International Labour Organization

ILO Monitor on the world of work. Eleventh edition

A global employment divide: low-income countries will be left further behind without action on jobs and social protection

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Key messages

- **Various global shocks and risks are holding back labour market recovery, especially in low- and middle-income countries.** In developing countries, responding to the current multiple crises (or "polycrisis") is constrained by a combination of high inflation and high interest rates, along with a growing risk of debt distress.
- **The ILO projects that low-income countries, Africa and the Arab States are unlikely to recover to pre-pandemic levels of unemployment this year.** While the global unemployment rate is expected to fall below the pandemic level in 2023, this reflects stronger-than-expected resilience in high-income countries rather than a generalized recovery.
- **In 2023, the global jobs gap is projected to stand at 453 million people (or 11.7 per cent[1]), more than double the level of unemployment.** The real scale of employment challenges is encapsulated by the ILO's jobs gap indicator which includes all persons who would like to work but do not have a job. The jobs gap is much higher among women (14.5 per cent) than men (9.8 per cent).
- **Differences in the jobs gap reflect a global employment divide.** Low-income countries face the largest jobs gap rate at 21.5 per cent, while the rate in middle-income countries stands slightly above 11 per cent. High-income countries register the lowest rates, at 8.2 per cent. Low-income countries are the only country income group that has seen a long-term rise in the jobs gap rate, from 19.1 per cent in 2005 to 21.5 per cent in 2023.
- **Low-income countries in debt distress face a jobs gap of 25.7 per cent in 2023.** In low-income countries that are in debt distress, the jobs gap is significantly higher than in developing countries at low risk of debt distress, at 25.7 per cent compared with 11 per cent. This reflects the fact that financial and fiscal constraints are hampering their policy responses, further worsening labour market conditions.
- **Some countries are facing particularly complex and cascading crises**, which interact with broader global challenges and exacerbate labour market impacts. They range from natural disasters (e.g. the earthquakes in Türkiye and Syrian Arab Republic) to multiple economic shocks (e.g. in Sri Lanka), which have come on top of the lingering effects of the COVID-19 pandemic and the global cost-of-living crisis.
- Significant social protection policy gaps remain in developing countries, especially in low-income countries, including in regard to old-age pensions. **Only 38.6 per cent of older persons in lower-middle-income and 23.2 per cent in low-income countries receive an old-age pension.** Investing in national social protection systems based on equitable and sustainable financing from taxes and social contributions and complemented by international support where needed, is necessary and will bring economic, social and employment benefits.
- **The ILO's new estimates confirm that building a national social protection floor, for example, through expanding basic old-age pensions in developing countries would increase GDP per capita in low- and lower-middle-income countries by 14.8 per cent within 10 years.** Such basic old-age pensions in developing countries would also reduce the share of the population living below the US$2.15 PPP poverty line by 6 percentage points and increase the income share of the bottom 40 per cent of the income distribution by 2.5 percentage points. Furthermore, the induced effects of basic pensions would reduce the gender gap in labour income by 3.6 percentage points, equivalent to the global progress registered in the last 15 years.

1 The numerator of this rate comprises all those without a job and wanting one, while the denominator consists of that figure in addition to total employment.

- **The required financial resources for expanding basic old-age pensions are large but not insurmountable.** For developing countries, the annual cost of providing basic old-age pensions at the level of national poverty lines is equivalent to 1.6 per cent of GDP (2.3 per cent and 1.5 per cent of GDP for low-income and lower-middle-income countries, respectively). For sub-Saharan Africa, the cost would be US$23.3 billion, or 1.4 per cent of GDP and approximately 12.5 per cent of global annual official development assistance.
- **The UN Global Accelerator on Jobs and Social Protection, and the Global Coalition for Social Justice, can build global resources to achieve basic old-age pensions**, as one part of a reform of the international financial architecture to better address the needs of lower-income countries.

Part 1. Latest trends in an uncertain labour market recovery

1. The context: uneven impact of the polycrisis

Precipitated by the war in Ukraine and the lingering effects of the COVID-19 pandemic, the ongoing cost-of-living crisis has hurt incomes and livelihoods around the world, especially in developing countries. Global GDP growth is expected to decelerate to 2.8 per cent this year, down from 3.4 per cent in 2022.[2] This slowdown masks a significant divergence between advanced and developing economies. In high-income countries, labour markets remain tight despite the series of interest rate rises (though some employment deficits persist even in these economies). While some large emerging economies, such as India, have returned to strong economic growth, low-income countries are facing high levels of debt and rising costs of borrowing, which further constrain their efforts to promote decent and productive employment.

High inflation and interest rates continue to weigh on many labour markets, while for some countries the situation is expected to ease (box 1). At the same time, **fiscal space in the poorest economies is severely constrained**, which limits their policy responses to a polycrisis world defined by a range of complex and cascading challenges, including conflict, natural disasters and economic crises that amplify the effects of global shocks stemming from the COVID-19 pandemic and the cost-of-living crisis. This situation has contributed to a worsening global employment divide with the most significant labour market deficits evident in low-income countries.

Persistent inflation has led to aggressive monetary policy tightening. Inflation rates around the world started to rise in 2021, and jumped significantly in 2022, in all country income groups, leading to significant monetary policy tightening. At the beginning of 2023, 37 out of 162 countries, almost all low- and middle-income, had central bank interest rates in excess of 10 per cent (see figure A1 and table A1 in the statistical annex). Continued high inflation expectations are expected to cause further monetary tightening in around half of the countries: while almost all high-income countries are likely to experience further tightening, only a minority of low- and middle-income countries is expected to do so.

Countries face a trade-off in managing expected inflation, exchange rate movements, debt sustainability and economic activity. High interest rates cause problems for debt sustainability and new debt financing, especially since many countries have seen their debt-to-GDP ratios rise significantly during the COVID-19 crisis. Exchange rate depreciation in many developing countries has contributed to higher inflation and interest rates, while worsening the external debt burden.[3] Indeed, the proportion of countries in debt distress or at high risk of debt distress has doubled to 60 per cent compared with 2015 levels (IMF 2023). Enterprises and workers are deeply impacted during a debt crisis. Real interest rates, which are decisive for economic activity, have remained relatively low in advanced economies.

2 IMF, *World Economic Outlook: A Rocky Recovery*, April 2023.

3 UNCTAD, *Global Trends and Prospects*, Trade and Development Report Update, April 2023.

But continued tightening of monetary policy, along with receding inflation, could raise expected and realized real interest rates to higher levels, which will eventually take a toll on labour markets.[4]

2. Unemployment and the jobs gap

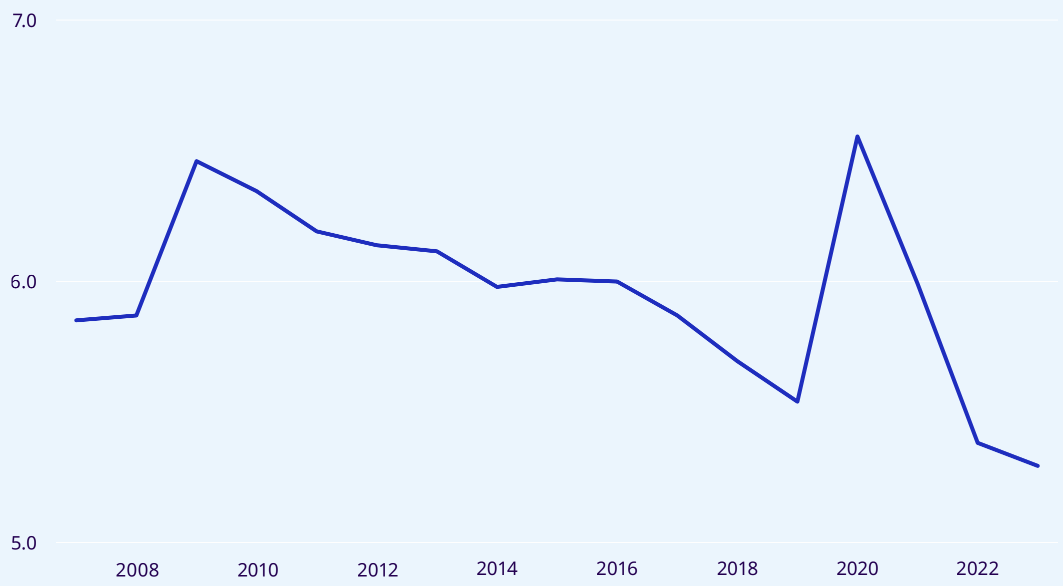
Global unemployment is likely to return to the pre-pandemic level in 2023

The ILO's latest estimates project that the global unemployment rate will fall by 0.1 percentage points in 2023 (figure 1). This implies a decline in the total number of globally unemployed people of 1 million,[5] which is due to greater-than-anticipated labour market resilience in high-income countries in the face of the economic slowdown.[6] There are signs that further interest rate hikes in high-income countries will be limited as central bankers start to prioritize concerns about the health of the economy. Interest rates in many low- and middle-income countries are expected to remain stable or decline. Nevertheless, the risk of the global economy entering a recession remains sizeable, creating a major downside risk for global labour markets (IMF 2023).

Global estimates of unemployment for the years 2020 through 2022 have been revised substantially in light of new data.[7] Consequently, global unemployment in 2022 is now estimated at 192 million, compared to 205 million reported in ILO's *WESO Trends 2023*. In 2023, global unemployment is projected to fall to 191 million, corresponding to an unemployment rate of 5.3 per cent. The global recovery in unemployment rates following the COVID-19 crisis has been remarkably fast compared to previous crises such as the global financial crisis of 2008–09 (figure 1).

Yet, unemployment in low-income countries and in the regions of Africa and the Arab States is not expected to recover to pre-pandemic levels in 2023. The global picture masks significant heterogeneity at the regional level regarding the speed of recovery from the COVID-19 crisis. Unemployment rates in Africa and the Arab States in 2023 are projected to remain elevated compared to 2019, while other

Figure 1. Unemployment rate, 2007–23, world (percentage)



Source: ILO estimates.

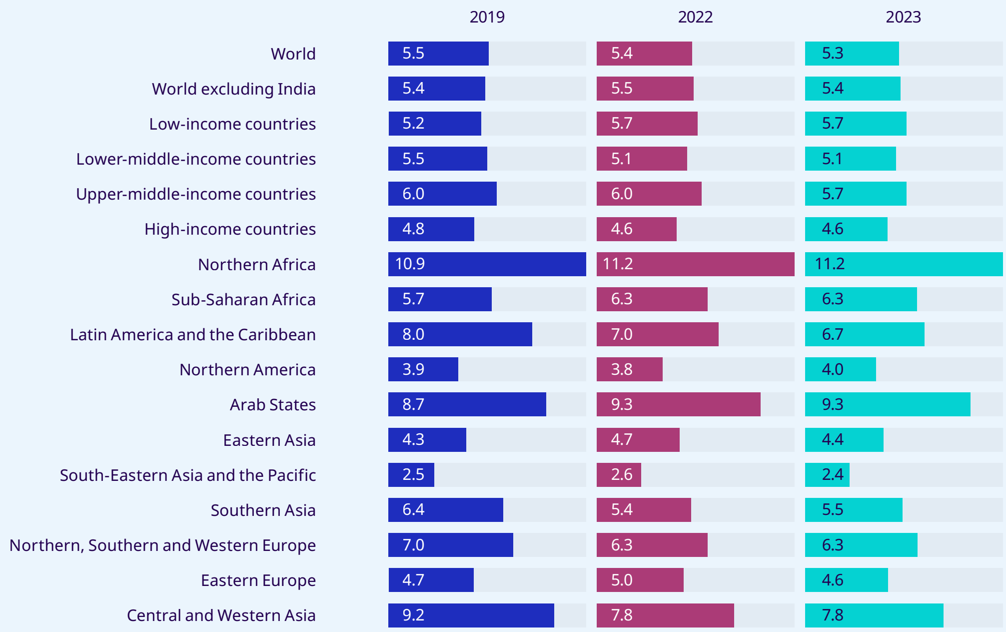
4 Monetary policy tightening also raises the risk of financial instability, which could have a major impact on the labour market.

5 This is an improvement compared to previous projections from January, when estimates indicated an increase of 3 million (see *WESO Trends 2023*).

6 For adjustments of ILO estimates in comparison with those published in *WESO Trends 2023*, see figures A1 and A2 in the statistical annex.

7 The downward revision is due primarily to newly incorporated unemployment data from Indian labour force surveys, showing that the Indian unemployment rate declined sharply in 2021 and 2022, falling to 4.8 per cent, which is almost 2 percentage points below its level of 2019 (6.5 per cent). Yet, even when excluding India, the global unemployment rate is projected to fall back to its pre-pandemic level in 2023.

▶ Figure 2. Unemployment rates, world and by (sub)region and country income group, 2019, 2022 and 2023 (percentage)



Source: ILO estimates.

regions such as Latin America and the Caribbean, Northern, Southern and Western Europe, and Central and Western Asia have managed to reduce those rates substantially below pre-crisis levels. Low-income countries so far have failed to recover to the rate of unemployment witnessed in 2019 (figure 2).

Jobs gap indicator points to large employment deficits, particularly in developing countries

While unemployment numbers provide important information on the extent of labour underutilization, especially in developing countries, a novel indicator developed by the ILO, the jobs gap, offers a more comprehensive measure of the unmet demand for employment around the world. It captures all persons who would like to work but do not have a job. The jobs gap uses the same data sources as unemployment statistics but in addition utilizes labour force survey data to incorporate all jobseekers or others who would work if they could. As such, the indicator is a useful complement to the unemployment rate and helps provide a more comprehensive view of labour underutilization.[8]

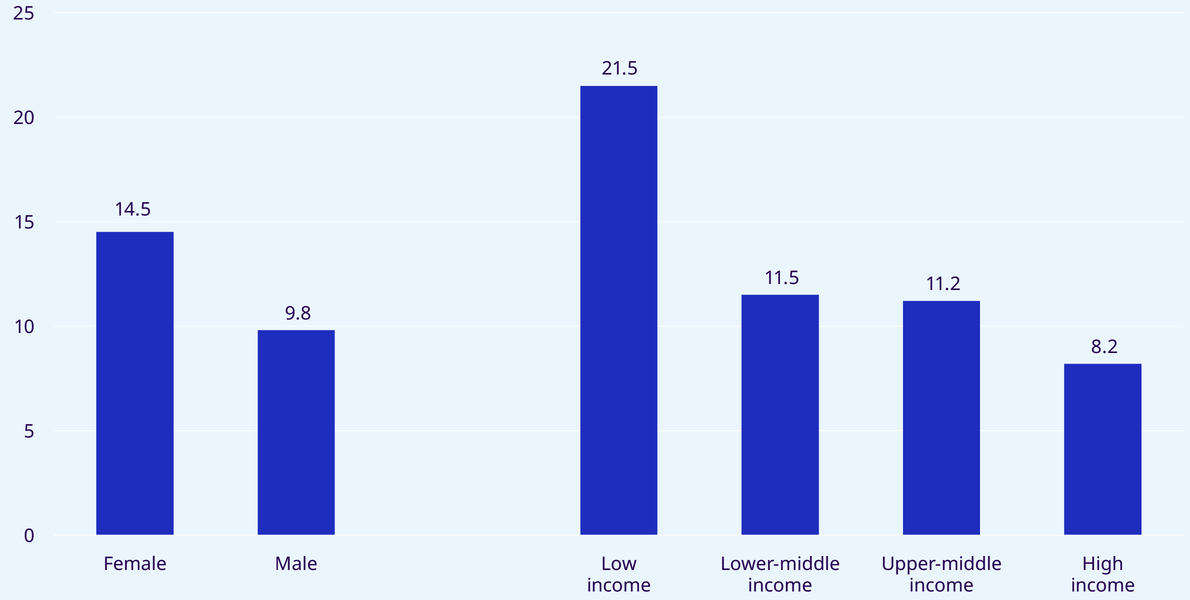
In 2023, the global jobs gap is projected to stand at 453 million people or 11.7 per cent,[9] more than double the unemployment count. The global jobs gap of 453 million includes both the 191 million unemployed people and an additional 262 million who want employment but do not qualify as unemployed. Those without a job but not classified as unemployed include, for instance, people who are discouraged from searching and those currently unable to take up employment at short notice, such as persons with care responsibilities.

There is an unequal jobs gap globally. In 2023, low-income countries are facing the largest jobs gap rate at 21.5 per cent, while the rate in middle-income countries stands slightly above 11 per cent. High-income countries register the lowest rates, at 8.2 per cent. Overall, while only a few countries, mostly high-income, experience relatively low jobs gap rates, the rest of the world continues to face persistent employment deficits.

8 The ILO's jobs gap indicator complements the existing set of indicators in the ILO modelled estimates by providing combined estimates of the unemployed, potential labour force, and willing non-jobseekers (each of them defined in resolution I of the 19th ICLS). Like the LU3 indicator, the jobs gap includes in addition to the unemployed those who are unavailable jobseekers and available non-jobseekers, but in contrast to the LU3 indicator, it also includes those who fall into neither of the previous categories but do want employment (willing non-jobseekers). See *WESO Trends 2023* for more details on the indicator and its differences with respect to unemployment.

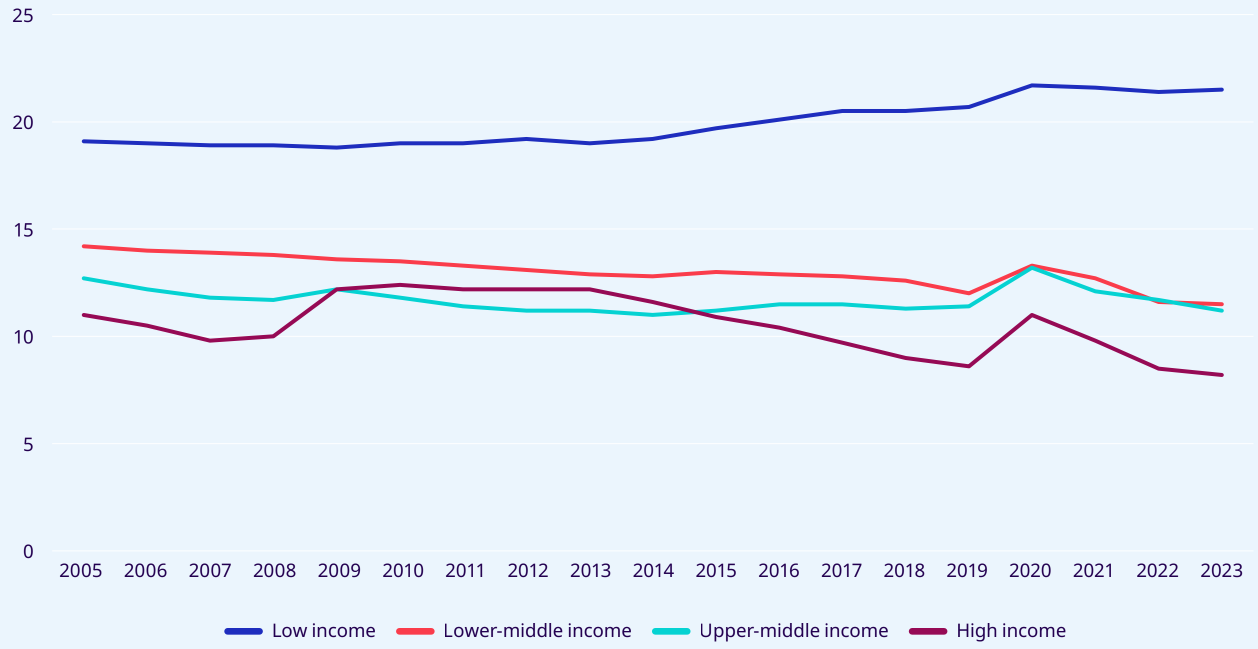
9 The numerator of this rate comprises all those without a job and wanting one, while the denominator consists of all those without a job and wanting one plus total employment.

▶ **Figure 3. Jobs gap rate, 2023, by gender and country income group** (percentage)



Source: ILOSTAT database, ILO modelled estimates.

▶ **Figure 4. Jobs gap rate, by country income group, 2005–23** (percentage)

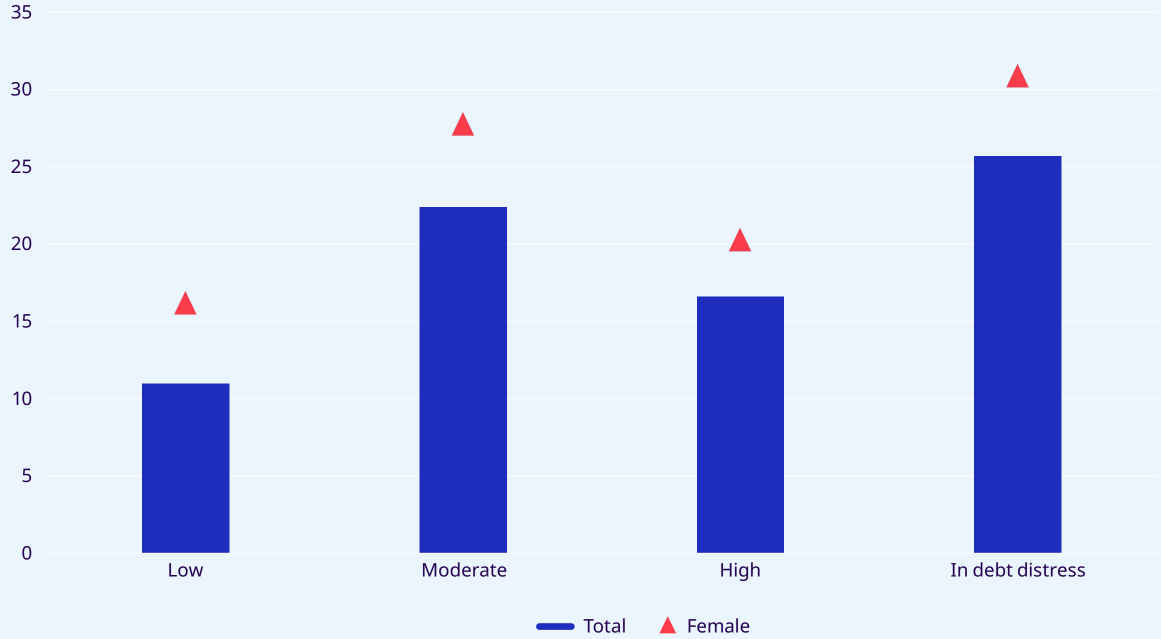


Source: ILOSTAT database, ILO modelled estimates.

These are particularly acute for women, who face a jobs gap rate of 14.5 per cent, compared to 9.8 per cent for men. Low-income countries exhibit the greatest gender disparity in employment deficits, with women facing a jobs gap rate that is 9 percentage points higher than that of men.

While the global jobs gap rate is projected to decline in 2023 by 0.2 percentage points to 11.7 per cent, there are considerable variations between country income groups (figure 4). Low-income countries are projected to see little change in 2023; this is also the only income group that has seen a long-term rise in the jobs gap rate from 19.1 per cent in 2005 to 21.5 per cent in 2023. The persistence of

Figure 5. Jobs gap rate in developing countries, 2023, by country risk of debt distress (percentage)



Note: The list of developing (mostly low-income) countries covered in this sample (as of 28 February 2023) can be found at: https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf, excluding Dominica, Federated States of Micronesia, Grenada, Kiribati, Marshall Islands and Tuvalu, which are not available in ILO modelled estimates of the jobs gap rate.

Sources: Jobs gap rate (percentage) – ILOSTAT database, ILO modelled estimates; country risk of debt distress – IMF Debt Sustainability Analysis – Low-Income Countries.

the jobs gap in these poorest countries reflects the fact that, for various reasons, there are not enough new employment opportunities for rapidly growing, youthful populations. Lower-middle-income countries are projected to see almost no change in 2023 but have experienced a sizeable long-term decline. Upper-middle-income countries are projected to see the largest decrease (0.5 percentage points) in 2023. High-income countries have seen the largest long-term improvement in the jobs gap rate with a 4 percentage point decline since the aftermath of the 2008–09 global financial crisis and a drop of 0.3 percentage points in 2023 alone.

Debt-distressed countries face the biggest labour market challenges and have much more constrained policy space, which will hinder further policy responses in the face of ongoing crises and new shocks. In the low-income countries that are classified as in debt distress,[10] the jobs gap is significantly higher, estimated to reach 25.7 per cent in 2023, compared with 11.0 per cent in developing countries at low risk of debt distress (figure 5). The jobs gap rate for women in these debt-distressed countries is expected to reach almost 31 per cent in 2023, reflecting a gender disparity that is evident in all countries as noted above. The correlation between debt distress and the jobs gap rate points to the critical importance of international financial support for debt-distressed countries in promoting both an economic and a job recovery.

10 For classification, see the IMF's "Debt Sustainability Analysis – Low-Income Countries".

Box 1. Exacerbated faces of the polycrisis

While the risk of polycrisis is global in nature and scope, developing countries face even more complex and cascading crises, which interact with broader global challenges to further exacerbate labour market impacts. These range from natural disasters and conflicts to domestic political and economic shocks, which have come on top of the effects of the COVID-19 pandemic and the cost-of-living crisis, along with the effects of climate change. There is considerable diversity in the accumulated impacts of multiple crises, including the effects of economic shocks (Sri Lanka) and natural disasters (Türkiye and Syrian Arab Republic). In addition to precipitating the surge in inflation and disruption to supply chains starting in 2022, the war in Ukraine continues to impact its own labour market (and neighbouring countries through flows of refugees).

Sri Lanka in an economic crisis. On top of long-running macroeconomic imbalances and structural weaknesses, Sri Lanka has been hit by a series of crises, starting with the Easter bombings in 2019 and followed by the COVID-19 pandemic, which hit the economy and labour market hard, especially the tourism sector. As witnessed in other developing countries, women, youth and MSMEs, particularly those operating in the informal economy, were badly affected by lockdown measures.[11] Output contracted slightly already in 2019 before declining by 4.6 per cent in 2020 during the COVID-19 lockdowns, followed by a partial recovery in 2021 (growth of 3.5 per cent).[12] The spillover effects of the Ukraine conflict thwarted the nascent recovery and pushed the Sri Lankan economy into a full-blown balance of payments crisis and subsequent debt default in April 2022. Output declined by 7.8 per cent in 2022 (–12.4 per cent in 2022Q4), as the country faced severe fuel and other shortages. Inflation reached more than 46 per cent last year, which has damaged real incomes and livelihoods.

Following the signing of an IMF support programme in March 2023, some stabilization has been achieved though the economy is expected to contract by 3.0 per cent this year.[13] A recent ILO survey indicates that a significant number of MSMEs have been forced to close operations, with the surviving businesses having implemented large reductions in employment, working hours, and in some cases, wages.[14] Another key concern is the effects on women in the Sri Lankan labour market. Already starting from a low level, women's labour force participation fell from 34.5 per cent in 2019 to 32.1 per cent in 2022. Due to the slow process of debt restructuring, macroeconomic stabilization and effects of reforms, the recovery will be slow, implying that the negative effects on the Sri Lankan labour market will continue with a lag as evident in the aftermath of previous economic and financial crises.

Labour market impacts in Türkiye and Syrian Arab Republic after a devastating natural disaster. On 6 February 2023, the south-eastern provinces of Türkiye were hit by more than one major earthquake, which killed around 50,000 people and injured approximately 107,000.[15] Almost 4 million workers were living in the affected region, largely employed in agriculture, manufacturing, trade and other, mostly low value-added, services. Through the impact on buildings and infrastructure, such a natural disaster had an immediate effect on the economy and labour market. Due to the loss of around 220,000 workplaces, the ILO estimates that the earthquake resulted in a decline of 16 per cent in hours worked, equivalent to more than 657,000 full-time jobs. The ILO estimates that, overall, the earthquake has reduced take-home labour income in Türkiye by more than 2,859 million Turkish lira (around US$150 million) per month.

In Syrian Arab Republic, where 12 years of civil war had already taken a huge toll on the economy and labour market, a recent ILO assessment finds that around 170,000 workers have lost their jobs as a result of the February earthquakes.[16] The earthquakes have directly affected around 154,000 households and more than 725,000 people. Around 35,000 MSMEs have also been impacted. This temporary "disemployment" has led to total labour income losses equivalent to at least US$5.7 million a month. The five worst-affected districts were home to an estimated 42.4 per cent of the country's total population, including around 7.1 million people of working age, of whom 2.7 million were in employment (formal and informal). Of these, 22.8 per cent were women.

11 R. Gunatilaka and S. Chandrasiri, "The Labour Market Implications of the Sri Lanka's Multiple Crises", ILO, Colombo, 2022.

12 Government of Sri Lanka, Department of Census and Statistics.

13 See IMF, Sri Lanka: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka.

14 ILO, "The Impact of the Economic Crisis in Sri Lanka on MSMEs and Jobs" (forthcoming).

15 For further details, see ILO, "The effects of the February 2023 earthquake on the labour market in Türkiye", ILO, Ankara, 2023.

16 ILO, Impact of the February 2023 Earthquakes on Employment and the Labour Market in Syria, ILO, Beirut, 2023.

Box 1. (cont'd)

However, in contrast to the persisting effects of an economic crisis, recovery from the earthquake can be accelerated if sufficient resources are mobilized and investments made to support reconstruction efforts, which will drive up demand for construction and associated workers.

Ukraine at war. Beyond the humanitarian costs of the aggression against Ukraine, its impact on economic and labour market conditions in the country has been severe.[17,18] The damage to infrastructure and enterprises and a considerably reduced labour force have greatly curtailed the productive capacity of the country. The broader economy suffered a severe decline, with an estimated year-on-year drop in GDP of 35 per cent in the last quarter of 2022.[19] While measures by the National Bank of Ukraine and budget support by donors have helped to stabilize core inflation, it nevertheless surged to 22.6 per cent in 2022. ILO estimates[20] indicate that the employment losses in Ukraine have been dire. The tenth edition of the ILO Monitor on the world of work[21] estimated that employment declined by 15.5 per cent in 2022, equivalent to 2.4 million jobs lost. ILO employment projections based on the latest macroeconomic forecasts suggest stagnant activity in 2023 as the hostilities continue to severely constrain the potential of the Ukrainian economy and its labour market. Based on the assumption that the security situation will remain close to its current state for the entire year, the ILO estimates an employment growth rate of just 0.5 per cent in 2023, corresponding to an increase of only 70,000 jobs.

The labour market outlook in Ukraine remains highly uncertain, even in the absence of significant changes in the evolution of the conflict. In addition to these employment effects, the ILO estimates that approximately 1.7 million refugees, overwhelmingly women, were employed in Ukraine before they fled the country (mostly for Western Europe). These previously employed refugees accounted for 11 per cent of the country's total workforce before the conflict.

17 For evidence of a recent deterioration in economic conditions, see the Monthly Macroeconomic and Monetary Review of January 2023 of the National Bank of Ukraine.

18 ILO, Report on developments relating to the resolution concerning the Russian Federation's aggression against Ukraine from the perspective of the mandate of the International Labour Organization, Governing Body paper.

19 National Bank of Ukraine, "Speech by NBU Governor Andriy Pyshnyy at Press Briefing on Monetary Policy Decisions", 26 January 2023.

20 Due to the scarcity of data, the effects on the world of work can only be estimated imprecisely and are subject to high uncertainty.

21 ILO, "ILO Monitor on the World of Work. Tenth edition", 31 October 2022. The prediction interval at the 95 per cent confidence level corresponds to a decline in employment of between 8.2 and 22.7 per cent.

Part 2. Social protection: a catalyst for inclusive sustainable development and decent jobs

Policy gaps in developing countries aggravate the consequences of multiple crises. Social protection is one key policy area that is constrained by the overall economic situation, limited fiscal space and the associated lack of investment in such measures. At the same time, there is robust evidence that investing in social protection will bring about broader economic, employment and social benefits.

Progress has been slow in improving access to social protection. A decade has passed since the Social Protection Floors Recommendation, 2012 (No. 202), was adopted, yet still more than half of the world's population lacks access to any form of social protection. For example, even though old-age pensions are the most prevalent form of social protection (77.5 per cent of older persons are covered), large coverage gaps remain. While 97.5 per cent of older persons in high-income countries receive a pension, this is only the case for 38.6 per cent and 23.2 per cent of older persons[22] in lower-middle-income and low-income countries, respectively.[23]

The benefits of old-age pensions go beyond addressing the immediate needs of older persons. While low pension coverage is a worrying sign of underinvestment in social protection, it also presents an opportunity to foster sustainable development and social justice. Pensions provide income security to older persons, protect against material deprivation and social exclusion and can benefit other members of the household. Nevertheless, the beneficial effects of pensions go beyond this direct income transfer. The prospects of receiving a pension in old age change younger people's behaviour in the labour market and beyond (box 2), increasing economic growth and reducing income inequalities. This occurs – provided commitments to pensions are credible – even in countries where older persons account for a small share of the population, and so where achieving universal coverage is relatively easy. This amplification effect makes old-age pensions an effective policy lever in developing countries.

Box 2. Old-age pensions as a catalyst for growth and social Justice

Emerging evidence suggests that implementing a social protection floor for older persons can contribute to boosting economic growth, mainly through accelerating the demographic transition and decreasing countries' reliance on agriculture. Several country-level studies have shown that old-age pensions lead to decreases in desired family size and, consequently, in fertility rates.[24] Without guaranteed retirement income, people tend to have more children with the expectation that they will provide support in old age. A pension scheme reduces this need and hence decreases desired family sizes.

In countries with high fertility rates, a transition to lower levels of fertility leads to an increase in the ratio of the working-age population (ages 15–64) relative to the age-dependent population (ages 0–14 and 65+), which can have persistent positive effects on economic growth, often termed a "demographic dividend". Declining fertility initially leads to a higher proportion of working-age individuals who can engage in productive activities. This effect has been widely recognized in the economic literature.[25] Using a short-run restriction model, the effect is corroborated: a decrease in fertility of 1 per cent is estimated to result in additional growth of roughly 0.6 per cent in GDP per capita after 20 years. This channel is particularly relevant in regions where average fertility remains at relatively high levels.

A second channel through which pensions can lead to sustained economic growth is based on its impact on labour market outcomes. Evidence from China and Namibia shows that extending old-age pension coverage can lead to a decrease in farm work and an increase in non-farm work among

22 Recommendation No. 202 does not explicitly define an age limit to be eligible for old-age pensions – countries can adopt an age limit in accordance with national circumstances. For costing and demographic projections, this section uses 65 as the limit for old age.

23 ILO, *World Social Protection Report: Social Protection at the Crossroads – In Pursuit of a Better Future*, 2021.

24 Rossi and Godard (2022) present compelling evidence for Namibia, Shen, Zheng and Yang (2020) for China, Danzer and Zysca (2020) for Brazil, and Fenge and Scheubel (2014) for nineteenth century Germany.

25 See for instance: Ayiar and Mody (2011), Bloom, Canning and Sevilla (2003), Headey and Hodge (2009).

Box 2. (cont'd)

adults below the pension eligibility age.[26] Whereas agricultural employment is a critical source of jobs in the developing world, it is disproportionately associated with subsistence food production and contributing family work in low-income countries.[27] Basic pensions can facilitate a transition from these vulnerable forms of employment to jobs with better working conditions and higher productivity. This shift might be made possible by income pooling whereby extended households (which are particularly common in developing countries) use old-age pensions to overcome liquidity or credit constraints, reducing barriers for subsistence and unpaid family workers to transition to better occupations in other sectors. A complementary mechanism is enabling risk taking. Transitioning out of subsistence work might be profitable on average, but it is risky. Having guaranteed retirement income leaves individuals better equipped to take on such risk. Finally, smaller family sizes and less need for childcare might facilitate the transition as the latter can be easier to combine with subsistence work.

The shift away from an economy that is largely reliant on subsistence farming is key to increasing labour productivity. Vulnerable employment in agriculture results in vast differences in output per worker between this sector and the rest of the economy. Moreover, Gollin, Lagakos and Waugh (2014) find that large differences in labour productivity across sectors remain even after accounting for education, literacy, and other potential factors. This suggests that the reallocation of workers across sectors can provide a boost to economic growth.[28]

The ILO's new estimates confirm the transformational impacts of old-age pensions. ILO estimates show that the expansion of basic old-age pensions has caused family size to decline in countries with initially high fertility rates, the share of non-farm employment to expand, and GDP per capita to increase (figure 6) (see box 2 for an explanation of the causality). The effects are significant for all variables – although sizeable uncertainty remains.[29] It should be noted that this estimation accounts for the possibility of reverse causality (i.e. if a country has grown richer it can afford a better social protection system).[30]

The positive effects of universal old-age pension coverage in the developing world would be large and long-lasting. When combining this historical evidence with current social protection coverage data (SDG indicator 1.3.1), simulation results show large, beneficial effects of introducing universal old-age pensions in developing countries.[31,32] GDP per capita in those countries would be 14.8 per cent higher within ten years, compared to a scenario where current coverage rates remain unchanged. The effects would continue to be felt long after the 10-year horizon. In 20 years, the demographic contribution to GDP per capita would increase by an additional 3 percentage points.[33] The total population in developing countries would peak by 2072, more than 30 years earlier than in the absence of the pension expansion. This would heavily affect the demographic structure: the ratio of the age-dependent population (ages 0–14 and 65+) to the working-age population (ages 15 to 64), would be 5.3 percentage points lower in 2072 – providing an economic tailwind for more than six decades.[34]

Increased prosperity would be shared more equally with a substantial decline in poverty and income inequality. These results capture the already

26 Huang and Zhang (2021) and ILO estimates based on the methodology of Rossi and Godard (2022).

27 See Marie-Claire Sodergren and Mabelin Villarreal-Fuentes, Quick Guide to Understanding the Impact of the New Statistical Standards on ILOSTAT Databases (ILO, 2022) for evidence on subsistence work. The share of contributing family workers is almost five times higher in agricultural employment than in non-agricultural employment (unweighted average of 128 countries, latest year; source: ILOSTAT database).

28 Consistent with this hypothesis, Bustos, Caprettini and Ponticelli (2016) find that in Brazil following a labour-saving technological shock in agriculture, manufacturing work increases strongly over a ten-year period, whereas average wages in manufacturing experience modest declines (an order of magnitude smaller than the employment change).

29 See Funke, Schularick and Trebesch (2022) and the annex for details and for several robustness exercises.

30 We use a data set of expansions of basic old-age pensions (social pensions) to identify pre- and post-expansion trends, from the Social Pensions Database provided by *PensionWatch*. For each expansion country in our sample that increased pension coverage we construct a counterfactual scenario by taking a combination of data from countries that resemble the country before the expansion.

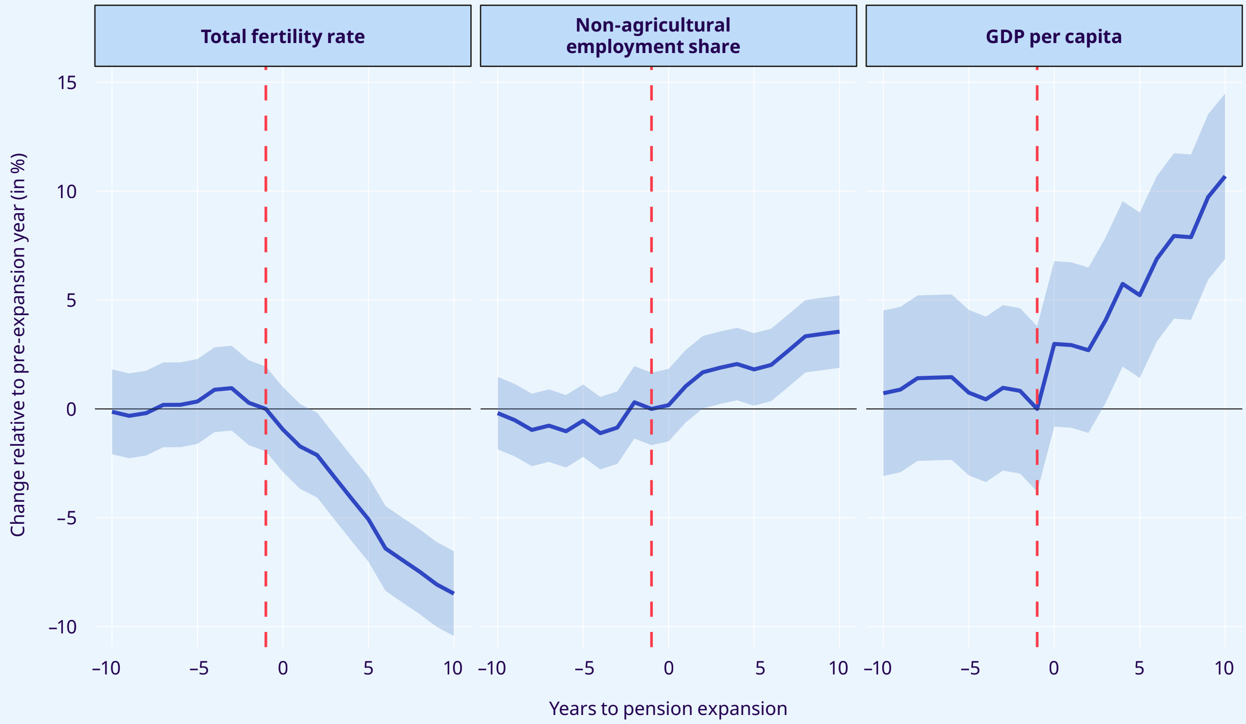
31 The simulation assumes that all older persons that are identified as not covered by SDG indicator 1.3.1 become covered by a basic old-age pension.

32 Developing countries are defined throughout as low- and lower-middle-income countries.

33 Using GDP before implementation of the expansion as the basis.

34 Whereas the dependency ratio is projected to eventually be larger than the no expansion scenario, by 2087 developing countries would be in a much stronger economic condition and hence better equipped to deal with the challenges associated with ageing populations.

Figure 6. Average effects of historical social pension expansions, available countries



Note: The figure shows the average effect of a pension coverage expansion. The red dotted line indicates the year before the expansion of pension coverage took place. For more details on the estimates, see technical annex 3.

Source: ILO estimates.

documented[35] direct effects, including via intra-household income sharing, of pensions on poverty and inequality as well as the indirect effects caused by economic growth, fertility decline, and increases in non-farm work. Universal coverage of old-age pensions in the developing world would result in a 6 percentage point reduction in the share of the population living below the US$2.15 PPP poverty line. This is a drastic reduction from the current rate of 15.5 per cent. Moreover, the entire income distribution would shift towards greater equality. The bottom 40 per cent of the income distribution would see its share of income rise by 2.5 percentage points from the current 15.3 per cent. This relative income increase would come at the expense of the top 10 per cent of earners, while the share of income in the middle of the distribution would remain roughly unchanged.[36]

There are also sizeable effects on gender equality. The pension expansion would result in an estimated reduction of 3.6 percentage points in the labour income gender gap, equivalent to the global progress registered in the last 15 years. This is likely to be caused by a reduction in the incidence of vulnerable employment and unpaid childcare work, both of which affect women disproportionately.[37] The effects go beyond the labour market. For instance, we find that the induced effects of the pension expansion are likely to have a positive impact on women's health and education.[38]

The required financial resources are large but not insurmountable. In the current context of constrained fiscal space, implementing a social protection floor for older persons can seem a daunting task. The challenge of financing social

35 See for instance: Case and Deaton (1998), Cattaneo and Razavi, *Inequality and Social Protection* (forthcoming), or Huang and Zhang (2021).

36 The effects estimated for the income share of the top 10 per cent present higher uncertainty. Whereas the direct effect for the bottom 40 per cent is significant at the 5 per cent level, the one for the top end of the distribution is not. The effects described concern relative income: given the expansion in economic activity, each of the groups could see their absolute income increase. The distributional estimates do not assume a specific model for financing the pensions, which will depend on each specific basic pension expansion. The income data refer to disposable income, including transfers and subtracting taxes and contributions.

37 Contributing family work in the agricultural sector disproportionately affects women. Similarly, the presence of children in a household is associated with lower women's participation in the labour market (see "Spotlight on Work Statistics n°12", ILO brief, March 2023).

38 See annex for further details.

protection should not be understated, but it is not unattainable. For developing countries, the annual cost of providing basic old-age pensions at the level of national poverty lines is equivalent to 1.6 per cent of GDP (2.3 per cent and 1.5 per cent of GDP for low-income and lower-middle-income countries, respectively).[39] For sub-Saharan Africa, the cost would be US$23.3 billion, or 1.4 per cent of GDP and approximately 12.5 per cent of global annual official development assistance.[40]

This new evidence provides a strong case, particularly in these times of multiple crises, for national investment as well as global financial support for universal social protection systems. A social protection floor for older persons would promote economic growth, and at the same time reduce economic inequality and improve gender equality. This combination makes basic old-age pensions a potentially extraordinary policy lever for sustainable development and social justice, and furthermore one that is backed by the strong international consensus on social protection floors. Universal access to other elements of a nationally defined social protection floor, such as child benefits,[41] maternity benefits and access to essential healthcare,[42] are also vital for further amplifying the benefits of social protection on economic and social development.

39 Source: ILO, "Financing gaps in social protection: Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond", Working Paper, ILO Social Protection Department, 2020.

40 The difference between the projected increase in GDP per capita and the estimated costs of universal basic old-age pensions shows that pension expansions in developing countries are a promising policy tool. Nonetheless the difference should not be interpreted as a cost–benefit analysis. The effects of basic old-age pensions hinge on a credible commitment to funding future pensions. Accordingly, estimating the net benefits warrants further careful consideration.

41 ILO and UNICEF, *More than a Billion Reasons: The Urgent Need to Build Universal Social Protection for Children*, Geneva and New York, 2023.

42 See "Social Protection Spotlight – Towards Universal Health Coverage: Social Health Protection Principles", ILO brief, January 2020.

Part 3. Policies and financial support to build resilience and overcome the global employment divide

Current challenges call for determined policy interventions

Though economies in different regions of the world are faced with a variety of challenges, the overall labour market outlook remains extremely uncertain. To stabilize and strengthen labour markets, enhanced policy interventions are needed as the multiple current challenges will otherwise have long-term negative impacts on growth, resilience and development.

Promoting social justice must counteract the growing divergence in the labour market

While some countries (especially high-income countries) have in large part recovered from the COVID-19 crisis, showing resilience to new challenges including high inflation and energy costs, many developing countries have yet to do so with some of the poorest economies facing a particularly negative impact from multiple shocks and crises. This situation of polycrisis risks creating further divergence between high-income and developing countries, especially low-income economies. Rising debt levels and constrained fiscal space add to the set of challenges, considerably narrowing the window for policy interventions in a range of developing countries. Policy efforts are needed to overcome these constraints to ensure that developing countries can promote a job-rich recovery towards the goal of social justice.

International solidarity for recovery

Developing countries, especially those facing the most limited policy space, need urgent international support and multilateral coordination to address persisting job deficits and growing inequalities. Reform of the global financial architecture needs to address debt restructuring and relief, while supporting the financing of the SDGs, including tackling the climate crisis and creating decent and productive employment through a just transition.

Proactive employment policies must make significant contribution in both short and long run

Countries need to ensure that recovery efforts and, in the case of conflict- and crisis-affected countries, reconstruction will foster employment growth and support long-term structural transformation. Policymakers will need to carefully balance the use of macroeconomic policies that aim to tame inflation (especially given the importance of supply-side factors in driving higher prices) and manage debt with the goals of protecting and promoting decent jobs. Given the centrality of employment in sustaining inclusive recoveries, ongoing assessments of labour markets are crucial not only to identify the impact of the ongoing multiple crises but also to assess the effects of macroeconomic policy adjustments. A more pro-employment approach to macroeconomic policies needs to consider not only narrow measures of unemployment but also broader indicators, such as the novel ILO jobs gap indicator and others that reflect employment quality.

Social protection as a catalyst for social justice: the impact of basic old-age pensions

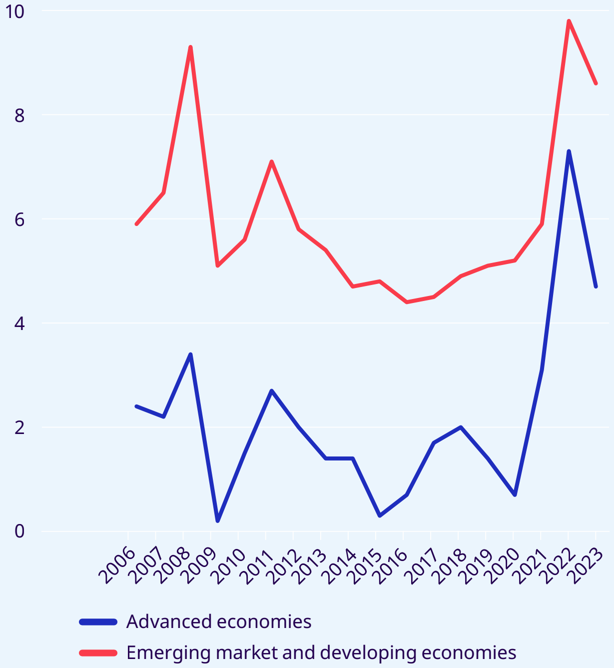
Social protection remains key to overcoming short-term challenges as well as challenges caused by longer-term structural transformation processes, including a just transition to environmentally sustainable economies and societies. Investment in people through social protection will pay off in the long run. This is, for example, the case for pensions, which have multiple positive impacts on both growth and social justice, particularly in developing economies. In combination with investments that support the creation of decent and productive employment, investing in universal social protection systems, including floors, will accelerate economic and social development and ensure just transitions.

Global actions for social investments and decent work

These beneficial effects of social investments in decent work are highlighted in the UN Global Accelerator on Jobs and Social Protection for Just Transitions, which is built on a multipronged approach to maximize the impact of policies and investment on social justice. The Global Coalition for Social Justice as proposed by the ILO Director-General will embed all such efforts within a comprehensive approach, ensuring maximum impact of international and national interventions. The critical importance of such actions, especially in creating fiscal space for social investments in low-income countries, should be considered with urgency in the current global discussion on the reform of the international financial architecture.

Statistical annex

Figure A1. Inflation rate, average consumer prices (annual percentage change)**, advanced economies and emerging market and developing economies, 2006–23**



Source: IMF World Economic Outlook Database, April 2023.

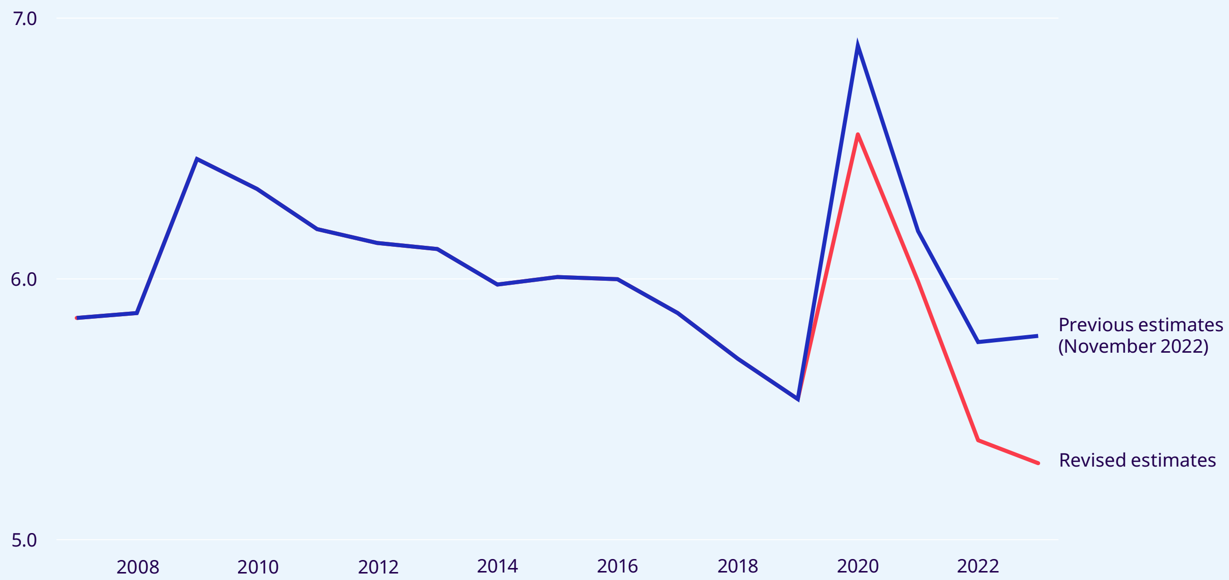
Table A1. Classification of countries by central bank interest rates and expected rate developments, world and country income groups (percentage)

	High interest rate (≥ 10%)	Rate rise expected
Low-income countries	40.9	22.7
Lower-middle-income countries	32.6	37.2
Upper-middle-income countries	26.2	42.9
High-income countries	5.5	80.0
World	22.8	51.2

Notes: Central bank rate classification based on latest available values, ranging from January 2023 to April 2023. Interest rate expectations for the horizon of the second quarter of 2023 until the first quarter of 2024.

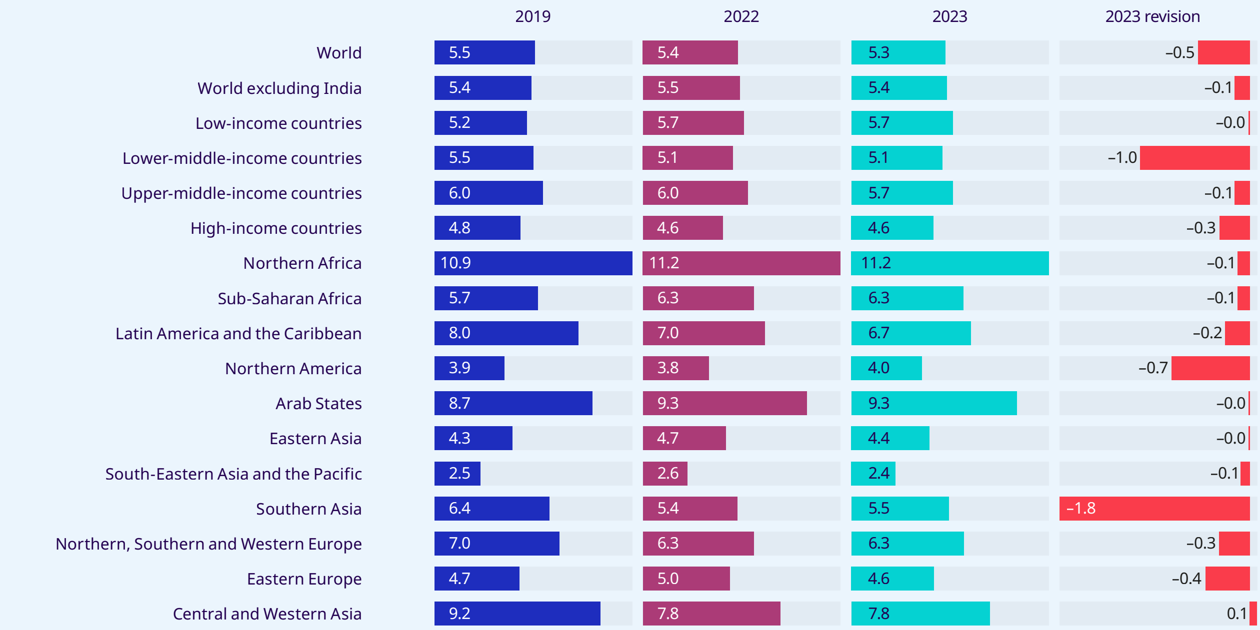
Source: Tradingeconomics.

Figure A2. Unemployment rate, 2007–23, world (percentage)



Source: ILO estimates.

Figure A3. Unemployment rates, world and by (sub)region and country income group, 2019, 2022 and 2023 (percentage)**; revision of unemployment rate projections for 2023 compared to *WESO Trends 2023*** (percentage points)



Note: *Revision* shows the percentage point difference with respect to the projection in *WESO Trends 2023* for the year 2023.

Source: ILO estimates.

Technical annex

The technical annex is available at: https://www.ilo.org/global/publications/WCMS_882318/lang--en/index.htm