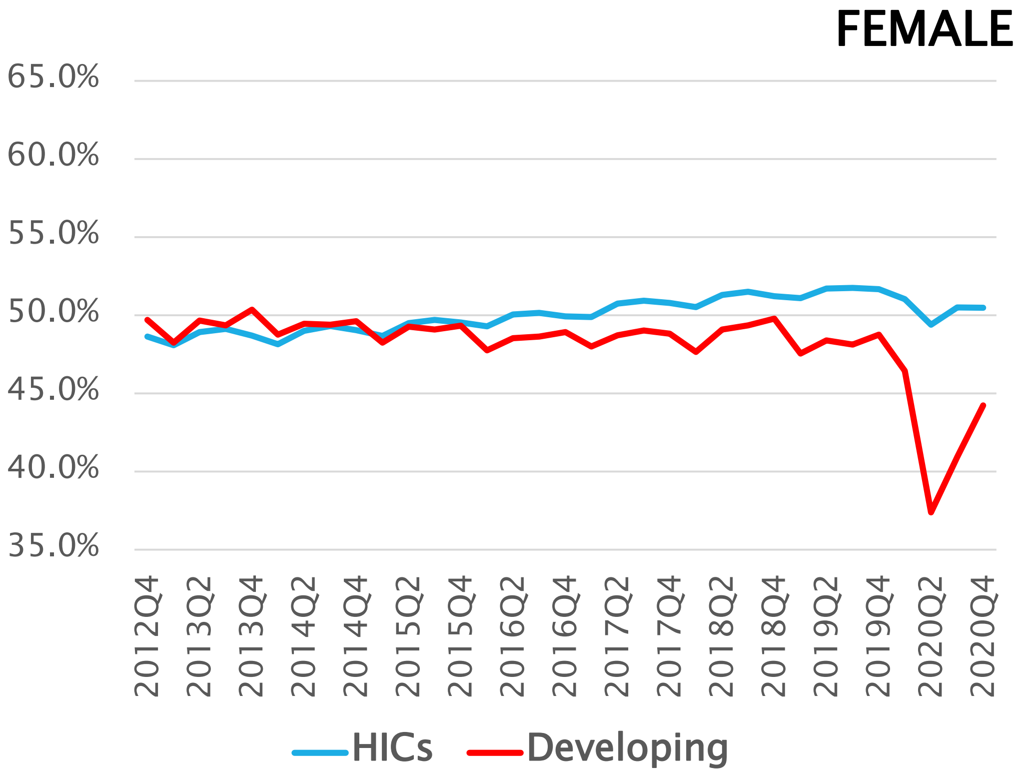

Source: FSB, April 2021

# B2. EMPLOYMENT RATES REMAIN SUBDUED

## Employment rates (2011Q4 – 2020Q4)

Employment as a share of 15+ year old population




* Simple unweighted country averages for which 2020 Q4 data is available. High-income: Austria, Belgium, Bulgaria, Switzerland, Germany, Denmark, Spain, Estonia, Finland, France, Greece, Ireland, Iceland, Italy, Netherlands, Norway, Poland, Portugal, Romania, Sweden, Hungary, Slovakia, Slovenia, Croatia, Estonia, Australia, USA, Canada; Developing: Brazil, Colombia, Costa Rica, Mexico, Peru, Turkey, Viet Nam.

Source: Various labour force surveys obtained from ILOSTAT.

# C1. GLOBAL POLICY PRIORITIES

## FROM THE PROVISION OF UNTARGETED EMERGENCY RELIEF TO NATIONAL STRATEGIES FOR JOB RECOVERY

- **Fast roll out of vaccines**
- **Maintain accommodative fiscal and monetary policies in order to sustain recovery**
  - protect workers in hard-hit sectors, women and young people to mitigate economic and social scars
  - adjust fiscal support as the economy re-opens; train, retrain and help people move to new jobs
- **Invest in key sectors that create jobs while paving the way for building an inclusive and resilient economy** (green, digital, care and health)

# C2. FINANCING THE JOB RECOVERY IN DEVELOPING COUNTRIES

## Enhancing domestic fiscal support

- improving targeting and effectiveness of fiscal measures (employment programmes for youth and women, ALMPs, skills, social protection systems..)
- facilitating transition to formalization while broadening the tax base
- targeted policies to promote structural transformation

## Adopting a reasonable fiscal framework to move towards sustainability over the medium-term

## Addressing gaps in external resources

- cope with stagnant ODA, declining FDI, uncertain remittances flows, volatile capital inflows and a looming debt crisis …

# C3. STEPPING UP INTERNATIONAL COOPERATION IS CRITICAL

| Emergency response | Return to work and job recovery | Inclusive and sustainable growth |
|---|---|---|
| • To ramp up vaccines production for wider access<br>• Humanitarian relief<br>• Emergency financial assistance<br>• Debt suspensions (eg G20 DSSI)<br>• Expand the use of Special Drawing Right (SDRs) | • Manage global macroeconomic spillovers (coordinating fiscal stimuli, orderly managing interest rates; currency swaps; mitigating pro-cyclical effects of credit ratings…)<br>• Increase the concessional lending capacity of multilateral institutions and adapt terms and conditionality<br>• Sovereign debt relief and debt restructuring multilateral mechanisms<br>• ODA commitment, including for stronger social protection systems<br>• Avoid unnecessary restrictions to trade, tourism and migration | • Adequate access to development finance and private capital markets in order to attain the SDGs<br>• Counter illicit capital flows<br>• International tax agreements<br>• An open and fair multilateral trade regime<br>• A global framework for migration |

감사합니다
Natick
Grazie
Danke
Ευχαριστίες
Dalu
Obrigado
Thank You
Köszönöm
Tack
Спасибо
Dank
Gracias
谢谢
Merci
Seé
ありがとう