COVID-19 - Tackling the jobs crisis in the Least Developed Countries

Key points

- The LDCs experienced contagion later and less severely than advanced countries. With about 13 per cent of the world’s population, the LDCs embodied 1.6 per cent of global COVID-19 confirmed cases as of January 2021. In spite of limited testing capacities, cases have increased steadily from April 2020 (1,751) to January 2021 (1,374,461), with just under four-fifths of them in five countries alone - Bangladesh, Nepal, Ethiopia, Myanmar, and Afghanistan.

- The LDCs responded quickly as the pandemic unfolded. Most LDCs introduced early lockdowns and mobility restrictions aligned with those in advanced countries. For instance, in the LDCs, 80 per cent of all workers resided in countries with some type of workplace closure as of July 30th. Many countries that had stricter measures, however, soon chose to amend and ease them recognising the grave economic damage caused for businesses, workers and poorer people.

- Although the health crisis has been less serious than elsewhere, the economic crisis is especially acute. Multiple shocks are substantially threatening the jobs and well-being of workers, with the effects of mandated market closures compounded by a deep and prolonged drop in external demand, e.g. exports, tourism receipts, and remittances.

- The estimated loss of working hours has been less great in LDCs but the impact more serious. This results from weaker social protection systems and limited fiscal space. The crisis hit upfront the economic sectors wherein informal, low-productive urban employment is usually clustered – commerce, food, transportation, personal services and domestic work. Rural areas were also affected, while external channels accounted for significant declines of jobs in manufacturing, construction, services, mining, and tourism.

- Changes in employment only capture part of the labour market damage. Preliminary evidence from a range of ad hoc surveys suggests that the income channel may more adequately capture the labour market impact, since individuals are more likely to experience reduced incomes and underemployment than become unemployed or inactive. In some LDCs, significant losses in earnings affected as much as 80 to 90 per cent of surveyed respondents - e.g. Bangladesh, Senegal, Timor Leste, Uganda, and Yemen. Beyond higher unemployment and inactivity, the risk for workers is deeper informality, underconsumption, hunger and long-lasting poverty. For businesses, the risk is insolvency and deep scars in productive capacities, skills and networks.

- The rapid introduction of fiscal and monetary measures is a common feature of advanced economies and the LDCs ... Fiscal measures in the LDCs aimed at strengthening health systems, expanding social assistance and supporting the private sector by granting tax relief or suspending government fees and other payments. A distinct challenge pertained to supporting workers in the informal economy, largely out of the reach of social protection systems.
... while a point of difference is the size of these packages. The size of economic support varied significantly across LDCs. Overall, it was far below the average of other income groups and largely out of keeping with the expected decline in GDP or the loss in labour incomes. Moreover, countries often reallocated expenditures away from capital spending at the cost of undermining prospects for recovery and future economic growth.

Sustained international support is critical to tackle the economic and employment impacts of the pandemic in the LDCs. As of June, only 0.03 per cent of global fiscal support was accounted for by low-income countries compared to around 90 per cent by high-income countries. Valuable assistance is being made available to the LDCs from multilateral institutions, but much more is needed to frontload humanitarian and financial assistance. Over the long-term, international reforms will be needed to better assist the building and strengthening of future resilience.

A job-rich recovery and beyond. There is much LDCs’ governments, employers and workers can do to:

- Implement national economic and employment recovery programmes – utilising and coordinating expertise and resources from different ministries and agencies, thereby creating synergies, critical mass and fiscal savings;
- Prioritise the creation of decent and productive jobs - including via reliable and timely information on the numbers and quality of jobs so as to facilitate monitoring of progress and ensure that women, youth and informal economy workers are included;
- Undertake productive transformation – balancing global inputs, technology and knowledge with support to local production capacities, training institutions and labour market programmes and services;
- Adopt a broad and open participatory approach – policy ought to include social partners and other stakeholders in order to reach consensus on policy responses, fine-tune implementation, and improve accountability.

The Least Developed Countries (LDCs) face a plethora of structural challenges and inequalities, ranging from hosting 40 per cent of the world’s poor to battling critical environmental issues, as well as in some cases coping with fragility and conflict. With about 1.3 per cent of the global GDP, they account for 13 per cent of the world’s population, with a median age of 20.3 years. Given the weight of pre-existing factors and vulnerabilities, the effects of the COVID-19 crisis on employment and the labour market are likely to be exceptionally deep and long-lasting, compromising development prospects and threatening to tear apart the social fabric. Based on current demographic trends, one-in-five of the youth in the world (persons aged from 15 to 24 years old) will be born in an LDC by 2030. To provide those young women and men with education, training, job opportunities and prospects for a decent life will be essential to a truly global recovery and a better future of work for all.

A subdued but growing public health impact

Cases of COVID-19 in the developing world were recorded later than in more advanced regions and have remained relatively subdued, but they continue to increase steadily. This pattern is visible in the LDCs. As of January 3rd 2021, they came to account for a total of 1,374,461 confirmed cases, embodying 1.6 per cent of the global aggregate (table 1).

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1 In accordance with the United Nations‘ classifications, LDCs is a list of developing countries that exhibit the lowest indicators of socio-economic development in the world, which is determined by meeting three criteria pertaining to poverty, human resource weakness and economic vulnerability. As of 2020, 47 countries compose the LDCs category - 33 LDCs are in Sub-Saharan Africa, 13 in Asia Pacific and one in the Americas.
Over to 37 per cent of those cases, moreover, were accounted in one country alone – Bangladesh, with Nepal, Ethiopia, Myanmar, and Afghanistan together composing an additional 41 per cent. These figures are likely to be far less than the reality as a consequence of limited testing capacities. Although they increased their testing capacity by 19 times since early May, as of September 30th, LDCs altogether still accounted for 6,811 reported tests per million population. This is in contrast to 63,655 and 224,197 reported tests per million population in other developing countries and the developed world, respectively.2

### Table 1 - COVID-19 confirmed cases in the LDCs

<table>
<thead>
<tr>
<th>Date</th>
<th>Total number of cases</th>
<th>% of cases worldwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 March</td>
<td>659</td>
<td>0.1</td>
</tr>
<tr>
<td>3 April</td>
<td>1,751</td>
<td>0.2</td>
</tr>
<tr>
<td>3 May</td>
<td>21,380</td>
<td>0.6</td>
</tr>
<tr>
<td>3 June</td>
<td>113,148</td>
<td>1.8</td>
</tr>
<tr>
<td>3 July</td>
<td>282,956</td>
<td>2.6</td>
</tr>
<tr>
<td>3 August</td>
<td>428,275</td>
<td>2.4</td>
</tr>
<tr>
<td>3 September</td>
<td>602,730</td>
<td>2.3</td>
</tr>
<tr>
<td>3 October</td>
<td>756,740</td>
<td>2.2</td>
</tr>
<tr>
<td>3 November</td>
<td>981,493</td>
<td>2.1</td>
</tr>
<tr>
<td>3 December</td>
<td>1,193,709</td>
<td>1.9</td>
</tr>
<tr>
<td>3 January</td>
<td>1,374,461</td>
<td>1.6</td>
</tr>
</tbody>
</table>


The recorded number of COVID-19 related deaths – the most commonly used indicator of the public health impact of the pandemic – also seems to suggest that LDCs are relatively unscathed by the pandemic, as they accounted for 1.28 per cent of the global total as of January 3rd 2021 (23,427 vs. 1,833,979).3

There are several reasons for the lower mortality rate related to COVID-19 in the LDCs and in developing countries, more generally. In particular, the virus is more deadly among older people, and among them for those with co-morbidities, such as cardiovascular diseases, which are more prevalent in rich countries.4

Most of the LDCs were shielded from the worst of the pandemic by their weak connectivity - less air links - and their largely rural, young populations. Several LDCs were also able to deploy pre-existing strategies and technologies that were used to counteract other infectious diseases, such as epidemic surveillance during the Sierra Leone Ebola outbreak, or rabies surveillance in Tanzania. However, more recently, the numbers of infections have increased and rates from the first wave remain high or continue to climb in the LDCs (see figure 1, panel A). In fact, January 2021 has been marked by spikes in some LDCs’ contagion curves situated in Africa (e.g. Lesotho, Malawi, and Mozambique), paving the way for another challenging year. The pandemic has, in contrast, reached later stages in more developed countries, many of which have been exposed to multiple waves. And while some of those developments can be explained by heightened and more efficient testing facilities, they are also a function of policy stringency insofar that governments are tightening or relaxing measures of containment (figure 1, panel B).

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3 Since historical series are not available for the majority of the LDCs, there are no data on the number of excess deaths, which could be a way to deal with undercounting.
In addition, the indirect effects of the COVID-19 pandemic can be quite significant in the LDCs, for instance if they lead to fewer vaccinations among children or higher child and maternal mortality owing to the disruption of health care services.

The LDCs responded quickly as the global pandemic unfolded

Most of the LDCs introduced early lockdowns and mobility restrictions similar to those in advanced economies in order to contain the spread of the virus, in some cases with heavy-handed enforcement. A few adopted lighter approaches - relying more on public campaigns and community networks for messaging about the importance of hand-washing and social distancing - for various reasons, including concerns about limited social protection coverage or fierce political opposition to complete or partial lockdowns (e.g. Benin, Burundi, Niger, and Tanzania). Many of those who had stricter measures, however, soon chose to amend and ease them recognising the grave economic damage caused for businesses, workers and poorer people.

ILO estimates on the share of workers in countries with general workplace closures provide some preliminary order of magnitude about the employment and labour market impact of the containment measures most countries adopted at the outbreak of the pandemic. As of August 26th, the vast majority of the world’s workers (94 per cent) resided in countries with some sort of workplace closure measures in place, with almost a third of the world’s workers in countries with lockdowns of workplaces for all but essential workers.  

In the LDCs, over 80 per cent of all workers resided in countries with some kind of workplace closures as of July 30th, while over 20 per cent were in countries with required workplace closures for all but essential workers. LDCs in Sub-Saharan Africa (SSA) and Pacific Islands had relatively softer regimes, as complete workplace closures had been uplifted since early May. Still, 50 per cent of workers in SSA resided in countries wherein workplaces were required to remain closed in some selected sectors, hampering many businesses from fully resuming their previous methods of operation.

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1 Panel A shows the evolution of COVID-19 infections (blue series) and deaths (black series) per million population in Bangladesh, Nepal, Ethiopia, and Myanmar, while Panel B displays those statistics in the Republic of Korea, U.S., France, and South Africa. It should also be noted that the Y-axes presented in Panel A and Panel B differ in accordance with series magnitude in the respective countries.

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Figure 1: Share of workers with general workplace closures (as of 30 July 2020)

Share of workers in countries with general workplace closures

- Share of the world’s employed living in countries with required workplace closures for all but essential workplaces
- Share of the world’s employed living in countries with required workplace closures for some sectors or categories of workers
- Share of the world’s employed living in countries with recommended workplace closures

Multiple shocks are having a significant impact on the labour market

If the direct impact on public health remained subdued or unseen, there are several ways wherein the COVID-19 pandemic is having a dramatic impact on jobs and incomes in the LDCs.

The containment measures adopted at the outbreak of the pandemic, as seen above in Figure 1, account for the most direct effect. Restriction of movements, mandated market closures at home and abroad, physical distancing and other forms of supply-side bottlenecks adversely affect production activities. Even if domestic measures in many LDCs were relatively short-lived and halfway respected, a few weeks of shutdown can have severe economic implications for people and businesses in the informal economy, with little cash reserves, no access to teleworking and nothing to fall back on. Those individuals and businesses represent the majority of the workforce and enterprises in the LDCs.

Macroeconomic effects are also significant. If specific sectors and location are affected first and acutely by the lockdowns, as incomes decline and uncertainty prevails, productivity dwindles and economic growth weakens, leading to job losses spreading throughout the whole economy. Given the weak social protection systems that can act as automatic stabilizers and the limited capacity for countercyclical fiscal measures, those contractionary effects can be severe and long lasting in the LDCs. Viable businesses, especially MSMEs, can be rapidly forced to close. For workers and households, the risk is not just higher rates of unemployment and inactivity, or withheld salaries and wages, but also falling even deeper into informality, hunger and long-lasting poverty.

In addition, even before registering a single case of contagion, most LDCs were suffering from the disruptions caused by COVID-19 to the global economy. This has been mainly a result of interruptions in global supply chains, the drying up of tourism, as well as sharp declines in the price of commodities and the volume of remittances (Box 1). Each of those factors are profoundly affecting LDCs’ already limited fiscal revenues and fragile current accounts.
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Box 1 – Decline in remittances and outmigration

Remittances from workers living abroad represent a significant proportion of household income for millions of people living in LDCs, particularly in urban areas. At the macroeconomic level, remittances are also a major source of foreign exchange earnings, often playing a corrective role for these countries’ trade balances. In 2019, for instance, they contributed, on average, 7 per cent of GDP in the LDCs.7

According to one report by the World Bank, the pandemic will produce the sharpest decline in global remittances in recent history, falling by around 20 per cent in 2020.8 These effects will be particularly pronounced in countries such as Nepal, where the contribution of remittances to GDP is expected to decline from 27.3 per cent to 13 per cent.9 For many households, decreasing remittances drag down private consumption, thereby exacerbating the demand-side shock and, in turn, limiting employment prospects.

In addition, the movement of migrant workers back to their home countries further stipples already weak or absent social protection systems; it also exacerbates food shortages and places further pressure on fragile health systems. According to IOM, hundreds of thousands of Bangladeshi migrants are expected to return home once countries relax restrictions and airlines resume flights.10

As the global economy is heading toward a deep recession, a prolonged fall in global demand is likely to be an overwhelming challenge for most LDCs. Even those countries that were most successful over the past decade – owing to good governance, focused public investments and a diversified set of exports of goods and services - will find it hard to recover and regain their sustained rates of economic growth. Pressure on exchange rates from an export slump also creates balance of payments issues due to the strengthening of foreign currencies in which external debt of LDCs is dominated, thereby intensifying pre-existing debt sustainability concerns.

Preliminary evidence suggests large losses in jobs and incomes

At this stage of the pandemic, it is difficult to measure the extent to which employment may suffer in developed and developing countries alike. Recent ILO estimates indicate a global decline in working hours of 17.3 per cent in the second quarter of 2020 (relative to the last quarter in 2019), equivalent to 495 million full-time jobs, of which 45 million in Sub-Saharan Africa alone.11 As lockdowns are lifted and economic activities regain their normal pace, part of those losses will be recuperated but extensive gaps are likely to remain. This is because some of the business closures and job losses could be permanent. Moreover, the disruptions in supply chains and loss of foreign markets could take longer to recover.

For low-income countries, the decline in working hours is estimated at 13.9 per cent, lower than the global average. In part, this is a reflection of the fact that out of economic necessity many workers in low-income countries were forced to maintain their working routines. This is especially true for the self-employed, daily wage labourers and low-skilled workers, not least because the nature of their work required physical proximity to others and they simply did not have the option from teleworking at home. Only about 20 per cent of the population in the LDCs, in fact, have access to the Internet.

If the reduction in working hours was relatively lower, the economic impact was still severe. In earlier crises in the LDCs, employment in the informal economy acted as a

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7 WTO. 2020. The COVID-19 pandemic and trade-related developments in LDCs, Geneva: WTO.
9 Ibid.
labour market adjustment mechanism, expanding to offer some precarious livelihoods to buffer the negative employment effects of a trade shock or budgetary restrictions due to fiscal consolidation. **This time around, the crisis hit upfront the economic sectors wherein informal, low-productive urban employment is usually clustered** – commerce, food, transportation, personal services and domestic work.

Direct figures on employment losses are scant, as conventional labour market statistics in the LDCs are only available with a considerable delay, if available at all. A variety of ex-ante assessments, ad hoc household and business surveys and innovative methods have been introduced in order to track labour markets as the crisis unravels. The results are quite fragmented, given the differences in scope, size, timing and methodology of the surveys (see box 2). Overall, they point to job losses disproportionately concentrated in low-skilled jobs mainly in urban areas (i.e. in tourism, construction, manufacturing, restaurants, retail, and transport), although rural jobs are also affected, such as those in agriculture and mining.12

It is also the case that the economic damage of the crisis is better captured by the income channel than employment. This is because, as mentioned earlier, large swaths of the LDCs’ labour markets are composed of self-employed workers that are more likely to incur reduced incomes and/or working hours than become inactive or unemployed.

A comparable result from national surveys and country assessments is that, overall, the crisis has led to significant lost earnings and reduced incomes in the LDCs, in some countries affecting as much as 80 to 90 per cent of surveyed respondents - e.g. Bangladesh, Senegal, Timor Leste, Uganda, and Yemen.13 Those drops in income are noteworthy insofar that they are pushing many individuals more deeply into poverty, cutting down on consumption to the bare minimum, taking out predatory loans from informal moneylenders, or, in extreme cases, theft and other illicit activities.

Women are especially at risk since, on the one hand, they are overrepresented in several labour intensive low-skilled activities, and, on the other, have heightened unpaid care obligations on the backdrop of school and child care closures. It is also the case that women occupy more vulnerable positions than men, leading them to be the first to lose their jobs and the last to be rehired during recovery. While there is evidence of women being disproportionately affected in many advanced and emerging economies, gender-disaggregated data are particularly scant in the studies in the LDCs.14 Only one survey in Samoa, a former LDC, highlighted that 64 per cent of all lost jobs have been women.15 This is a major gap that should be addressed.

**Box 2 – Aggregate employment and income impacts in the LDCs**

In **Bangladesh**, one study noted that job postings from the largest online matching sites have fallen by 87 per cent compared to last year.16 As of June, moreover, a rapid impact assessment showed that 89.6 per cent of Bangladeshi households have experienced a fall in their income, with 94.8 per cent having no or inadequate food stocks, while 34 per cent reported no access to safe and clean water.17

In **Ethiopia**, preliminary evidence indicates that employment rates among 3,000 respondents declined by 7 per cent in April-May, registered a slight rebound of 3 per cent in May-June, and stabilised thereafter (at 86 per cent). Job losses were more significant in transportation, construction and industry in urban areas, while the pick-up was driven by self-employment and casual work in commerce and personal services.

Income losses were significant, affecting 55 per cent of

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the households in April-May, 46 per cent in May-June, and 50 per cent in July. In Senegal, one study expects modest increases to the unemployment rate (by 0.2 per cent and 0.15 per cent in 2020 and 2021, respectively). An April phone survey, moreover, revealed that 86.8 per cent of respondents experienced a drop in their income. In Timor Leste, as of July, a survey revealed that 25 per cent of respondents lost their job because of COVID-19. The employment rate was particularly low for the youth (at around 12 per cent). While 56.6 per cent of respondents had no means of income, 37.6 per cent of households were affected by moderate or severe food insecurity. In Uganda, a preliminary assessment suggests that the short-term economic impacts of COVID-19 could lead to business closures affecting millions of Ugandan workers, most of whom work in the informal economy (90 per cent). These effects are expected to increase the number of poor people by an additional 2.6 million. In Yemen, too, job and income losses have been significant: a survey revealed that 40 per cent of formal workers have lost their jobs, while 79 per cent of respondents reported a reduction in their income of at least a fifth.

**Jobs in rural areas are also affected, deepening poverty and hunger**

In spite of its essential nature, with many activities remaining in operation even during lockdowns, the agricultural sector has not been spared. Restrictions in urban-rural mobility and disruptions on the supply-side affected production and earnings for agricultural workers, which constitute the bulk of employment in the LDCs (55 per cent in 2019). Restrictions to mobility are also hampering inputs of fertilizers and seasonal movements of workers for harvesting and sowing for the next season, constraining agricultural productivity and future income prospects.

In Burkina Faso, for instance, one survey showed that, as of July, 80 per cent of households working in agriculture have altered their operations because of restrictions linked to COVID-19. This has significantly impacted workers, with 50 per cent experiencing a fall in working time and 60 per cent facing reduced earnings. In Eritrea, too, 25 per cent of jobs in the agriculture sector are at risk stemming from supply-side restrictions, translating into around 157,081 jobs, of which women occupy 80,111. This presents food security concerns as well as the looming risk of climbing rates of extreme poverty and hunger. According to the 2020 Global Report on Food Crisis, for instance, 73 million people in Africa are severely food insecure. Overall, cutbacks in incomes and food consumption looks especially severe even in countries with very few COVID-19 cases relative to other parts of the world.

**External channels account for the loss of jobs in manufacturing, services and extractive industries, leaving deep scars in productive capacities**

Disconnections from the global economy may severely affect the limited pockets of formal employment, which the most successful LDCs have been able to gain over the past two decades of globalization. This, in turn, affects their prospects for further technological and organizational upgrading, structural transformation and sustainable productivity growth. Manufacturing of textiles, clothing, leather and footwear, is an example. Those industries have been key drivers of development in some LDCs, especially in Asia. A sizeable share of (mainly) formal employment resides in these highly globalised industries, amounting to 8 per cent (or 4.9 million workers) and 12 per cent (or around 1

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22 This estimate was retrieved from ILOSTAT.
It is estimated that the public health crisis could cost global value chains $US50 billion in exports. Transport controls and other measures put in place at the start of the year have led to raw material shortages in garment-exporting countries, drastically limiting production. In addition, supply has also been restricted locally via temporary lockdowns and factory closures imposed by governments in attempt to keep contagion rates at bay. The virus is also resulting in a sharp decline in consumer spending, especially in Europe and Northern America. Consumers’ loss of income and confidence, social distancing, and increased propensity to save during times of recession are leading to a reduction in global demand for those goods. While the repurposing of factory resources has had a mitigating effect in some countries – e.g. the mass production and exporting of face masks in Bangladesh, Cambodia, and Myanmar - those trade flows are hardly sufficient to offset contractions felt in the garment sector, and sizable job losses in the LDCs remain apparent (see Box 3).

**Box 3 - Employment impact in the garment sector in the LDCs**

- **In Bangladesh**, as of April, an estimated US$3.18 billion in orders has been lost, affecting 1,150 factories, which is equivalent to 8 per cent of last year’s total exports value. The drop in demand is affecting more than 2.28 million garment workers.

- **In Cambodia**, as of July, 400 factories have been forced to suspend operations, affecting over 150,000 workers.

- **In Haiti**, as of April, more than 50 per cent of surveyed factory managers claimed to have suspended a proportion of their workforce, in some cases amounting to over 500 employees.

In Ethiopia, from January to April, a workers’ survey revealed that 59 per cent of respondents experienced reduced incomes. Those losses were mostly attributed to less working hours, as well as fewer incentives and bonuses offered at the workplace. Since the beginning of April, Hawassa Industrial Park – a production hub employing approximately 35,000 workers - has closed up to 45 per cent of its operations.

In many cases, these manufacturing jobs at risk created an opportunity for workers, predominantly female and unskilled, to obtain formalised jobs and receive regular wages. Health risks are another concern since garment workers often work in large, densely populated factories, which increases risk of contagion and, more broadly, regular outbreaks, thereby producing a vicious cycle.

**The collapse of tourism**

Akin to garments, tourism is a predominant sector and a strong source of growth for many of the LDCs. In almost 90 per cent of these countries, tourism is considered a key sector of the economy, composing, on average, 9.5 per cent of GDP. Tourism is also a vital source of employment, representing 13.5 per cent and over 8 per cent in the LDCs situated in Asia and the Pacific, and Africa, respectively. Prevailing lockdown measures, travel restrictions, reductions in consumers’ disposable income and low confidence levels have brought tourism to a standstill in many countries, affecting millions of workers directly and indirectly (see box 4). In this regard, tourism does not only create jobs internally, it is also a vibrant source of employment in other economic sectors.

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32 Tourism jobs include occupations in accommodation for visitors, food and beverage serving activities, different types of passenger transport, transport equipment rental, travel agencies and other reservation services activities, as well as cultural activities, and sports and recreational activities.
Box 4 – Employment impact in the tourism sector in LDCs

**In Vanuatu**, tourism represents approximately 75 per cent of total exports. It is estimated that the Vanuatuan economy could shrink by 13.5 per cent because of the outbreak. With tourism accounting for 34 per cent of GDP and the dramatic drop in tourist arrivals – estimated to fall by 84,000 in 2020 – 21,000 jobs in the small country could be impacted.33

According to a moderate scenario, Senegal will experience a 3 per cent decline in GDP, translating into a 7 per cent drop in unskilled employment and a reduction of 8 per cent in skilled workers’ wages.35

In Bhutan, an impact assessment showed that almost two-thirds of households generate their income solely from tourism-related activities. Moreover, as of April, 36 per cent of respondents confirmed that they either had lost their job or been granted leave without pay, which has led to 63 per cent of households incurring a loss of income by at least 50 per cent. Deprived respondents (over 60 per cent) reported that their households did not have enough food for three or more week.36

In Nepal, as of April, job losses stood at 1.5 million in industries associated with trekking and mountaineering; employment also decreased for professional guides (-1,500) and tourist bus drivers (-300).37

**Faltering commodity prices**

The majority of the LDCs, in particular those in Sub-Saharan Africa, are also reliant on the exporting of commodities such as, minerals, oil, gas, and agricultural products. Oil exporting LDCs were especially affected as disagreement among major oil exporting countries caused oil prices to plunge by 50 per cent. Other commodities, such as metals and minerals, have declined by 20 per cent. Even though extractive industries are capital-intensive and account for a limited number of jobs, revenues from these industries often represent the bulk of government revenues. A decline affects urban formal employment via its effects on the numbers and wages of civil servants, as well as workers in construction for public infrastructure. Indirectly, it reduces the amount of fiscal space available to provide support and protection to enterprises and affected workers, which, overall limits the capacity of governments to mitigate the economic and employment damages of the COVID-19 crisis.

In Zambia, for instance, the extractive industry contributes to over 10 per cent of GDP, 80 per cent of exports and 29 per cent of government revenue. The Zambian finance minister estimates a 20 per cent shortfall in revenue for the country’s 2020 budget. In addition, over 10,000 extractive sector jobs are set to be lost with the closure of just one copper mining company.

**Policy challenges for an inclusive, job-rich recovery**

**Economic responses so far**

The rapid introduction of large, unconventional fiscal and monetary measures by advanced economies is a distinctive feature of the economic response to the COVID-19 crisis. Governments of the LDCs acted similarly fast.

Most LDCs rushed to adopt fiscal packages designed to tackle the health emergency, provide emergency lifelines to vulnerable households, and support businesses. The standard bundle included:

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33 Trade for Development. 2020. COVID-19 hitting tourism hard: What does this mean for the world’s poorest countries?
1. targeted investments to strengthen the health system, in some cases within the frame of contingency plans coordinated with international organizations and donors;
2. the expansion of social assistance to the most affected, mainly including cash-transfers and in-kind necessities; and
3. supporting the private sector through tax relief, suspension of government fees and waived social contributions, with attention paid to highly exposed sectors, such as transportation, accommodation and tourism (e.g. Benin, Bangladesh, Burkina Faso, CAR, Guinea, Lesotho, Madagascar, Malawi, Mauritania, Mozambique, Sierra Leone, Senegal, Togo, and Uganda). In addition, subsidized access to agricultural inputs was provided in some cases (e.g. Gambia, Rwanda and Togo). In other cases, medicine and medical equipment were exempted from paying import duties (e.g. Madagascar and Malawi).

To reach out to the large numbers of workers in the informal economy who were hit by the crisis was an overwhelming challenge. Most countries broadened and topped up existing cash transfers programmes, such as the Productive Safety Net Programme in Ethiopia and the Child Grant Programme in Lesotho. Some countries have used this time as an opportunity to reduce informality and have coupled access to emergency micro-loans with measures for formalisation of small economic units (e.g. Angola). For formal workers, wage subsidies were introduced in some cases, often conditional to employment retention (e.g. Bangladesh, Burundi, Haiti, Senegal, and Timor Leste), while a few countries made use of cash for work and labour-intensive public works programmes (e.g. Cambodia, Guinea, and Nepal).

Innovative solutions were also searched for. A new mobile cash-transfer program, NOVISSI, was launched in Togo, for instance, and was able to register about 1.4 million informal economy workers.

A notable difference compared to advanced economies relates to the size of the fiscal engagement.

Of the global fiscal support estimated at about $10 trillion in June 2020, almost 90 per cent was accounted for by high-income economies and only 0.03 per cent by low-income economies.\(^{38}\)

Even within the LDCs, the size of economic support varied significantly. Overall, it was far below the average of other income groups. It ranged from less than 1 per cent of GDP (e.g. Angola, Burundi, Eritrea, Laos, Liberia, Malawi, Mali, Myanmar, Nepal, and Yemen), to 5-10 per cent (e.g. Bhutan, Cambodia, Lesotho, Mozambique, Senegal and Timor-Leste), with other countries in between. In most cases, the fiscal packages provided by LDCs was much lower than the expected decline in GDP growth rates, which for low-income countries has been estimated by the IMF to range from 5.3 per cent in 2019 to -1.2 per cent in 2020.

New discretionary expenditures, moreover, were just a portion of the budget allocated to the COVID-19 response in the LDCs. Many countries reallocated expenditures away from capital spending or reduced the public sector wage bill. In Togo, for instance, the 2020 budget allocations for capital spending have been reduced by 60 per cent to make space for COVID-19-related current expenditures. Reductions in capital spending come at the cost of undermining prospects for recovery and future economic growth, while reallocations of current expenditures have a limited multiplier effect and can generate conflicts, making the delicate task of managing the political economy of the pandemic more difficult.

Monetary policy responses were also fast and generally included reducing the policy rate, providing liquidity to the commercial banks and relaxing reserve requirements or mandatory deposit limits. In some cases, commercial banks and micro-finance institutions or national development banks were used as a vehicle to help SMEs restructure their loans and access guarantees or moratoria on their debt service, for instance in Bangladesh, Myanmar, Rwanda, Uganda, and Zambia. Here, too, innovative solutions were introduced, e.g. a refinancing scheme operated by Bangladesh Bank to pay furloughed workers through mobile financial services, or the waiving of fees on mobile money transactions to encourage cashless transactions in Uganda. Gaps and weaknesses in the financial and banking systems, however, made monetary and financial measures less effective, particularly in reaching out to smaller businesses

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and safeguarding them from irrevocable disruptions in production.

Assessing the impact of those efforts is difficult. Health systems have received more resources but remain weak vis-à-vis the mounting direct and indirect sanitary consequences of the pandemic. Some basic assistance was provided to vulnerable groups of the population, helping alleviate social distress and prevent political turmoil. Vital businesses have received some backing. Yet, by and large fiscal support remained well below the size of the economic shocks affecting households and enterprises, doing little in the way of preventing long-run scarring effects.

The lack of fiscal space accounts for a main constraint to effectively tackling the employment and economic damage of the pandemic. This constraint becomes more severe as fiscal accounts are under pressure from the decline in revenues at the same time as lower foreign exchange earnings place pressure on the balance of payments and debt levels. As LDCs can hardly borrow in their own currencies, and are relying on imports of many essential goods and services, external constraints are particularly constrictive. Valuable assistance has been made available from the multilateral institutions and the G20 countries, but much more is needed (Box 5). Without sustained international support, the prospect is to wipe out decades of progress in reducing poverty.

### Box 5 - Stepping up of international assistance

Access to private capital markets is very narrow or non-existent for most of the LDCs; multilateral sources have been a primary source of financing in coping with the global crisis caused by COVID-19. Key sources of international assistance include:

1. The World Bank has announced it is mobilizing $160 billion for loans and grants as part of its operational response to COVID-19, reaching out to almost all of the LDCs, while considerable financing has also been made available from the regional development banks.

2. The IMF is making about $250 billion available to member countries for COVID-19 financial assistance and debt service relief. Currently, 31 LDCs are receiving emergency COVID-19 financial assistance under the IMF Rapid Financing Instrument (RFI) and/or Rapid Credit Facility (RCF), two lending instruments specifically designed to respond to external shocks in a timely manner.

3. Six-month debt service relief has been granted to 27 LDCs under the IMF’s Catastrophe Containment and Relief Trust (CCRT).

4. Emergency support to fight the pandemic in the most vulnerable and low-income countries - including 27 LDCs - is also available under the UN $10.3 billion appeal for a coordinated global humanitarian response plan, of which $2.2 billion were funded as of 20 August 2020, with gender-based violence, health and social protection as the main target areas.

Those sources do help free up resources and alleviate the fiscal and balance of payments constraints of the LDCs in meeting their immediate needs to respond to the pandemic. Unlike conventional IMF funding, the RFI and RCF loans are disbursed all at once after the borrower country outlines their intended policies, can be used support healthcare systems and sustain lifelines and do not include conditionality. The amount of funding, however, is limited to 100 per cent of the borrower’s IMF quota. Moreover, loans from the IMF and multilateral development banks, albeit at concessional terms, do add to the debt burden of receiving countries, making the external sustainability of public debt more vulnerable. Looking forward, and if the crisis drags on, far more bilateral and multilateral support and new financial facilities will be needed to help LDCs fund their responses.

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The scope for integrated and comprehensive plans to restart the economy and promote a job-rich recovery

As the crisis deepens, the challenge will be to increase capacities in hospitals and continue to provide essential income relief while acting to safeguard and strengthen the conditions for a fast job-rich recovery and a steady path to future resilience.

The responses will have to be comprehensive, to cope with the multiple dimensions of the COVID-19 crisis, and encompass a range of policy areas in a coherent and integrated manner in order to optimize limited fiscal space and weak implementation capacities. Sequencing of actions will be of essence, to fit the different steps in the unfolding of the pandemic - from containment to stabilization and recovery. Table 2 sets forth ideas for policies and programmes that might be most appropriate at each of the different stages.

At the outbreak of the pandemic, the focus was on emergency measures to contain the spread of the virus and protect households and businesses from the economic damages. As described earlier, the main concern in the LDCs has been to lock the economy and deliver a minimum of economic assistance to as many vulnerable people as possible.

Going beyond this initial response, the task is to restart LDCs’ economies, facilitating a fast return to work and the opening up of new opportunities.

Lockdowns in targeted sectors and locations, together with sufficient capacity for testing, tracing and isolation at critical hubs, could help minimize the spreading of the virus while mitigating economic damage. Clear messaging on social distancing should be accompanied with subsidies for hand sanitizers and face masks. As infections could easily spread at the workplace, occupational safety and health provisions will be essential in all sectors to improve confidence of consumers and investors. Those measures should extend to the formal and informal economy as far as possible; there is evidence for instance that informal market vendors have very high rates of infections.

Fiscal space should be found for macroeconomic policies to remain accommodative in order to continue protecting incomes and support jobs and enterprises. Inflation might be better addressed by tackling bottlenecks in supply, than through high interest rates and narrow nominal price targets.

Well-designed sectoral policies, targeted subsidies and skills development could help trigger new opportunities, for instance, in local sourcing within food supply chains or the production of medical equipment with locally sourced inputs, as already tested in a few countries. Policy should support business in reorienting and adapting to patterns of demand as they are shaped by fears about the pandemic. Several LDCs, indeed, have adopted new laws and regulations to encourage the use of e-commerce, such as in Cambodia where the government passed a law to ease the registration process of e-commerce businesses, reducing costs by 40 per cent in consequence. There is also scope for entrepreneurship and micro-level innovation, fuelled by new technologies, which could be leveraged in many areas. Given the importance of access to finance for most enterprises, central banks, development banks and microfinance institutions should take the lead in establishing new financial facilities and cashless platforms for wide access, including to informal endeavours. Development finance institutions, donors, and the private sector could also support such new projects with funding, guarantees and expertise.

This stage, wherein the threats from COVID-19 remain rampant and uncertainty prevails, seems likely to be longer than initially expected. Although there have been advances in research and development for a vaccine, its availability worldwide and for the developing world in particular remains unclear. Therefore, policy cannot only focus on protection via redistribution. It has to combine protection with stimuli to preserve and expand productive capacities and stabilize the labour market by creating jobs. It will be essential to make sure that people benefit not only from cash transfers and tax waivers, but also receive help to continue their smallholder agriculture activities or other businesses, and are offered opportunities for new jobs and training.

Over the long-run, as well as in the immediate recovery phase, the SDGs remain a vital transformative policy agenda, with SDG8 as a core element. Policies in the LDCs should be aimed to achieve sustainable and inclusive growth and decent and productive jobs by means of productive transformation, physical and social infrastructure, and strong investments in people’s capabilities and labour market institutions.
<table>
<thead>
<tr>
<th>Policy Areas</th>
<th>Phase 1: Emergency response</th>
<th>Phase 2: Return to work</th>
<th>Phase 3: Recovery and resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main Objective</strong></td>
<td>Containing the pandemic, lifelines for vulnerable households and businesses</td>
<td>Safely opening up workplaces and restarting economic activity</td>
<td>Investing in productive capacities, inclusive institutions and decent work</td>
</tr>
</tbody>
</table>
| **Health measures** | • Lockdowns and other containment measures  
• Public information campaigns  
• Procurement of critical medical supplies  
• Protecting health care workers and services | • Temporally and geographically targeted containment measures  
• Capacity for testing, tracing, isolate and care at hub points  
• Clear messaging on social distancing and subsidized provision of masks, hand washing stations and sanitizers  
• OSH measures at the workplace | • Large vaccination campaigns  
• Improved access to health care for all workers and their families  
• Ensure occupational safety and health (OSH) standards are respected in all workplaces |
| **Macroeconomic support** | • Emergency fiscal support for health and social protection  
• Reallocation of public spending  
• Accommodative monetary policies  
• Solidarity and emergency funds | • Maintain accommodative fiscal and monetary policies to sustain consumption, production and investment  
• Improve transparency and efficiency of public expenditure  
• Support local food supply chains to overcome bottlenecks in production and distribution | • Macro policies for full employment and reasonable price stability  
• Broaden the tax base to enhance fiscal space  
• Improve and private investments in infrastructure, skills development and innovation  
• Promote the participation in regional trade networks and supply chains |
| **Sectoral policies and support to businesses** | • Grants, loan guarantees and financial support to businesses, targeting MSMEs and most-affected sectors (e.g. tourism)  
• Tax waivers and postponement of payments  
• Subsidize fertilizers and other key agricultural inputs  
• Cash-less and mobile payment systems | • Stimulate local sourcing of medical equipment and food supplies  
• Help businesses adapt products and services to the requirements of social distancing (e.g. promoting e-commerce)  
• Assist businesses in the informal economy in transiting to formalization including via digital services and cashless transactions  
• Maintain job retention schemes in vital sectors | • Support new and growing sectors, e.g. shift to green technologies, digital economy  
• Business environment reforms and measures to improve productivity and working conditions in MSME, including for those in the informal economy  
• Area-based employment and development programmes  
• Invest in the care economy to create jobs and address gender inequalities |
| **Income support for workers and households** | • Expansion of existing cash transfers schemes, in-kind support and other transfers to vulnerable households and workers including in the informal economy  
• Waivers of electricity bills and other payments | • Maintain support, including exceptional measures, to uphold incomes and consumption of the poorest groups  
• Enhanced access to paid sick and care leave | • Solid social protection floor, providing a minimum set of basic guarantees, with participatory mechanisms for design and accountability |
| **ALMPs, skills and labour market institutions** | • Shift to online learning and exceptional measures to minimize disruptions to technical and vocational education and training and work-based learning | • Employment-intensive public employment programmes (PEPs) and hiring subsidies to support those hard hit by the crisis (youth, women)  
• Address key skills gaps in line with the reopening of workplaces and changes in demand  
• Enhanced employment services, including via online services and facilities to re-employ return migrants | • Maintain a portfolio of scalable PEPs to target vulnerable groups and stand ready to respond to economic shocks  
• Strengthen and scale up employment services  
• Labour market institutions, including minimum wages, employment protection and telework regulations  
• Reshaping skills development systems |
| **International assistance and cooperation** | • Joint action to ramp up the production of medical equipment and supplies for wider access  
• Increased humanitarian support  
• Emergency financial assistance  
• Debt suspensions  
• Expand the use of Special Drawing Rights (SDRs) | • Respect commitments to ODA  
• Increase the concessional lending capacity of multilateral institutions  
• Avoid unnecessary restrictions to trade and migration  
• Safe corridors for international tourism  
• Debt relief and debt restructuring mechanisms | • COVID-19 vaccine global access facility  
• Adequate access to development finance and capital markets in order to attain the SDGs  
• Fight illicit capital flows  
• Maintain an open and fair multilateral trade regime  
• A global framework to govern migration |

Source: Authors, based on ILO, National employment policies for an inclusive, job-rich recovery from the COVID-19 crisis, Policy Brief, September 2020
An inclusive policy process

Most LDCs are revising their development strategies and national plans to cope with the new scenarios opened up by the pandemic. Rapid assessments of the impact of COVID-19 on the economy and the labour market – often carried out with the support of multilateral institutions – are underway in many countries and account for a first step. Several countries, moreover, have national employment policies already in place, or a strong employment component in their development plans, which provide a framework for new coherent and comprehensive efforts to restart the economy and promote a job-rich recovery from COVID-19. This is a practical tool for the LDCs to respond to the challenges created by the pandemic, redefine their position in the post-pandemic global economy, attain their development objectives and move towards a better future of work.

The policy content will differ across countries, and not in all LDCs it will be possible to achieve a smooth and fast transition out of the pandemic to greater resilience and prosperity. States in conflict and post-conflict situations may need large amounts of humanitarian assistance. Countries with a functioning state, a burgeoning private sector and vibrant civil society might be better able - with appropriate international support - to make more progress. What could help these countries cope successfully with the current set of extraordinary challenges is a more inclusive and effective policy process. Four elements, based on the ILO experience in assisting LDCs in the design of national employment strategies, require attention:

- **The promotion of a whole-of-government approach**, with national economic and employment recovery programmes encompassing and coordinating the contribution from different ministries and agencies in the key policy areas - creating synergies, critical mass and fiscal savings.
- **Prioritising the creation of decent and productive jobs**, including via reliable and timely information on the numbers and quality of jobs so as to provide political traction to the recovery packages, facilitate monitoring of progress, and ensure women, youth and informal economy workers are included.
- **Productive transformation** is a critical underpinning to higher productivity and quality jobs. It should balance access to critical global inputs, technology and knowledge with targeted support to develop and upgrade local production capacities. This works better through continuing adjustments and strategic interactions between public agencies and private enterprises, with networks of labour market policies and services, training, financial and other institutions in place to facilitate those interactions.
- **A broad and open participatory approach to strategy design and policy implementation** - involving social dialogue and collaboration between governments, employers’ and workers’ representatives, academia and civil society - can facilitate consensus on key priorities, gain buy-in to implementation and improve accountability.

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44 In recent years, several LDCs embarked on the design of national employment strategies or embedded employment in their national development plans and their strategies to achieve SDG8, in some cases with assistance from the ILO - e.g. Bangladesh, Burkina Faso, Chad, Ethiopia, Mozambique, and Uganda.