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## Job retention schemes during COVID-19: A review of policy responses

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POLICY PAPER SERIES

IZA Policy Paper No. 187

**Job Retention Schemes during COVID-19:  
A Review of Policy Responses**

Werner Eichhorst  
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JUNE 2022

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# Job Retention Schemes during COVID-19: A Review of Policy Responses

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## ABSTRACT

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# Job Retention Schemes during COVID-19: A Review of Policy Responses\*

This policy brief provides an update on job retention policies in a sample of 20 countries representing the main world regions as well as the diverse types of job retention schemes, in particular short-time work, furlough and wage subsidy schemes as they have been implemented in response to the COVID-19 pandemic. We show the diversity of these policies as well as the available information about their (re-)design as the pandemic evolved up to the most recent period. The policy brief raises main issues regarding the implementation and adaptation of job retention policies and illustrated this with four case studies.

**JEL Classification:** E24, H12, J22, J08, J65, J68, O57

**Keywords:** work, decent work, employment policy, education, skills, rapid assessment, economic recovery, economic sectors, gender equality, youth, COVID-19, survey

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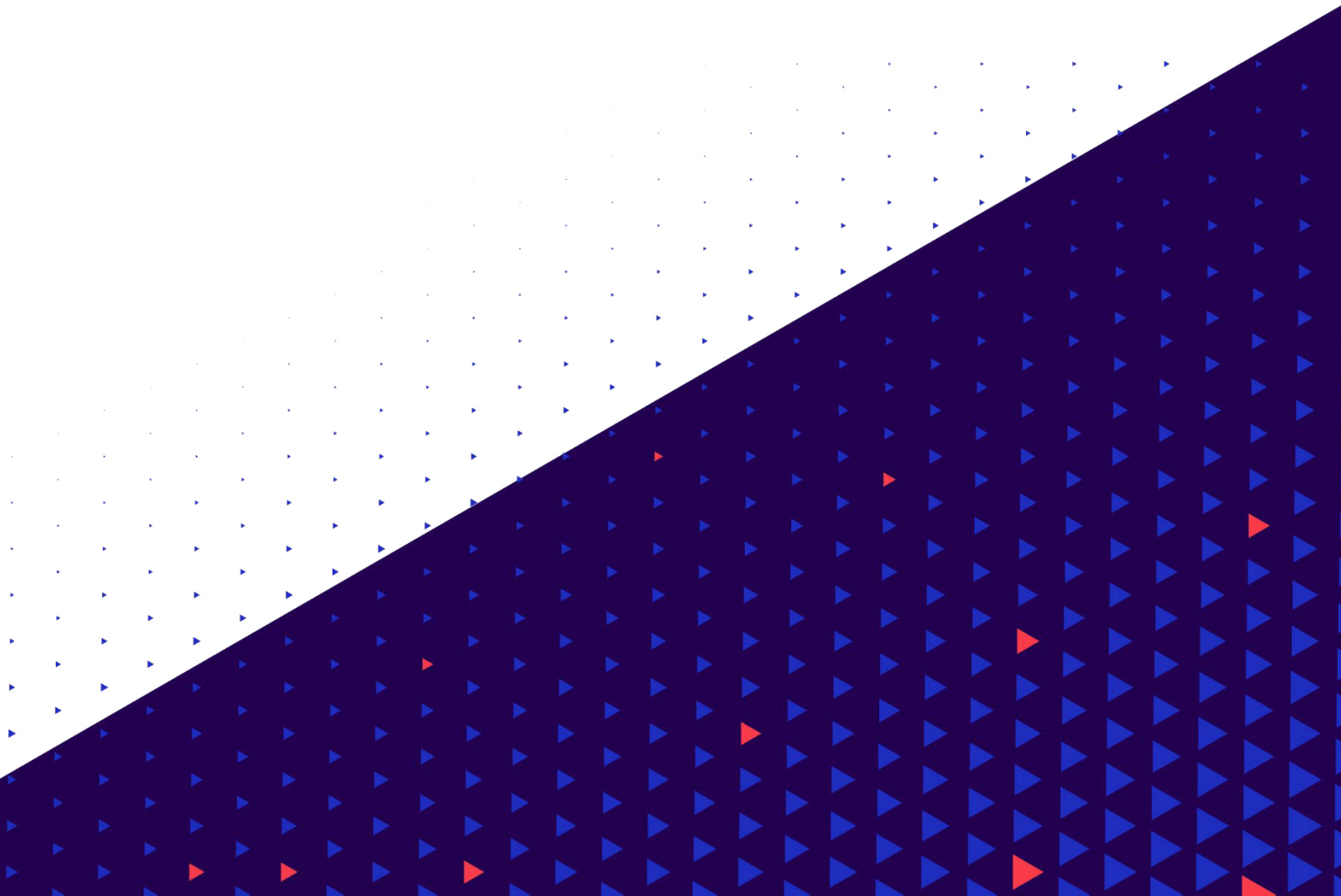


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Werner Eichhorst<sup>1</sup>, Paul Marx<sup>2</sup>, Ulf Rinne<sup>3</sup> and Johannes Brunner<sup>4</sup>

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## ▶ Contents

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▶ Abstract.....	2
▶ Acknowledgements.....	2
▶ Introduction .....	3
▶ 2. The concept of job retention and its effects .....	3
2.1 Evaluating job retention schemes.....	3
2.2 Types of job retention schemes .....	4
▶ 3. Policy design and reforms during COVID-19 .....	6
▶ 4. Country case studies.....	22
4.1 A new role of short-time work in Germany .....	22
4.2 New experiences with subsidized internal flexibility: Spain .....	24
4.3 Wage subsidies in a liberal economy: New Zealand .....	25
4.4. The Philippines.....	26
▶ 5 Assessment and outlook.....	27
▶ References.....	30

## ► Abstract

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This policy brief provides an update on job retention policies in a sample of 20 countries representing the main world regions as well as the diverse types of job retention schemes, in particular short-time work, furlough and wage subsidy schemes as they have been implemented in response to the COVID-19 pandemic. We show the diversity of these policies as well as the available information about their (re-)design as the pandemic evolved up to the most recent period. The policy brief raises main issues regarding the implementation and adaptation of job retention policies and illustrated this with four case studies.

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## ▶ Introduction

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The aim of this policy brief is to analyze job retention schemes, in particular short-time work or furlough policies and equivalent wage subsidy programs implemented during the global COVID-19 crisis with a particular focus on adjustments as the crisis has evolved further up to the beginning of 2022. It shows main trends in policy design and differences in terms of expenditure on the schemes and the number of workers involved to the extent that such data is available. The main focus, however, lies on a qualitative analysis of core features of job retention schemes in a sample of diverse countries.

In order to understand job retention implemented in the COVID-19 crisis, we first have a look at the general design and assessment of short-time work and similar instruments based on existing knowledge from earlier recession. We then provide a comparative overview of the different schemes implemented in the context of COVID-19, considering their design and evolution during the crisis. The third section discusses four selected country experiences in more detail. The paper concludes by assessing the schemes and their impact as well as by giving an outlook on future implementation and design.

## ▶ 2. The concept of job retention and its effects

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### 2.1 Evaluating job retention schemes

In the global financial and economic crisis of 2008/09, short-time work played an essential role in stabilizing labour markets in countries such as Germany, Belgium, Japan or Italy, with shares of over three per cent of total employment. In particular, with hindsight it can be argued that job retention schemes were a major pillar of crisis response in Europe during the 2008/09 downturn and helped avoid massive social costs of skyrocketing unemployment (Fischer and Schmid 2021).

This episode represented the most significant experience with short-time work in developed industrialized countries before the COVID-19 crisis. However, the massive use of short-time work at that time remained limited to a few countries – and within these countries, it was mainly used in industrial sectors – although the instrument was already available in almost all industrialized countries by the end of the 2000s or was newly introduced during the crisis (Cahuc 2019).

Short-time work, especially in countries with stronger protection of permanent employment contracts, often observed in manufacturing, served to relieve employers of labour costs during a period of massive underutilization while avoiding employee layoffs and significant individual income losses. However, data on the use of short-time work during the recession do not tell us anything about the medium- and long-term effects on the stability of employment relationships or the further development of employment, especially if structural changes in the economy are taking place at the same time. The evidence from macro and micro studies on the effects of short-time work is limited, but it does allow some basic conclusions to be drawn.

Comparative studies and analyses of individual countries from this period initially show that short-time work effectively contributed to greater adjustment via working hours and employment could thus be stabilized (Cahuc and Carcillo 2011; Cahuc, Kramarz and Nevoux 2018; Balleer et al. 2016; Boeri and Brücker 2011; Hijzen and Venn 2011; Hijzen and Martin 2013; Giupponi and Landais 2018). This distinguishes countries with short-time work and stronger dismissal protection from liberal regimes, where employment protection is less stringent and adjustments are traditionally made more through layoffs than through flexible working hours (Abraham and Houseman 1994). However, it has also been shown that short-time work has – unsurprisingly and predominantly – protected permanent employment relationships, but not temporary workers that then took a larger part of the risk of job loss even in the presence of job retention policies (Hijzen and Venn 2011). Furthermore, the expansion of short-time work at the beginning of the crisis at that time helped to protect jobs, but this effect was no longer significant or negative from 2010 onwards (Arranz, García-Serrano and Hernanz 2018; Balleer et al. 2016; Boeri and Brücker 2011; Cahuc and Nevoux 2017; Hijzen and Martin 2013).

In summary, based on the evidence prior to the COVID-19 crisis, it can be stated that welfare state support for working time flexibility in the sense of short-time work can in principle help to avoid unemployment in the face of a temporary economic slump through fewer redundancies. The additional expenditure for short-time work and deadweight losses are offset by savings in unemployment benefits. Short-time work can help to maintain the link between companies and employees with specific skills and to flexibly resume productive employment when the economy picks up again. This is especially true when labour law provisions make layoffs more expensive and when staff with the specific skills profiles that firms need is not easy to rehire or attract on the external labour market.

In general, the challenge for the design of short-time work is to promote the preservation of productive employment opportunities without hindering structural change. Studies on the role of short-time work in earlier recessions show also that the effectiveness of job retention schemes depends on their design. Hence, in the case that the cost of retaining workers via a job retention scheme are prohibitively high, employers may still dismiss (too many) workers in viable jobs while job retention at no or too low costs for employers may lead to an inefficient overuse of job retention schemes (Cahuc 2019). By its pure logic job retention, be it short-time work or a wage subsidy, is best suited for short recessions and reaches its limits in the face of structural change. In this case, job retention schemes help keep the links between employers and their employees, which might be costly to re-establish once they are broken. In addition, they also support workers' incomes, who keep their employment contract when work cannot be performed as contracted, effectively acting as an automatic stabilizer for the economy as well. Also, earlier research by Boeri et al. (2011) suggests that above a threshold of a 1.5 percent reduction in GDP, job retention schemes help prevent employment losses. This study also supports the generally shared view that job retention schemes are effective in the context of contemporaneous or cyclical, as opposed to structural, shocks.

## 2.2 Types of job retention schemes

In an internationally comparative perspective, different models can be observed in the area of job retention. These models do not always take a loss of work as the trigger; in some cases, sales

slumps are considered the main trigger. In addition, benefits are not only granted according to the individual work loss and thus as partial unemployment benefit or short-time allowance, but in some cases also paid directly to the affected company as a wage subsidy. Accordingly, different labels are used. While these different models can largely be regarded as equivalents, they have distinct logics.

In general, when it comes to job retention schemes we can distinguish between wage subsidies, short-time work schemes and furlough schemes. There has always been and continues to be some overlap between these schemes and the differences have become particularly blurred as they were adjusted to the recent shock of the COVID-19 pandemic (see also Dražokupil and Müller 2021).

► Table 1 - Job retention scheme typology

	Short-time work scheme	Furlough scheme	Wage subsidy scheme
<b>Common goals (JSR)</b>	Retaining links between workers and companies (protecting jobs). Reducing the wage bill of companies in difficulties. Protecting workers from income loss		
<b>Type of support</b>	Support to companies to finance hours not worked	Benefit to employees for hours not worked. Allowing companies to temporarily lay off parts of their workforce	Subsidy to companies regardless of whether working time of specific employees is reduced
<b>Eligibility</b>	Temporary economic difficulties. Reduction in working time. Employment contract	Temporary economic difficulties. Reduction in working time. Worker eligible for unemployment assistance	Economic difficulties. Selected sectors or types of companies
<b>Level</b>	Linked to pay. Directly reflects adjustment of working hours	Linked to pay. Directly reflects adjustment of working hours	Permissible wage adjustments not directly related to working time reduction
<b>Financing</b>	Varies	Unemployment insurance	State budget

First, regarding short-time work and furlough in Table 1, the study by Dražokupil and Müller (2021) classifies short-time work and furlough schemes as distinct with respect to the extent of hours not worked. In contrast, a study by the OECD (2021: Chapter 2) sees furlough schemes as a subtype of

short-time work schemes in which working hours are or have to be temporarily reduced to zero so that the workers are effectively on temporary leave from work, which is viewed as distinct from more flexible short-time work schemes. In this context, a study by Eurofound (2021) refers to “temporary layoffs” where no partial continuation of work is permitted. Still, such a distinction is somewhat arbitrary as short-time work schemes can also, in some cases, allow (but not require) a complete stop of work. This has become even more prominent during the COVID-19 pandemic as both short-time work and furlough schemes were made more flexible with regard to the degree of working time reduction. At the same time, part-time furlough and short-time work schemes with an option to reduce working time by 100 percent were common also before the COVID-19 crisis as stressed by Drahokupil and Müller in their 2021 study. Still, it might make sense to distinguish between short-time work and furlough schemes. While short-time work schemes are aimed primarily at stabilizing existing jobs by providing labour cost relief to firms in a phase of low demand, furlough schemes tend to provide more assistance to workers who are temporarily (partly or fully) unemployed. They can be seen as a tool to facilitate their transition to other jobs. This also implies that – quite in contrast to short-time work allowances that are channeled through employers’ wage bills – workers on furlough directly receive unemployment benefits from the respective funds.

The third type listed in Table 1 is clearly more distinct from the other two types: Wage subsidies have been used in some countries to support firms in case of a loss of turnover or sales without making a direct reference to working hours not worked under such circumstances. Hence, these schemes rather support the continued existence of the firm when turnover falls but requires firms to continue paying their workers as if there was no economic shock (i.e., at regular hours, without dismissing any of them or cutting their paid hours). In the development context, it has to be noted that wage subsidies tend to be confined to formal workers in formal businesses.

### ► 3. Policy design and reforms during COVID-19

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Job retention schemes have been used significantly more heavily during the COVID-19 crisis than during the global financial and economic crisis (Müller and Schulten 2020; Konle-Seidl 2020; OECD 2020a). In May 2020, about 50 million workers in OECD countries were on short-time work – about ten times as many as at the height of the global financial and economic crisis in 2008/09 (OECD 2020b). This can be explained on the one hand by the specific nature of the economic shock, which directly affected many sectors of the economy and drove take-up, and on the other hand by the stronger establishment of short-time work in the regulatory system of many different countries that had not relied on this tool before. The strong emphasis on short-time work can probably also be interpreted as a result of the experiences from the crisis at that time.

As a general pattern, at the beginning of the COVID-19 crisis, significant extensions and innovations were introduced compared to previous regulations. Based on a sample of European countries and some countries outside of Europe, three main forms of reaction in the area of job retention have been identified (see also Konle-Seidl 2020):

1. in some countries, existing regulatory systems of short-time work were adapted and expanded.

2. in a second group of countries, existing regulatory systems were replaced by specific crisis-related regimes.
3. a third group of countries without existing systems for short-time work introduced new job retention schemes, typically for a limited period of time.

While the first two groups are dominated by countries with developed welfare states, established short-time work models and comparatively strong employment protection, the third group consists of liberal regimes. But even in the latter group of countries, efforts to secure jobs have increased in the current crisis. In this case, however, rather than short-time work, wage subsidy schemes were introduced as a temporary ad hoc measure. As Table 2 below shows, wage subsidy schemes with different targeting were also the most prominent support scheme adopted in the medium and low-income countries included in our sample, also responding to the lack of substantial unemployment insurance coverage.

► Table 2 – Adaptation and adoption of job retention schemes in 20 selected countries

	Pre-existing STW scheme	Increased access and coverage	Increased benefit generosity	Increased access for workers in non-standard jobs	New STW scheme	New adapted wage subsidy scheme
<b>Austria</b>	✓	✓	✓			
<b>Canada</b>	✓					✓
<b>Denmark</b>	✓	✓			✓	
<b>Egypt</b>						✓
<b>France</b>	✓	✓	✓	✓		
<b>Germany</b>	✓	✓	✓	✓		
<b>Hungary</b>					✓	
<b>Korea</b>	✓	✓	✓			
<b>Mexico</b>						
<b>Netherlands*</b>	✓					✓
<b>New Zealand</b>						✓
<b>Peru</b>						✓

	Pre-existing STW scheme	Increased access and coverage	Increased benefit generosity	Increased access for workers in non-standard jobs	New STW scheme	New adapted wage subsidy scheme
<b>Philippines</b>						✓
<b>Serbia</b>						✓
<b>South Africa</b>						✓
<b>Spain</b>	✓	✓	✓	✓		
<b>Sweden</b>	✓	✓	✓			
<b>UK</b>					✓	
<b>US</b>	✓	✓	✓			
<b>Viet Nam</b>						✓

Notes: Netherlands\*: the existing STW scheme was replaced by a temporary wage subsidy scheme.

Source: Elaborated from Scarpetta et al. (2020) / OECD (2020b) with additional information on non-OECD countries.

Table 3 shows policy responses in the area of job retention schemes during the COVID-19 crisis in 20 selected countries in more detail. This diverse sample of countries has been selected to cover a broad set of countries with different types of labour markets and welfare states, and to include high-income countries, medium-income countries as well as low-income countries. Additional selection criteria have been a broad geographic coverage in the sample, the availability of (broadly comparable) information and the availability of national experts.

It becomes clear that short-time work, extending established models, is restricted to developed economies, and there in particular to Nordic, Continental European and Southern European countries. Canada and Korea are important examples of long-standing and adapted short-time work schemes outside this set while, notably, Denmark, the UK and Hungary are European countries with newly introduced short-time work (STW) schemes.

In some countries such as the Netherlands, Canada and New Zealand temporary wage subsidies were used heavily during the crisis (in the Dutch case replacing the regular STW model, in Canada complementing existing STW). Wage subsidies were also used in one way or another in medium and low-income countries. Here, these models are typically limited to formal employment relationships. Wage subsidies for firms to sustain wage payments (at regular working hours) tend to be more of an ad-hoc nature than STW schemes, and they were typically only available for short



periods of time. In this context, the provision of other types of support to firms and workers is highly relevant.

Regarding the recent and ongoing phasing-out of job retention schemes, countries have either phased-out (or stopped extending) wage subsidies rather quickly or limited the use of STW more gradually. In the latter case, attempts were made to exit in step-wise manner by raising minimum hours actually performed under STW and/or lower subsidy levels relative to the more generous initial conditions (see Austria, France or the Netherlands, for example). In some cases, support schemes were reduced to sectoral programs targeting those sectors most heavily affected in the medium run.

► Table 3: Key job protection schemes in 20 selected countries during COVID-19, 2020-2021

Country	Type	Name and short description
Austria	STW	<ul style="list-style-type: none"> <li>• <b>“Corona Kurzarbeit”*</b>: In response to COVID-19 Austria, based on a social partner agreement, introduced a modified type of a tax-funded short-time working scheme, called "Corona Kurzarbeit": employees and apprentices in all sectors had the option of reduced working hours by up to 90, in some cases 100 percent, but a social partner agreement was a prerequisite for use of the scheme; relative to the regular STW scheme in Austria, this system was more flexible, more easily accessible and had a longer duration of the support (up to 6 months) as well as more generous coverage of employer expenses; the standard net replacement rate was 80, but 85 to 90 percent for low-wage workers; dismissal were prohibited during receipt of STW support and one additional month (Drahokupil and Müller 2021; Tamesberger and Moser 2021; Bock-Schappelwein, Böheim and Leoni 2021).</li> <li>• The Austrian STW scheme was revised and extended several times (until March 2021); to phase it out gradually, as of October 2020, the minimum required working time threshold was increased (unless sector was shut down) from 10 to 30 percent and the maximum STW support capped at 80 percent working time loss; there was a new obligation to participate in employer-provided training. The Austrian STW became even less generous after July 2021 for most firms with reduced support levels and a minimum working time required of 50 percent (in place now until June 2022); more generous support for severely affected firms is still available until March 2022.</li> <li>• In 2020, about EUR 5.5 bn spent on STW in Austria, and an additional 3.4 bn by mid-August 2021; take-up peaked at 1.042 mio. workers in April 2020 and reached a second, lower peak in early 2021 with about 400,000 workers, followed by a decline to less than 200,000 in</li> </ul>

Country	Type	Name and short description
		<p>May 2021 (Tamesberger and Moser 2021, Bock-Schappelwein, Böheim und Leoni 2021).</p>
<p><b>Canada</b></p>	<p>WS</p>	<ul style="list-style-type: none"> <li>• <b>The Canada Emergency Wage Subsidy (CEWS)</b> ran from mid-March 2020 to until October 2021. It was originally rolled out as a 12-week program and was extended later on. CEWS was designed to reduce reliance on the Canadian unemployment insurance EI und CERB, a special assistance to workers with reduced hours, for firms with a relevant turnover decline (with thresholds varying over time).</li> <li>• CEWS was similar to the existing work-sharing program within regular EI, but it provided faster access to funds, eased administrative procedures, was more generous, and it was paid for from general federal revenues rather than by employers and worker EI premiums (Tobin and Sweetman 2020).</li> <li>• At the beginning, CEWS was a 75 percent wage subsidy to a maximum of CAD 847, which was reduced to 65 percent in September 2020 for the rest of 2020 and further declines as part of a phase-out until fall 2021.</li> <li>• Data from 2022 show that CEWS resulted in CAD 100 bn in subsidies approved. The peak was at over 5.3 mio. workers supported in August 2020, with about 1.6 mio. affected when CEWS expired in October 2021</li> </ul> <p>(<a href="https://www.canada.ca/en/revenue-agency/services/wage-rent-subsidies/emergency-wage-subsidy/cews-statistics.html">https://www.canada.ca/en/revenue-agency/services/wage-rent-subsidies/emergency-wage-subsidy/cews-statistics.html</a> .</p> <ul style="list-style-type: none"> <li>• Since late October 2021 two targeted programs providing wage support are in place (until May 2022): a) the Tourism and Hospitality Recovery Program, and b) the Hardest-Hit Business Recovery Program</li> </ul> <p>(<a href="https://www.canada.ca/en/revenue-agency/services/wage-rent-subsidies/covid-wage-hiring-support-businesses.html">https://www.canada.ca/en/revenue-agency/services/wage-rent-subsidies/covid-wage-hiring-support-businesses.html</a>)</p>
<p><b>Denmark</b></p>	<p>STW</p>	<ul style="list-style-type: none"> <li>• Denmark adopted a dual approach: creating a new and temporary crisis-related short-time work scheme on the one hand (<b>Lønkompenationsordningen</b>) and adapting a long-standing part-time furlough scheme on the other hand (<b>Arbejdsfordeling</b>) (Drahokupil and Müller 2021; Larsen and Ilsoe 2021).</li> <li>• Regarding the short-time work scheme, a tripartite agreement was reached with the social partners on 15 March 2020. This agreement has been renewed or reintroduced several times with the last expiring in March 2021. It implied that firms experiencing large falls in demand could receive a wage compensation. The employees</li> </ul>

Country	Type	Name and short description
		<p>could reduce working time to zero and the government covered 75 percent of the salary (maximum DKK 30,000, approx. EUR 4,000) if the firm promises not to lay off any workers for economic reasons. Firms had to cover the remaining 25 percent to ensure employees can keep their full salary. For workers paid by the hour the compensation rate is 90 percent. Employees contribute by taking five days of mandatory annual leave. The short-time work scheme reached its peak in April 2020 with about 250,000 workers covered. It cost about 0.6 percent of GDP or EUR 1.8 bn in 2020.</p> <ul style="list-style-type: none"> <li>Based on a tripartite agreement, the existing, permanent part-time furlough scheme (Arbejdsfordeling) (Drahokupil and Müller 2021; Larsen and Ilsoe 2021) was adapted during the crisis. These modified rules were in place until January 2021. In September 2020, the government, based on a prior tripartite agreement, introduced a temporary and specific COVID-19 furlough scheme as an additional policy layer. Under these schemes employers only pay for hours at work, with the workers relying on unemployment insurance benefits for additional payments. The temporary COVID-19 scheme is also accessible to non-insured workers, it was made more flexible and generous over time. The temporary furlough scheme reached about 10,000 workers in November 2020 while the traditional furlough scheme peaked already in March 2020 with about 5,000 cases.</li> </ul>
<b>Egypt</b>	WS	<ul style="list-style-type: none"> <li>The public <b>Employees Emergency Fund</b> (established in 2002) was activated to provide financial aid and subsidies to employees of companies facing closure due to Covid-19, covering up to 100 percent of the basic insurance salary per month (EGP 600 as a minimum) for up to six months (or 12, if extended).<sup>ϕ</sup> This Fund, relying on employer contributions and other sources, aims at providing financial aid and subsidies to employees who have not received salaries from companies facing the risk of (total or partial) closure due to economic crisis or decline in production, e.g. in tourism. <a href="https://riad-riad.com/employees-emergency-fund-egypt-and-its-expected-role-during-covid-19-outbreak/">https://riad-riad.com/employees-emergency-fund-egypt-and-its-expected-role-during-covid-19-outbreak/</a></li> <li>Until June 2021, about LE 80 mio. were paid by the emergency fund to more than 400,000 workers (in the tourism industry)</li> </ul> <p><a href="https://www.egypttoday.com/Article/3/108117/Emergency-relief-fund-pays-LE1-424B-to-416-666-workers">https://www.egypttoday.com/Article/3/108117/Emergency-relief-fund-pays-LE1-424B-to-416-666-workers</a></p>
<b>France</b>	STW	<ul style="list-style-type: none"> <li>In response to COVID-19, a higher wage replacement rate was fixed for the long-standing short-time work arrangement in France</li> </ul>

Country	Type	Name and short description
		<p>(<b>Activité Partielle</b>), <sup>*.€</sup> which was now 100 per cent (net) for pay at the minimum wage and 84 per cent for higher gross wages up to a maximum of 4.5 times the minimum wage. Also, short-time work was granted in crisis mode for 12 months instead of the regular 6 months, while the ceiling was set at 1,607 hours per year instead of 1,000 hours. It was also adapted to reach non-standard workers in a better way.</p> <ul style="list-style-type: none"> <li>• In France, STW benefits are provided by employers and replaced in the short term by tax revenues, for which about 1.1 per cent of GDP has been spent in 2020. In May 2020, about half of the French workforce was on short-time work, one of the highest proportions by international standards. In the following months, a significant decrease was recorded (Cahuc 2022).</li> <li>• France originally aimed at a quick phase-out. Since 1 June 2020, employers were again charged for the use of <b>Activité Partielle</b> in sectors where economic activity has gradually resumed. While workers continued to receive 70 per cent of their usual gross wages tax-free for hours not worked, and thus the net wage replacement rates as above, companies had to pay 15 per cent of this amount. Sectors that were restricted (e.g. tourism, hospitality or culture) remained exempt. Furthermore, <b>Activité Partielle</b> was originally intended to be less generous from November 2020, with the gross wage replacement rate for hours not worked falling from 70 to 60 per cent and companies paying for 40 per cent of this amount. In view of a worsening of the crisis in the meantime, these regulations were postponed until February 2021. In particularly affected sectors, all costs were continuously covered by the state.</li> <li>• In addition, in France greater support for employers for training during short-time work was provided. In return for the reimbursement of training costs (100 per cent until the end of October 2020, since then 70 to 80 per cent, with a cap of EUR 6,000 p.a.), employers must promise to continue to employ their workers during the phase of short-time work and obtain the consent of the employees for further training (outside of working hours).</li> <li>• At the same time, a new instrument was created for companies with longer-term economic difficulties. Since July 2020, these companies can apply for the <b>Activité Partielle de Longue Durée (APLD)</b>, which is limited to 24 months over a period of 36 months (with applications open until mid-2022). The scheme provides for a maximum working time reduction of 40 per cent (50 per cent in exceptional cases) and ensures that employees receive 70 per cent of their usual gross wage for hours not worked while employers are reimbursed to 60</li> </ul>

Country	Type	Name and short description
		<p>percent. Entitlements can only be claimed if there is a collective or company agreement on long-term short-time work; this scheme has recently grown significantly to cover about 200,000 workers, i.e. half of those on STW (Cahuc 2022).</p> <p><a href="https://www.economie.gouv.fr/plan-de-relance/profils/entreprises/activite-partielle-longue-duree-apld">https://www.economie.gouv.fr/plan-de-relance/profils/entreprises/activite-partielle-longue-duree-apld</a></p>
<p><b>Germany</b> (see also case study with more details and references)</p>	<p>STW</p>	<ul style="list-style-type: none"> <li>• <b>Kurzarbeit*</b>: Rules of access to cyclical short-time working benefit in Germany were eased in March 2020, currently applying until March 2022 (with another extension to mid-2022 announced). This meant a reduction of the minimum share of workers affected by at least a 10 percent reduction of hours worked from 30 to 10 percent. Furthermore, based on legislation from April 2020 the replacement rate was increased for workers on STW for more than 3 or 6 months by 10 percentage points while the maximum duration of STW receipt was extended to 24 months, and temporary agency workers were included as potential beneficiaries. Since mid-2021 incentives to provide training while workers are on reduced hours have been strengthened.</li> <li>• <b>In response</b>, based on administrative data, there has been a massive inflow into short-time work in spring 2020. The peak was reached in the second quarter of 2020, with about 6 mio. workers in short-time work in April 2020, representing 18 percent of the workforce (about half in terms of full-time equivalents) (Eichhorst and Rinne 2020; Müller 2021).</li> </ul>
<p><b>Hungary</b></p>	<p>STW/WS</p>	<ul style="list-style-type: none"> <li>• <b>Job Protection Wage Subsidy* ("Kurzarbeit")</b>: The government covered up to 70% of the net salaries of (full-time) employees (up to a certain level) who work reduced hours at companies affected by the coronavirus pandemic by a significant loss in turnover up to 75 percent (17 April 2020 – 31 July, then extended to 31 August 2020). This scheme required for the affected employees to attend training sessions making up for 30 percent of the time not worked. The support was paid for a period of up to three months. It included temporary agency workers. The extent of working time reduction was set at 30 to 50% (Drahokupil and Müller 2021; György 2021; Eurofound 2020a).</li> <li>• The Hungarian scheme reached about 226,000 employees by late August 2020 (5.7 percent of the workforce), and EUR 89 mio. were spent; the number of workers with hours reduced declined later in 2020 to about 130.000 in November (Eurofound 2020a; György 2021)</li> </ul>

Country	Type	Name and short description
		<ul style="list-style-type: none"> <li>• Subsequently, only businesses hard-hit by the COVID-19 pandemic could receive state support. This concerned the hospitality sector (in the second wave of the pandemic, November 2020-January 2021) while a special scheme for the research and development sector had been in place from April to July 2020 (Drahokupil and Müller 2021; OECD 2021).</li> <li>• The hospitality <b>sectoral subsidy</b> was equal to 50% of a full-time or part time employee's wages, up to an amount equivalent to 150% of the minimum wage (currently pre-tax HUF 241,500 or €680). The measure applied for the single month of November 2020. During this time the employer had to pay full wages, but was exempt from payroll taxes. The employee had to remain in full employment with the company on 30 November, 2020 and their work contract could not be terminated before 31 December 2020. <sup>€</sup></li> <li>• This did concern about 90,000 workers in late 2020 (György 2021).</li> </ul>
Korea	WS	<ul style="list-style-type: none"> <li>• <b>Employment retention subsidy*</b>, <sup>Φ</sup>: The long-standing scheme of the Korean employment retention subsidy could be used more flexibly on a case-by-case basis until September 2020, without a fixed share of hours not worked by insured workers in line with the Employment Insurance Act (the permanent, regular scheme requires 20 percent); replacement rates were increased from 50 to 67 percent for larger firms and from 67 to 75 percent for smaller firms);</li> <li>• <b>Special employment support sectors</b>: a retention subsidy of 90 percent for heavily hit sectors (such as tourism, travel) is available (after several extensions) until March 2022.</li> <li>• Total spending reached 0.15 percent of GDP until January 2021, and reached about 4 percent of all workers (Oh 2020, Yun 2021).</li> </ul>
Mexico	Loans (no WS, no STW)	<ul style="list-style-type: none"> <li>• Mexico is the only country without a general job retention scheme among OECD member states (OECD 2021).</li> <li>• The Government of Mexico reiterated that by law, the health emergency declaration issued on 30 March 2020 does not have to lead to job separation or any impact on wages or affect employment status. The government's recommendation is that employers should be able to keep their workers' wages in full, whenever possible. For companies that find it difficult to follow this recommendation, they were allowed to turn to the Procuraduría Federal de la Defensa del Trabajo (Federal Labour Defence Office) to help reach mutually beneficial agreements.</li> <li>• With the aim of supporting the economy of state workers, as well as retirees and pensioners, the Institute of Security and Social Services</li> </ul>

Country	Type	Name and short description
		<p>for State Workers held draws to grant loans to workers (until the end of 2021). Approximately 672,000 loans are expected to be granted, for a total amount of 35 billion pesos.</p> <ul style="list-style-type: none"> <li>• The National Fund for Workers' Consumption (FONACOT) grants 300,000 loans of 10,000 pesos to formal employees with at least one year of seniority.</li> </ul>
Netherlands	WS	<ul style="list-style-type: none"> <li>• <b>Temporary emergency bridging measure for sustained employment (NOW)*:</b> The Government issued measures (17 March 2020) designed to save jobs and the economy. On 20 May 2020, the government announced an extension of the duration of the emergency package for the Dutch economy by four months in June. From 1 October 2020, a new package was announced. The new package ran until 2021. Part of the support package was stopped as of 1 October 2021, because the corona measures have largely been lifted and the economy is running again.</li> <li>• Part of this was a temporary emergency bridging measure for sustained employment (NOW 1). Any company that expected to lose at least 20 per cent of its revenue could apply with the Employee Insurance Agency for an allowance that enabled it to pay its employees' wages for three months (up to a maximum of 90 per cent of the company's wage bill, depending on the loss of turnover), with the possibility to extend it for a further 3 months.</li> <li>• In order to be eligible, companies must not dismiss any employees from their jobs for economic reasons during the period covered by the allowance. It covers employees with permanent and temporary contracts.</li> <li>• Under <b>the extended measure 'NOW 2'</b> by June 2020, employers who used the NOW scheme were allowed to dismiss employees. Therefore, the fine from the first package has been removed. To prevent abuse, companies that have to fire more than 20 people for business reasons needed an agreement with the union or the staff representation. If an agreement or a mediation request is missing, the total subsidy amount has been reduced by five percent. Employers are also asked to retrain their staff.</li> <li>• <b>The subsequent NOW-3 scheme</b> included an extension by 9 months until July 1, 2021, consisting of 3 periods of 3 months with a gradual reduction in reimbursement rates: from 80%, to 70%, to 60%. From January 1, 2021, there must be a loss of turnover of at least 30%. This phase of NOW ended on 1 October 2021.</li> <li>• During the first NOW period about 30 percent of Dutch employees were supported, i.e. 2.7 mio. workers. The support figures declined</li> </ul>



Country	Type	Name and short description
		<p>to 14 percent of Dutch employees in the 4th quarter of 2020 and 6 percent in the beginning of 2021. NOW cost about EUR 15.9 bn in 2020 and around 8 bn in 2021 (Jongen et al. 2021)</p> <ul style="list-style-type: none"> <li>• NOW (as <b>NOW 4, 5 and 6</b>) was reopened for November and December 2021. Employers could apply for the NOW 5 from 13 December 2021 through 31 January 2022. NOW 6 is available for the months January-March 2022.</li> </ul> <p><a href="https://business.gov.nl/corona/overview/the-coronavirus-and-your-company/">https://business.gov.nl/corona/overview/the-coronavirus-and-your-company/</a></p>
<p><b>New Zealand</b>  (see also case study with more details and references)</p>	<p>WS</p>	<ul style="list-style-type: none"> <li>• <b>COVID-19 wage subsidy*</b>: Businesses negatively impacted by COVID-19 can apply for the wage subsidy when affected by a significant drop in revenue during a phase of alert. Businesses using this scheme must pay each employee they receive the subsidy for and maintain at least 80% of employees' pre-COVID-19 income.</li> <li>• This subsidy was available for some months in 2020 (March – September/November) and in 2021 (August-December)</li> <li>• For the continuation of wage payments, employers received a subsidy of \$585/week for full-time workers (\$600 in 2021), with \$350 (\$359) paid for part-time workers. †</li> </ul>
<p><b>Peru</b></p>	<p>WS</p>	<ul style="list-style-type: none"> <li>• In November 2020, the Peruvian authorities adopted an Urgency Decree that created a new PEN 807.7 million (approx. USD 223.4 million) program to support formal employers. The subsidy corresponded to 35 to 55 percent of the wage for those employees who earned at least PEN 2400 (approx. USD 664). It covered the period from November 2020 to April 2021. This subsidy could be claimed by employers that had lost at least 20 percent of their sales in April/May 2020. Although the support could be used by firms of all sizes, there was an emphasis on SMEs, with no restrictions in terms of the economic sector addressed. It was expected to support about 350,000 workers (Source: † and Global Trade Alert, <a href="https://www.globaltradealert.org/intervention/84111/financial-grant/peru-government-establishes-wage-subsidy-scheme-to-foster-formal-employment-in-the-context-of-covid-19-pandemic">https://www.globaltradealert.org/intervention/84111/financial-grant/peru-government-establishes-wage-subsidy-scheme-to-foster-formal-employment-in-the-context-of-covid-19-pandemic</a>, IMF 2021)</li> </ul>
<p><b>Philippines</b>  (see also case study with more details and references)</p>	<p>WS</p>	<ul style="list-style-type: none"> <li>• <b>Small Business Wage Subsidy Program &amp; COVID-19 Adjustment Measures Program (CAMP)†</b>: <a href="#">Wage subsidies were</a> provided by the Ministry of Finance to micro, small and medium enterprises (MSME) in the second quarter of 2020, with the subsidy ranging from PHP 5,000 to 8,000 (USD 99 to 159) per worker for two months (May/June 2020). There were additional support schemes for small businesses.</li> </ul>



Country	Type	Name and short description
		<p>According to ADB and ILO, the Small Business Wage Subsidy amounted to almost USD 1 bn in 2020 (0.3 percent of GDP) and covered about 3.4 mio. (formal) workers and effectively reached about 90 percent of them, representing about 12 percent of wage employment. It was implemented using a digital application which was seen as major tool for quick and efficient delivery (ADB 2021, ILO 2021c). A preliminary assessment by the ILO (2021c) suggests a mitigating effect of the wage subsidy on job losses.</p>
<p><b>Serbia</b></p>	<p>WS<sup>A</sup></p>	<ul style="list-style-type: none"> <li>• An initial set of tax measures prescribed in Decree on Fiscal Benefits and Direct Aid to Private Sector and Citizens due to COVID-19 included direct aid in the form of financing of employee's salaries for up to 3 months. Qualifying businesses were entitled to 50% of the minimum wage in March or the full minimum wage in March (depending on the size) for each qualifying employee. Entities which opted for this measure could not decrease number of full-time employed for more than 10% before expiry of the period of three months from the last payment of direct benefits (no later than 31 December 2020) and pay any form of dividend until 31 December 2020, or will have to return received funds increased for a late payment interest.<sup>ϕ</sup></li> <li>• In July 2020, a second set of fiscal measures was introduced, providing additional salary financing, with amounts depending on the size of business and the fact whether it received support from the initial set of measures. Conditions were in line with the first set of measures.<sup>ϕ</sup></li> <li>• A new package of support included wage subsidies covering three months' wages in Micro and SMEs (RSD 93bn) and 50 percent of the net minimum wage for three months for employees in large private sector companies and for employees not working (RSD 4bn).<sup>ϕ</sup></li> </ul> <p>According to ILO information (ILO 2020), the government of Serbia spent EUR 950 mio on job retention subsidies until July 2020.</p>
<p><b>South Africa</b></p>	<p>WS/STW Tax benefits <sup>ϕ</sup></p>	<ul style="list-style-type: none"> <li>• <b>Employment Tax Incentive - ETI (expansion):</b> The general aim of the program (which exists since 2014) is to reduce the cost of hiring young people: this tax incentives means that employers pay less employees' tax - Pay-as-You-Earn (PAYE) - without affecting wages.</li> <li>• On 23rd March 2020 the South African government announced measures to assist employers to provide financial stability to their employees who earn not more than R6500 per month. These</li> </ul>

Country	Type	Name and short description
		<p>measures include an extension of employees who qualifies for ETI (i.e. beyond the traditional ETI target groups), an additional amount up to R750 per month, and the monthly refund payment of any excess ETI claimed for four months (beginning 1 April 2020 and ending on 31 July 2020).<sup>ϕ</sup> Also the payment was accelerated to a monthly schedule.</p> <ul style="list-style-type: none"> <li>• In more detail, these measures involve the following:             <ol style="list-style-type: none"> <li>1. Increasing the maximum amount of ETI claimable during this four-month period for employees eligible under the current ETI Act from R1,000 to R1,500 in the first qualifying twelve months and from R500 to R1,000 in the second twelve qualifying months.</li> <li>2. Allowing a monthly ETI claim in the amount of R500 during this four-month period for employees from the ages of:                 <ol style="list-style-type: none"> <li>a. 18 to 29 who are no longer eligible for the ETI as the employer has claimed ETI in respect of those employees for 24 months</li> <li>b. 30 to 65 who are not eligible for the ETI due to their age</li> </ol> </li> <li>3. Accelerating the payment of employment tax incentive reimbursements from twice a year to monthly as a means of getting cash into the hands of tax compliant employers as soon as possible.<sup>ϕ</sup></li> </ol> </li> <li>• The government decided to implement the extended ETI once more in 2021 (1 August 2021 – 30 November 2021) following the 2020 design.</li> </ul> <p>Additional sources:</p> <p><a href="https://www.sars.gov.za/media/tax-relief-measures/">https://www.sars.gov.za/media/tax-relief-measures/</a>,  <a href="https://www.sars.gov.za/media/corona-virus-covid-19/">https://www.sars.gov.za/media/corona-virus-covid-19/</a></p> <p>Additional measures include:</p> <ul style="list-style-type: none"> <li>• <b>Covid-19 TERS</b>, a 12-month scheme that aims at the retention of employees by companies in distress in a list of sectors - due to containment measures during State of Alert (also in 2021) - at reduced cost while making sure that employees continue to receive a wage. This also includes support for a transformation of businesses and training opportunities for workers. Under the TERS, employees affected by short-time, layoff or possible retrenchment may be placed on SETA-funded training for up-skilling / re-skilling for a maximum of 12 months, and during this period their wage cost is covered by the unemployment insurance fund and not by the employer.</li> </ul>

Country	Type	Name and short description
		<ul style="list-style-type: none"> <li>Other workers insured against unemployment had access to a <b>Reduced Work Time Benefit</b> which covers employees whose working hours have been reduced or are forced to stay at home due to work stoppage.</li> </ul> <p><a href="https://www.bowmanslaw.com/insights/employment/covid-19-ters-relief-extension-in-south-africa-and-revised-reduced-work-time-benefit/">https://www.bowmanslaw.com/insights/employment/covid-19-ters-relief-extension-in-south-africa-and-revised-reduced-work-time-benefit/</a></p>
<p><b>Spain</b> (see also case study with more details and references)</p>	<p>STW</p>	<ul style="list-style-type: none"> <li><b>Expediente de regulación temporal de empleo (ERTE)*:</b> To combat unemployment, the Spanish government facilitated the use of ERTEs (temporary employment adjustment procedures) that consist in contract suspensions or reductions in working hours and access to the unemployment benefits which does not reduce future UB entitlements. Companies with less than 50 workers did not have to pay the social contributions and those above 50 had to pay 25% of them. These periods counted as contributions for workers. The generosity of support declined with the duration of ERTE use from 70 to 50 percent (after 6 months).</li> <li>With the end of the State of Alarm, the government negotiated with social partners several extensions of the ERTE arrangement as many companies continued to face economic difficulties (with the current arrangement expiring in February 2022).<sup>€</sup></li> <li>In Spain, ERTE use peaked at 20 percent of all employees in April 2020, with a subsequent decline; expenditure on this scheme reached 2 percent of GDP in 2020 (Ramos 2020, 2021).</li> </ul>
<p><b>Sweden</b></p>	<p>STW</p>	<ul style="list-style-type: none"> <li><b>Korttidsarbete*:</b> In Sweden, a reformed system of short-time work was designed more generously than in the original version. This led to a strong increase in short-time work in Sweden to more than 550,000 workers or about 12 percent of employees in May 2020, resulting in cost of about 0.7 percent of GDP in 2020.</li> <li>In this crisis-enhanced short-time work scheme, Swedish employers could reduce their employees' working hours for six months (with potential extension); in the acute phase of the crisis working time could be cut by 80 per cent (instead of up to 60 per cent before) for three months from May to July 2020 and between January and March 2021, with the state bearing most of the costs. Wage costs were reduced by over 70 per cent (previously 50 per cent), while workers retained almost 90 per cent of their original wages during this phase.</li> </ul>

Country	Type	Name and short description
		<ul style="list-style-type: none"> <li>The crisis-related short-time work model was applied until June 2021 (extended to September 2021). Since fall 2021 only the less generous standard system applies.</li> </ul> <p><a href="https://www.verksamt.se/web/international/running/important-information-to-entrepreneurs-due-to-the-corona-virus/short-time-working-allowance">https://www.verksamt.se/web/international/running/important-information-to-entrepreneurs-due-to-the-corona-virus/short-time-working-allowance</a></p> <ul style="list-style-type: none"> <li>Over time further training during short-time work by the employer was promoted more strongly, which has not been the case at the beginning. Additional funds were made available for this in the draft budget for 2021 (Hensvik and Skans 2020; Berglund 2021).<sup>ϕ</sup></li> </ul>
UK	STW/FS	<ul style="list-style-type: none"> <li><b>The UK Coronavirus Job Retention Scheme</b> ran from March 2020 and was extended several times until September 2021. Employers could receive a grant to cover most of the wages of people who are not working that are furloughed and kept on payroll rather than being laid off. Government grants covered 80 percent of the salary of retained workers up to a total of GBP 2,500 pounds a month.</li> <li>The last extension that ran until the end of September 2021 provided the standard 80 percent subsidy only until the end of June 2021 with 70 percent paid in July and only 60 percent in the final two months of the scheme, with employers required to fund the remaining 10 or 20 percent.<sup>ϕ</sup></li> <li>According to the Commons Library Briefing, as of 15 February 2021, a total of 11.2 million jobs had been furloughed, costing GBP 53.8 billion.</li> </ul>
US	STW / WS	<ul style="list-style-type: none"> <li><b>Short-term Compensation (STC) programme</b><sup>★</sup>: The main crisis-related measure, the US CARES Act, also included steps to encourage the use of short-time compensation (STC) as only 26 US states, accounting for about 70 percent of the US labour force, operated work sharing before the recession. The new package provided financial support to states without work-sharing schemes to develop them, with the federal government reimbursing states for all STC benefits paid. Employers were also permitted to use work-sharing to bring furloughed workers back to work or hire new workers. Those on work-share received the flat weekly federal supplement to their unemployment benefit, irrespective of the hours cut, so that generous STC benefits made work-sharing attractive to workers.</li> <li>Yet, take up of STC remained limited in the US. To overcome this, the US introduced additional, but limited wage subsidies schemes, in particular the <b>Paycheck Protection Programme</b> (PPP) and the</li> </ul>

Country	Type	Name and short description
		<p><b>Employee Retention Tax Credit</b> (ERTC) for firms with significant declines in sales. The PPP addressed small and medium-sized firms up to 500 employees and provided a loan that was forgiven in case all employees were retained. While the law initially stipulated that at least 75 percent of the loan had to be used for employee compensation, this share was later reduced to 60 percent. Take-up was high and exceeded the original budget of \$349 bn quickly. It was supplemented by an additional \$310 bn. PPP came to end on 8 August 2020. ERTC ended for most employers on 1 October 2021 and for all employers on January 1, 2022 (see Houseman 2021).</p>
<p><b>Vietnam</b></p>	<p>WS</p>	<ul style="list-style-type: none"> <li>• Financial support from the state budget to workers on unpaid leave or reduced working hours, equal to VND 1.8 million/worker/month (USD 77.40) as a flat-rate payment was available for up to three months (April to June 2020). Employers needed to supplement with at least an equal contribution (paying at least half the wage), for which they could access loans at zero interest rates for a period not exceeding 12 months. The total wage received by workers during the period could not be lower than 85 percent of the regional minimum wage, and the firms' loans were limited to 50 percent of the regional minimum wage per worker. This scheme was limited to workers insured against unemployment (see World Bank 2021 and <math>\phi</math></li> <li>• Out of about 1 mio. eligible workers only about 54.000 were reached, and only VND 71,864 mio. were actually used (out of VND 5,400,000 mio) due to a lack of a proper registry so that only a small share of eligible workers could be reached; when paid, the subsidy amounted to about 30 percent of the average monthly income in 2020 (World Bank 2021).</li> </ul>

Notes: STW (Short-time work), FS (Furlough schemes), WS (Wage subsidy);  $\square$ Names taken from OECD 2021.

Sources: ILO 2021a – Country entries (no mark); OECD 2021 ( $\star$ ); Gentilini et al. 2020 ( $\phi$ ); ETF 2021 ( $\Delta$ ); Eurofound 2020 ( $\epsilon$ ); Drahokupil and Müller (2021) and country-specific resources as indicated.

## ► 4. Country case studies

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### 4.1 A new role of short-time work in Germany

Short-time work is one of the oldest labour market policy instruments in Germany and part of the regular labour market policy tool kit. In the German case, it is formally part of contribution-based unemployment insurance (UI), therefore funded through general UI contributions by employers and employees with governmental support if needed. The German short-time work allowance corresponds to the level of the unemployment insurance benefit, but it is not paid directly to the workers during short-time work but administered through the employer who formally applies for this type of support.

In Germany, short-time work was used heavily during the Great Recession (2008-09) in order to stabilize employment mostly in the export-oriented manufacturing sector that was affected by a deep, but temporary demand shock. With hindsight this investment in short-time work was seen as a success, with this large scope of subsidized internal flexibility perceived as the main measure used to avoid dismissals of skilled staff with permanent contracts and above-average tenure so that German manufactures could return to full capacity quickly once international demand picked up again. As a consequence, the German example of coping with the Great Recession without encountering a steep increase in unemployment was seen a role model for other countries and as an inspiration for subsequent reforms along this line in the 2010s. Still, it has to be acknowledged that other elements of flexibility also played a role at that time, namely working time accounts as an additional internal buffer and temporary agency work as an important external buffer.

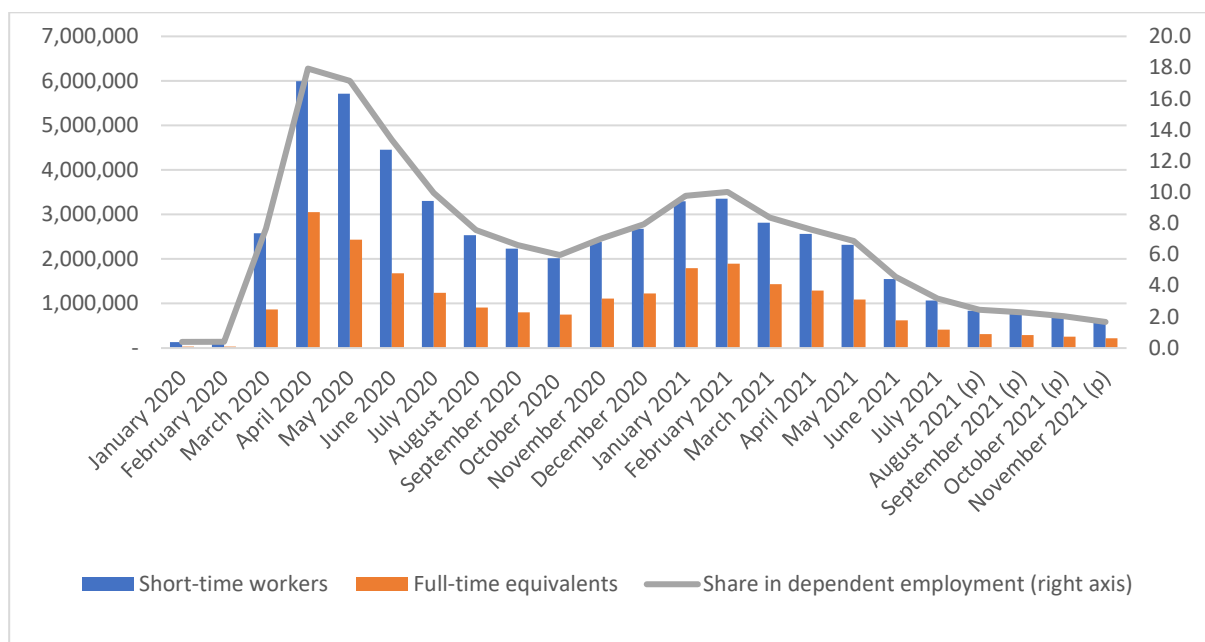
As one of the first responses to the outbreak of the pandemic, Germany eased access to STW by modifying the default rules in place in normal times similarly to what had been done in 2008/09. In particular, the maximum duration of STW was extended up to 24 months, and entry requirements in terms of the share of the workforce affected and with respect to the eating up of working time account surpluses were lowered, agency workers were included in STW (initially limited until end of 2021), and employer UI contributions for hours not worked were waived fully or partially.

However, the situation in 2020 was different from earlier crises. First, in contrast to industry-centred STW in the past, STW experienced a broader sectoral take-up, including private non-essential services that were either closed or suffered from a massive drop in demand subsequently (e.g., the hospitality or retail sector). As service workers typically earn lower wages than their counterparts in manufacturing (and more rarely benefit from top-up payments by their employers), the strictly earnings-related STW allowance was criticized, however, this did not lead to minimum payments in case of low STW entitlements but to higher replacement rates when STW was received for more than four or seven months (Eichhorst and Rinne 2020).

In terms of the extension of emergency measures, in early 2020 Germany has rather opted for early and rather generous temporal extensions of the crisis-related rules until the end of 2021 – with the advantage of creating a stable and therefore predictable environment for firms and workers in an uncertain economic environment. This emphasized the goal of avoiding job losses even at a relatively high fiscal costs that were still considered to be acceptable given the alternative

of a massive wave of dismissals. In December 2021, facing the continued critical situation, the crisis-related measures were extended once again until March 2022. At the time of writing, another extension until June 2022 is on the agenda which would mean the continuation of crisis-related STW for three more months after the imminent lifting of most containment rules. The extended use of STW support in Germany has also to do with the protracted development of the pandemic in the German case with a notable slow-down of the expected economic recovery that has led to growth forecasts revised downwards in general and longer time needed to return to pre-crisis levels of economic activity. This holds for renewed restrictions on the service sector, e.g., access to shops and restaurants, but it is also related to more indirect effects of the pandemic, in particular supply chain disruptions in the automotive sector, i.e., a lack of semiconductors. In comparison to other countries, Germany was rather quick in extending crisis-related rules on short-time work without moving into a phase-out period yet. While there has recently been some debate about the reliability of novel real-time data on STW based on employer surveys, final register data on actual take-up is only available with some delay so that policy makers in Germany do not have an easy access to reliable latest data – which can also be seen as an additional reason why crisis-related STW policies are not modified that often.

► Figure 1: Short-time workers in Germany, 2020-2021



Source: Federal Employment Agency.

Take-up in 2020 dwarfed the earlier peak in 2008, mainly due to the broad sectoral composition of workers with reduced hours during the pandemic. Short-time work reached an all-time high in April 2020 with 6 million workers and declined until fall 2020 before increasing again, as Figure 1 shows. In a historical perspective STW take-up remained significant throughout 2021. In terms of full-time equivalents, STW corresponded to 3 million workers in spring 2020. German expenditure on short-time work measures reached a record level of EUR 22 billion in 2020 (compared to less than EUR 160 million in 2019), which corresponds to about 0.7 percent of Germany's annual GDP. This forced the unemployment insurance fund to use a major part of its reserve of EUR 20 billion. This reserve had been accumulated over the years with strong employment growth and low unemployment



right before the pandemic, and yet additional support from the government of about EUR 7 billion was needed to also cover unemployment benefits and ALMP. Delivering short-time allowances and employer relief from social contributions required another EUR 20 billion in 2021, and significantly less in 2022 (according to latest reports by the Federal Employment Agency).

As was already the case during the Great Recession, a targeted relief from employers' unemployment insurance contributions during STW was granted to encourage training activities, however, also this time take-up was very limited, probably due to the flexible nature of STW that allows for a quick return to normal activity, thereby inhibiting more systematic training plans. Hence, there are clear limitations to the established German model of STW when it comes to more structural challenges such as changes in global markets or technological disruptions. In this case, the combined use of STW to buffer against a temporary slump and to retrain workers at the same time has never really worked out. One of the lessons from the crisis, as it evolved in Germany and interacted with more structural transformations, might be a reinforcement of an ALMP instrument modelled along the lines of STW to support reskilling of worker during a phase of technological change, something that was demanded by the highly influential metal workers' unions even before the pandemic when earlier signs of sluggish demands for German goods and of technological pressure were perceived. This is also announced with the new government accord.

## 4.2 New experiences with subsidized internal flexibility: Spain

In contrast to the Great Recession in 2008/09, which had a severe impact on unemployment in Spain due to the dominance of external flexibility (in particular through the destruction of fixed-term contracts), capacities for internal flexibility at the firm level are more developed in the current crisis (in particular working time adjustment) due to steps undertaken in the 2010s. In Spain, the regulation on "Expedientes de Regulación Temporal de Empleo" (ERTE), which has been in place since 1995 and 2012 respectively, was extended at the beginning of the COVID-19 crisis to include additional groups of employees whose working time was reduced or suspended, regardless of the duration of contributions, and to include additional sectors that were affected by a decline in consumer demand and revenues given containment measures (without being formally closed).

Spanish ERTes are applied for by firms but trigger extraordinary unemployment benefit payments directly to workers affected by reduced working hours between 10 and 70 percent or time off. Receiving these payments does not count as a period of unemployment insurance benefit receipt, however. Hence, in contrast to Germany, the payment is not processed via the employer but rather follows the logic of partial unemployment usually associated with furlough. In addition, employers in Spain benefit from a relief of 100 percent of the social contributions in the case of small enterprises and 75 percent in other cases. Dismissals for economic reasons are not permitted during the use of ERTE; in the case of dismissals within six months after the end of the ERTE measure, all subsidies received by the employer must be reimbursed.

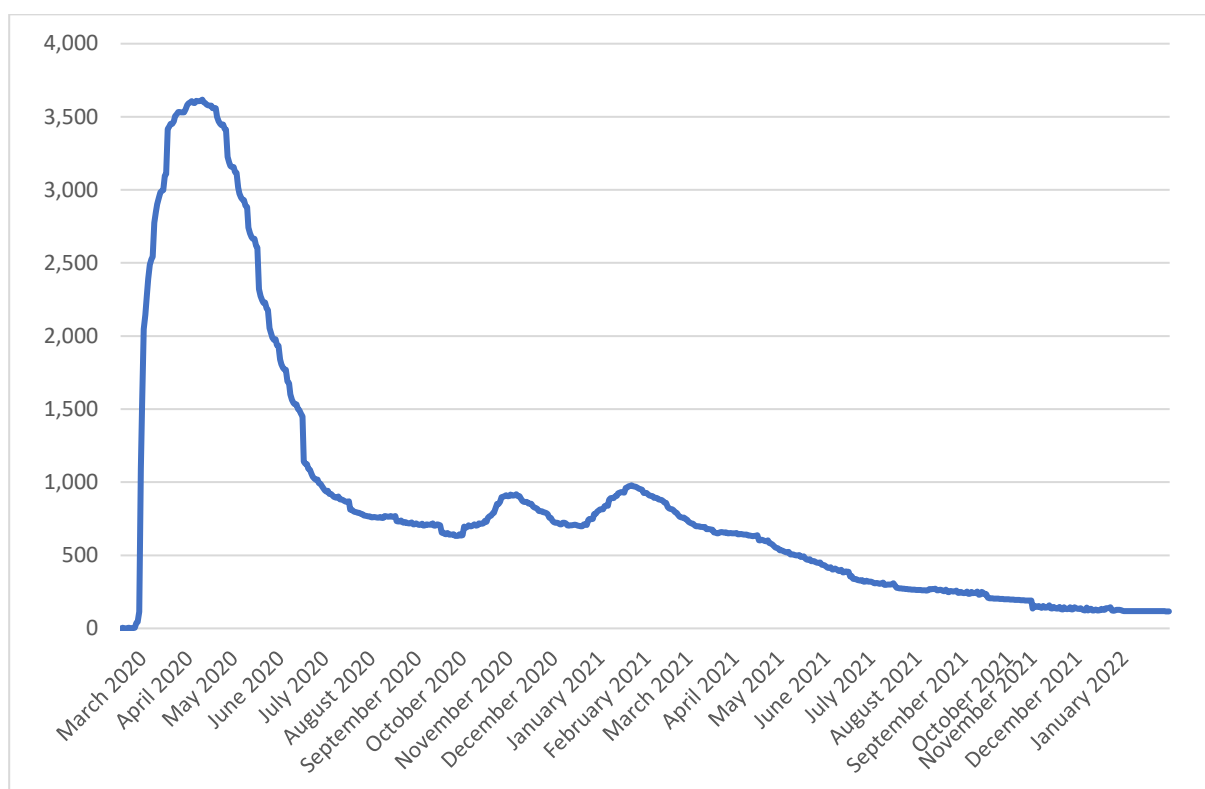
ERTE covered more than 3.6 million workers (or 4.5 million including self-employed), i.e., 20 percent of the workforce in April and May 2020; this share has fluctuated between 700.000 and 1 million in the second half of 2020 and declined to less than 200.000 workers in late 2021 (Ramos 2021). The heavy use of ERTE working time reductions is a major explanation for the fact that unemployment in Spain has increased much less during the pandemic than after 2008, although there has again been a reduction mainly in temporary contracts in 2020. Preliminary data show a return from ERTE



to full-time employment as the most common labour market transition, followed by transitions to subsequent ERTE spells. Temporary, low-skilled and younger workers were less protected from unemployment by ERTE (Dolado, Felgueroso and Jimeno 2020). ERTE are financed by contributions and triggered expenditure of over 2 percent of Spain’s annual GDP in 2020. However, a deficit such as the one incurred by the responsible fund in 2020 is covered by government grants.

In comparison to Germany, Spain has more gradually expanded the duration of COVID-19-related ERTEs. They were initially introduced to cover the situation of workers only until the end of the state of the alarm, but subsequently, given the difficult pandemic and economic situation in Spain, they were prolonged until the end of June 2020, followed by another extension to the end of September 2020. Further extensions were put in place until the end of January 2021, then until the end of May 2021, and then until the end of September 2021. The current arrangement was extended one last time until the end of March 2022. Firms still in difficulties can now switch to a new sectoral scheme. It has put more emphasis on the need for better retraining of workers in ERTEs during this late phase of the pandemic. However, take-up of training by workers in ERTEs was quite limited so far as, according to the latest data from the Ministry, more than 70,000 workers could qualify to receive training, but only 30,000 have started receiving it (Ramos 2021).

► **Figure 2. Spain: Workers affected by ERTEs (in thousands)**



Source: Ministry of Labor of Spain.

### 4.3 Wage subsidies in a liberal economy: New Zealand

New Zealand is one of the liberal economies that created a temporary wage subsidy scheme for firms affected by sales losses at the outset of the crisis. Applications for the New Zealand COVID-

19 Wage Subsidy Scheme (and its extensions) could only be made by firms and self-employed who would have otherwise had reduce staff or working hours between the end of March 2020 and the beginning of September 2020 (later extended until November 2020). However, reinstatement was possible at any time as soon as levels 3 or 4 of the pandemic alert used in New Zealand were reached again, i.e., systematically tying the subsidy to a variable exogenous to the labour market – but not exogenous to policy making. This was once more the case between August 18, 2021 and December 9, 2021, establishing the so-called COVID-19 Wage Subsidy August 2021.

In line with other wage subsidy schemes, the grant was based on a reduction in turnover, which had to be higher than 30 percent (40 percent since July 2020). The allowance was about 30 percent of average earnings. Employers were expected to pay 80 percent of the usual earnings of their employees (without reducing paid hours), with the 2020 subsidy provided as a lump sum to cover wages for up to 12 weeks,<sup>5</sup> i.e., NZD 585.80 per week for full-time and NZD 350.00 per week for part-time staff (Maani 2021). However, employers were only legally obliged to pass on at least the subsidy received to employees if the regular wage was not lower. Employers who complied with this recommendation still paid more than 50 percent of the usual earnings when working hours were reduced by more than half, thus bearing part of the cost of hours not worked. The 2021 subsidy worked in the same way, with lower payment rates (NZD 600 and NZD 359 for two weeks' periods).

Despite the rather short payment periods, New Zealand recorded one of the highest job retention expenditure shares with a share of slightly less than 4.5 percent of the country's annual GDP in 2020 (OECD 2022). Consistent with this, New Zealand also had one of the largest shares of workers supported, with a maximum of about 60 percent in May 2020, as measured by jobs supported by the wage subsidy (i.e., employed in firms that received a wage subsidy). In that sense, the New Zealand model of a wage subsidy can be seen as a major part of the government support provided to firms during the pandemic. It has contributed to avoid a steep increase in unemployment that would otherwise had happened (Maani 2021).

#### 4.4. The Philippines

In line with a broad emphasis on the creation or expansion of job retention schemes in the Asia-Pacific region (ILO 2021c), the Philippines implemented a Small Business Wage Subsidy Program as well as a COVID-19 Adjustment Measures Program (CAMP), with the latter providing a one-off payment to affected formal workers. The wage subsidies itself were provided by the Ministry of Finance to micro, small and medium enterprises (MSME) in the second quarter of 2020, with the subsidy ranging from PHP 5,000 to 8,000 (corresponding to USD 99 to 159) per worker for the rather short emergency quarantine period of up to two months of May and June 2020. This subsidy was restricted to small firms below a certain taxation threshold, and these firms had to be directly affected by containment measures, in particular the closure of non-essential activities or restrictions on quasi-essential businesses. It was granted along with some additional support

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<sup>5</sup> <https://www.workandincome.govt.nz/covid-19/wage-subsidy-extension/making-payments.html>,  
<https://www.workandincome.govt.nz/online-services/covid-19/declaration-wage-subsidy.html>

schemes for small businesses and low-income and poor households as a part of larger stabilization and recovery efforts, involving also the Asian Development Bank (ADB 2021a, 2021b).

The wage subsidy was one element of the first pillar of the national COVID-19 Response and Recovery Program that was developed during the different phases of the pandemic. It was part of the first package of measures (“Bayanihan 1”) (ADB 2021a, 2021b). In this case, but also in many other job retention schemes in the region (ILO 2021c), the wage subsidy scheme has clear limitations regarding its focus on formal wage employees in formally registered firms, hence, it must be seen in the context of other income support measures provided to individuals and households on the one hand and other types of support – tax relief, subsidies, loans and guarantees, in particular – granted to business. In addition, temporary wage employment was provided to informal workers (“Tulong Panghanapbuhay sa Ating” Disadvantaged/Displaced Workers (TUPAD)).

According to studies by ADB and ILO, the Philippines’ Small Business Wage Subsidy amounted to almost USD 1 billion in 2020, which makes up about 0.3 percent of the country’s annual GDP. It covered about 3.4 million (formal) workers and effectively reached about 3.1 million workers, i.e., 90 percent of them, representing more than 12 percent of all wage employees in the Philippines according to the ILO, with significant regional variation as the higher income areas benefitted more than others, but were also affected more heavily by contraction in wage employment (ILO 2021c). Most notably, the wage subsidy scheme was implemented using the formal employers’ social security registration while payment was directly made to the employees’ system in the Philippines using a digital application which was seen as major tool for quick and efficient delivery (ADB 2021a, 2021b, ILO 2021c). A preliminary assessment by the ILO (2021c) suggests a mitigating effect of the spending on the wage subsidy on job losses, i.e., by facilitating the retention of formal workers a massive loss of jobs could be avoided. At the national level, according to ILO estimates, employment decline would have reached 4.5 percent instead of 3.8 percent if there had not been an employment retention policy.

## ► 5 Assessment and outlook

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When reviewing job retention schemes, one has to note that job retention schemes tend to be effective in mitigating the direct impact of an external shock on jobs, avoiding or delaying dismissals, in particular where there is strong employment protection and a workforce with specific skills and longer tenure. This is also very clear from past and current experiences with short-time work schemes. It is beneficial when actors, at the outset of a crisis, can rely on an established regular standard short-time work scheme that also exists in normal times but can be adapted swiftly to better cope with the economic shock. Of course, this also requires an administrative capacity that can be stepped up quickly.

Some points can be learned from the immediate crisis response of the countries selected here as regards an update of job retention arrangements, in particular short-time work, to prepare for future cases when a quick crisis response is needed: First, access to job retention should be quite flexible in terms of hours not worked or shares of the workforce involved. Second, payment levels

should allow for some extra support for workers in the service sector that typically receive lower wages than manufacturing workers. And third, job retention schemes, especially short-time work, should allow for a better access by non-standard workers such as workers on fixed-term contracts or temporary agency workers. Delivering training during job retention has proven notoriously difficult and overcoming barriers to training might be substantially difficult as a quick return to normal work might be required. One main issue, however, is that short-time work as understood in the European or OECD context is hardly feasible outside a formally dependent workforce which is covered by social insurance. Even in developed countries, non-standard workers are not fully included.

Many countries without prior experience with job retention policies in general or short-time work schemes in particular introduced temporary wage subsidies or new short-time work alongside other emergency support measures for firms (not related to the individual formal employment type and working time). Wage subsidies support firms and – indirectly – workers who could stay employed (and paid according to their contract) through the relief provided to their employers. Wage subsidy schemes as they were used in countries such as New Zealand, Serbia, or Peru, i.e., in both industrialized countries and medium- and low-income countries, were typically more limited in duration than short-time work arrangements and therefore more of a short-term nature, sometimes renewed for only very short periods.

Wage subsidies tend to be more flexible than STW schemes. Still, they tend to be restricted to formal firms for which there is also register information, but they can potentially also benefit informal workers (in formal firms). In contrast, rolling out STW (or furlough) effectively in countries with high shares of informal employment would require a formalization of work and an enlargement in the coverage of unemployment insurance.

Clearly, based on the available evidence from previous experiences (mainly from in industrialized countries), all job retention schemes, irrespective of their type, are no long-term solution regarding their fiscal viability and their economic effectiveness, given ongoing structural change. But it is difficult to disentangle the legitimate stabilization of employment affected by a temporary shock – in firms where a return to “normality” can be expected – from an excessive subsidization of unsustainable firms and jobs. To date, the countries we analyze have not adopted a systematic approach to the question of a timely phase-out, but they have rather extended job retention as it was perceived necessary, negotiating about this with social partners in some cases. In that respect, short-time work schemes seem somewhat more “sticky” (and more long-lasting) than wage subsidies. Many countries have started to reduce generosity, i.e., the compensation for hours not worked, as labour markets improved in late 2020, only to return to more generous systems during subsequent waves of the pandemic.

To take a more systematic approach, it might be helpful to relate decisions on the phasing-in and phasing-out of STW to relevant and readily available economic indicators such as a monthly or quarterly measure of overall demand or demand in the sector concerned. However, this approach would still need to be assessed politically and it should not lead to an erratic stop-go policy, of course. An incremental, but transparent approach would therefore be a pragmatic way forward when it comes to a decision on extending or phasing-out, reflecting the development of economic activities and expectations.

Depending on the economic situation and outlook, this could first trigger an extension (or stop) of temporary crisis-related rules for a reasonable, but not too long period. Second, decisions should be made to expand, maintain or reduce generosity of support to employers (in terms of remaining cost for hours not worked, or minimum thresholds of hours worked) in a step-by-step manner so that employers would have to bear an increasing share of labour costs again as the shock subsides. As some country cases show, targeted sectoral programs might be appropriate when economic activities continue to differ across industries while not yet structural and permanent (e.g., due to governmental containment measures). This helps identify the divide between jobs that firms consider viable and those that are most at risk – i.e., requiring more mobility-oriented rather than retention-oriented policies. Still, such an approach should allow for a further extension or reintroduction of more generous rules if the economic environment deteriorates again.

To the extent that more restrictive job retention support puts jobs at risk that are expected not to be sustainable in the medium- and long-run due to structural change, this should be combined with ALMP outside job retention, i.e., training programs, options to work for a different employer during layoff/furlough and hiring incentives, implying a shift in attention and spending to a different type of support. Some countries have moved (hesitantly) in this direction.

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