

Supporting firms during the COVID-19 crisis

Options and trade-off for policy makers in developing countries



WORLD BANK GROUP

April 9 2020



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Development Policy and COVID-19 e-Seminar Series

Outline

- Why should we care?
- A simple conceptual framework
- Design and implementation considerations
 - A single metrics to evaluate interventions
 - Policy sequencing: different policies for different stages
 - Targeting dilemma
 - Avoidable mistakes
 - Reaching informal firms
- What to do now or how do I get started?
 - Know thyself

Why should we care and act quickly

- This is a unique crisis for various reasons
- Profitable firms and productive jobs could disappear
 - Destruction of productive jobs and production capabilities (organization)
 - Recovery slow and costly if this happens: V-shaped vs U-...or L-shaped
 - “Market” selection channels muted by size of shock
 - E.g. young productive firms disproportionately affected because of low liquidity
- Size of shock
 - E.g. in Mexico about 50% of employment (based on economic census)
- Potentially short-lived (at least part of it) therefore with “affordable” solutions (at least some)
 - But with long-term consequences if not addressed

COVID-19 shock pathways

1. **Shutdown shock:** result of health measures to reduce contagion

- Simultaneous supply and demand shock
- Limited in time
- Only affects certain sectors (and certain locations)
- Mitigated by relying on online

2. **Demand shock** beyond the shutdown

- Businesses manufacturing durables and their suppliers
- Indirect demand shock due to the shutdown (suppliers to businesses in shutdown)
- Exporters

3. **Supply shock:** Disruption in production capacities due to

- Decline in labor (health, childcare, precautionary measures)
- Lack of intermediate goods (disrupted value chains)
- Lower productivity

4. **Financial shock**

- Deterioration in access to finance and credit conditions because of bankruptcies and defaults
- USD-denominated debt + devaluation

5. **Uncertainty shock**

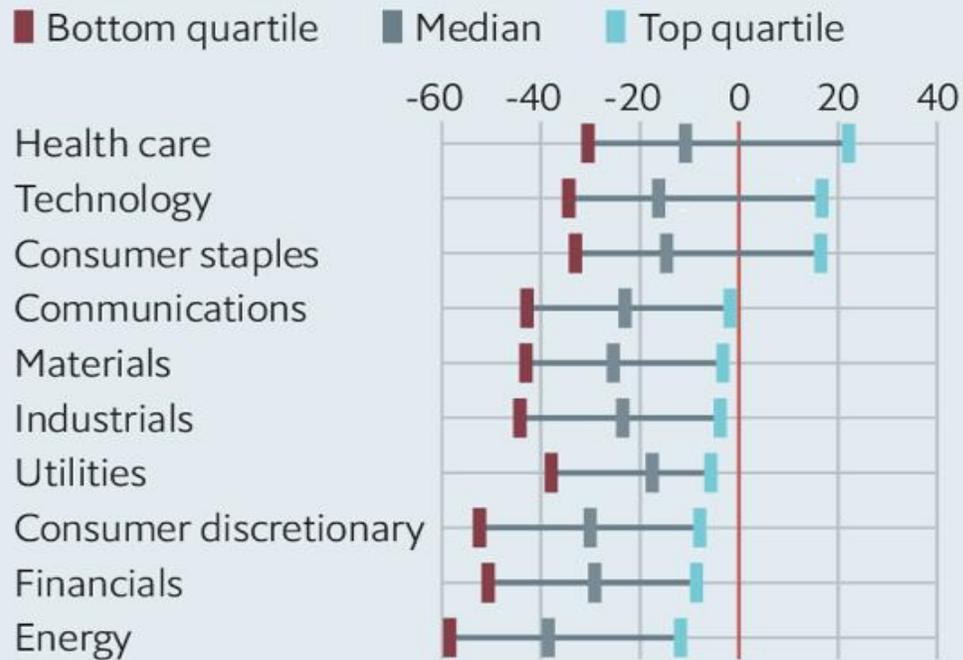
A taste of the heterogeneity of impacts

Within sectors

Viral variance

2

Global stockmarket performance by sector*, %
January 1st-April 3rd 2020, \$ terms



*Companies with current market capitalisation over \$5bn

Source: Bloomberg

Within countries

Share of state-level employment in potentially affected businesses



How to spend the limited resources available?

- Q.: Countries are implementing many policies...what should we do? What should we advise?
- Policy makers very active...many policies and different packages
- Resources are scarce...especially in developing countries
 - Be explicit about trade-offs between policies
- Focus on maximizing a single metrics to evaluate interventions
 - Key policy objective: protect productive jobs (and production capabilities)
- **In short term maximize \$ per job protected**
 - Weighting using “wages” as a measure of productivity
 - Account for distributional consideration
 - Make support conditional to keeping workers
- Note: keeping firms profitable is key but beware...
 - Trade offs between targeting profitability and keeping jobs

Policies for today...and policies for tomorrow

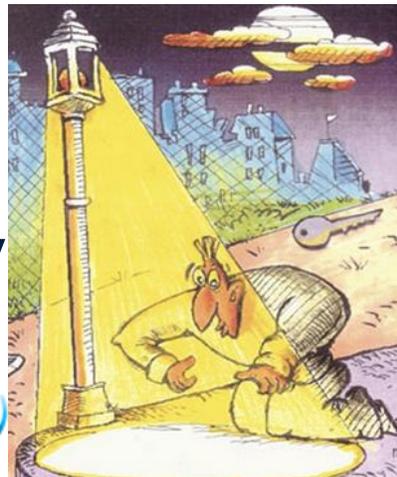
- Distinguish two phases
 - Phase 1: Crisis and immediate response
 - Phase 2: Recovery
- What priorities in each phase? Distinguish two phases
 - Phase 1: Keeping jobs and productive capabilities
 - Phase 2: Focus on productivity and economic transformation
- Appropriate interventions phase 1 \neq Appropriate interventions phase 2
 - **Measures in phase 1 should be time-bound** (explicit deadline!)
- Key to note that the shocks are likely to be different in each phase
 - Phase 1: Demand shock due to lockdown
 - Phase 2: Demand shock due to slow recovery of tourism and durables consumption

To target or not to target?

- Why target?
 - Available resources are scarce
 - Make sure support is commensurate with needs
 - Avoid that support given is insufficient for those that need it...and superfluous or distortive for those that don't need it
- Why not to target? (or what to avoid)
 - Adds complexity...slow down intervention
 - Adds discretion...potential rent seeking and misallocation
 - Especially problematic where institutional capacities are weaker
- Possible targeting in phase 1
 - Locations
 - Sector
 - Self-targeting (support conditional to keep jobs!)
- Possible targeting in phase 2
 - Address channels that are likely to be more important (e.g. uncertainty)
 - Focus on firms that could maximize productivity growth and economic transformation

Avoidable mistakes

- Resist the instinct to take interventions from different contexts (e.g. richer countries) and apply them
 - Less fiscal space
 - Some policies may reach only very few companies (e.g. tax breaks and formal companies)
- Tackle trade-off explicitly
 - There are many trade-off that the situation involve
 - Be explicit and identify some agreed measures to assess them (i.e. short term \$ per job saved)
- Try avoiding the common economist's mistake
 - Address conflict between what is easier vs what is needed
 - E.g.: channel more resources through existing cash transfer for elderly



Special consideration for certain groups of firms

- Informal firms
 - Much harder to reach...but not impossible
 - Reach them through their suppliers
 - One time income grant towards future formalization (only minimal proof of existence – bills paid or invoices from suppliers)
 - Extend factoring for informal firms
- Indirectly affected firms
 - Especially from shutdown and demand shock
 - Very large impact
- Young firms/Startups
- “Integrated” firms
- Systemic companies

What do we do now? How to get started?

- First know thyself!
 - Assess magnitude and distribution of impact
 - Is intervention the “right” magnitude?
 - Will policies reach firms and jobs most affected ?
- Monitor ongoing impact to refine (or review) intervention
 - Rapid survey
 - Measure impact of different channels – different policies and different responses needed
 - Understand firms responses and adjustment (process, product and market innovation)
 - Understand uncertainty – distribution, magnitude across firms/sectors/locations
 - Understand barriers to access Government programs...key for “plumbing”

Thank you for your attention!

