This factsheet provides an overview of temporary wage subsidies implemented during the Covid-19 crisis.

The consequences of the COVID-19 health pandemic for enterprises and workers have been unexpected and devastating. Initially, as the virus spread, many countries went into “lockdown”, ordering the closure of non-essential workplaces, and also borders, to protect the health of their populations. The sudden stop of economic activities engendered a supply shock at international scale without precedent. Millions of enterprises and workers were affected. In a second phase, as some countries in some regions started to reopen their economies within a context of uncertainty, a declining aggregate demand was expected to lead to a demand-side recession. As this factsheet is written, the duration of the crisis, and the scale of its impact on enterprises and workers is unclear yet and predictions on the “new normality” are difficult.

As part of a wider range of policy measures to counteract the economic and labour market effects of the crisis, many countries adopted the strategy of implementing temporary wage subsidies. Temporary wage subsidies are not a new instrument, but the scale of their use in the current crisis is unprecedented. They were adopted under different names, ranging from Kurzarbeit (or short time work allowance) in Germany, to activité partielle (partial unemployment) in France, and the so-called Furloughing of workers in the United Kingdom and United States. Temporary wage subsidy programs have also been adopted in many other countries, such as in Argentina, Botswana, Brazil, Malaysia or – in a more limited way – in Bangladesh.

Temporary wage subsidies in times of crisis differ from the usual wage subsidy programmes targeted at specific workers as part of Active Labour Market Programmes (ALMPs). While targeted subsidies seek to encourage firms to employ specific categories of workers – for example young workers, the long-term unemployed, or workers with disabilities – more generalised temporary wage subsidies are used in times of crisis to save jobs and help enterprises to keep as many employees as possible on the payroll. During the COVID-19 crisis, wage subsidies have been implemented to maintain the employment relationship during the lockdown in enterprises and sectors closed through government order or acute sanitary conditions. They were later extended, sometimes under modified conditions, to prevent layoffs during the economic downturn that followed the end of the lockdown.

What characterises wage subsidies is the explicit objective of maintenance and continuation of the employment relationship, an objective that is beneficial to both workers and enterprises. The use of wage subsidies allows enterprises and workers to express their mutual desire to keep the employment relationship alive, even if this relationship may be temporarily suspended due to financial restrictions. By doing so, wage subsidies maintain the economic fabric of a country, helping enterprises to recover their productive capacity as rapidly as possible after a crisis, to overcome the supply side effect of the crisis, as well as preventing workers from losing their jobs and related benefits, including those that accumulate with seniority – one of the few ways for workers to increase their wages in many emerging economies.

Experience from the 2007/08 global financial crisis shows that temporary wage subsidies can prevent mass layoffs, help enterprises retain their skilled workers, and support the recovery of production after economic shocks. Temporary wage subsidies have been found to have a large positive effect on employment. They allow liquidity constrained firms to engage in labour retention, preserving their skilled workforce in the downturn, and to recover more quickly after recessions. The subsidies also limit the increase in inequality resulting from an economic crisis, as well as to support consumption, aggregate demand and economic recovery.1 During the global

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Temporary Wage Subsidies

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How high should Temporary Wage Subsidies  / 21 / May / 2020

This factsheet is meant to support informed social dialogue around the design of a temporary wage subsidy programme in times of crisis. Section I starts with some preliminary considerations and a brief review of various mechanisms of wage support available to governments. Section II addresses the specifics of wage subsidy programmes, with some examples from different countries around the world. The last section provides some concluding considerations. More detailed information on selected country programmes can be found in the appendix.

I. PRELIMINARY CONSIDERATIONS

Wage subsidies are only one among several policies that should be used simultaneously to support wages and preserve enterprises and jobs. This is illustrated in Figure 1. Wage subsidies are frequently used together with measures such as tax reductions or (subsidized) loans extended to enterprises.

II. KEY ELEMENTS OF POLICY DESIGN – COUNTRY EXAMPLES

a. Who is eligible and under which conditions?

In many instances, all types of enterprises and organisations are eligible – on the condition that they are registered. In New Zealand and Australia, for example, this includes all registered enterprises, including incorporated societies, charities, NGOs, the own-account workers and contractors. In France, individuals who employ care or domestic workers are also eligible to a specific wage subsidy, which amounts to 80 percent of the net wage corresponding to the hours not worked. In the Philippines only the formal sector has introduced flexible working hours due to the pandemic. In Brazil workers must be registered, with a work and social security card.

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2 Hijzen and Martin, 2012
In Tunisia, enterprises are allowed to apply for the scheme if they register to the social security fund by the 15th of May. Interestingly, therefore, temporary wage subsidies in Tunisia may also be a way to promote formalization.

In some instances, only some types of enterprises or some sectors are eligible. Processing applications of thousands or more enterprises, and verifying the eligibility conditions, in a short time frame can be overwhelming. In Thailand, for example, wage subsidies are only available for small and medium sized enterprises (SMEs). Botswana includes most business sectors except industries in water and electricity supply, wholesale-food, insurances, banks and other organizations with direct government shareholding. Additionally, it is made only available to citizen employees. Some schemes only cover employers or workers in particular sectors. In Bangladesh and Cambodia for example a one-off wage subsidy was provided to enterprises and workers in the export-oriented textile and garment industry.

Usually, enterprises must show that their difficulties to pay wages are due to the COVID-19 pandemic. In the Netherlands, for example, subsidies are provided only to enterprises whose turnover has fallen by at least 20 per cent. In Australia, enterprises are only eligible if their revenues have declined by 30 percent for small businesses, or by 50 percent for large enterprises with a turnover of over $1 billion. The Cook Islands also require a reduction of 30 percent in sales to be eligible for the subsidy. In Malaysia, enterprises have to show a 50 percent reduction in revenues or profits. In Sweden, enterprises must show financial difficulties linked to the pandemic.

In some countries, enterprises which benefit from wage subsidies are restricted to pay dividends to shareholders. France has prohibited enterprises benefitting from the activité partielle scheme to pay dividends to shareholders, whereas other countries such as Switzerland have not imposed any regulation.

Many schemes cover a broad range of workers, but exclude unregistered workers or workers not working legally in the country. In the United Kingdom, for example, all types of workers are eligible (including part-time employees, employees on agency contracts, and employees on flexible or zero-hour contracts) on the condition that they are registered with social security and have a United Kingdom’s bank account. Singapore’s support scheme covers nationals or permanent residents only. Countries may also wish to consider a so-called grace period or voluntary disclosure initiative to register undeclared workers, thereby incentivising the formalization of undeclared workers. The system in Malaysia opens the door for this.

In some instances, wage subsidies are only provided on the condition that workers do not work at all. A furloughed worker in the United Kingdom initially was a person for whom there was no more work available due to the crisis. Until end of May, as soon as a worker resumed work, the subsidy stopped. The scheme got extended until end of October. Starting in August a new flexible measure allowing furloughed employees to go back to work part time was implemented. The Republic of Korea facilitated access to its employment retention subsidy programme, and temporarily increased the wage subsidy for enterprises if they keep their employees on paid-leave or leave of absence programmes.

In other instances, wage subsidies can compensate wages lost due to reductions in working hours. In Germany, the “Kurzarbeit” scheme allows enterprises in financial difficulties to temporarily reduce the working time of their employees. For example, if a worker reduces her working time from 8 to 5 hours, the wage subsidy will be calculated for three hours. The same is true in Austria, Belgium or Switzerland. Similarly, in France, the “activité partielle” can apply either to the temporary closure of all or parts of an establishment, or to a reduction in working hours. In the US, for enterprises with less than hundred employees on average during 2019, subsidies are available regardless of whether workers are working or not. For enterprises with more than a hundred employees on average in 2019, the credit is available only for workers who did not work.

b. Who receives the subsidy?

One decision in setting up a wage subsidy scheme (as illustrated in Figure 1) is to determine if wage subsidies are to be paid to enterprises or to workers directly. In practice, wage subsidies are generally paid to enterprises. This is the case for example in France, Germany, Switzerland or the United Kingdom, where it is enterprises which apply for and receive the wage subsidies. In other instances, the wage subsidy is transferred directly onto the workers’ accounts. In Thailand, the informal worker assistance is paid directly to workers. Similarly, in Chile or Uruguay, benefits are paid directly to the workers whose employment relationship has been temporarily suspended. In these two cases, the system works through the unemployment insurance. In the case of Uruguay, this modality already existed before the crisis, while in Chile this scheme was introduced quickly during the crisis.

Where the subsidy is paid to enterprises, this can be either ex-ante (before the wage is paid by the enterprise to the worker) or ex-post (to reimburse the enterprises which have already paid the wages). In France, for example, employers send a monthly claim for compensation to the authority and are reimbursed ex post. In the Netherlands an advance of 80 percent of the expected compensation is paid to the employer.

When subsidies are paid to enterprises, how to ensure that they are effectively paid to workers? One common
way is for employers to send payslips. In Germany, employers are required to send workers’ payslips to the Federal Employment Agency to prove that wages have effectively been paid. Hong Kong (China) verifies that the payment is made onto the bank accounts of the designated employee. New Zealand has a checkable and publicly accessible register of employers who applied and names of employees who should be paid the subsidy.

c. What is the amount of the subsidy?

In some instances, the subsidy is calculated as a proportion of workers’ lost wages due to the reduction in working hours with a maximum ceiling amount. The proportion frequently sums up to 75 or 80 percent (irrespective of the quantitative impact of the crisis on working hours and enterprises’ turnover). In the United Kingdom, employers can claim 80 per cent of furloughed employees’ usual monthly wage cost, up to £2,500 a month. In Germany, subsidies cover 67 percent of wages for workers with children, and 60 percent of wages for workers without children. Thailand’s wage subsidy amounts to 75% of workers’ daily wages capped at 500 Baht a day or 15,000 Baht a month. Botswana has implemented a 50 percent wage subsidy. In Singapore, it is 75 percent of the wage for workers earning less than S$4,600. In Timor-Leste, the payment amounts to 50 percent of the minimum wage.

In some countries, the proportion of the wage covered by the subsidy varies depending on the level of workers’ wages, or the size of the company. In Austria, for example, apprentices are covered 100 percent of their stipends, while the replacement rate varies from 90 per cent for low-paid workers to 80 per cent for workers with higher pay. The ceiling is set at Euro 5,370. In Malaysia, companies with more than 200 employees are eligible for a wage subsidy of RM$600 per month for every retained worker, up to a maximum of 200 workers. Companies employing between 75 and 200 employees can receive a monthly wage subsidy of RM$800 for every employee, while companies with less than 75 employees can be provided a monthly wage subsidy of RM$1,200 per employee.

In other countries, the wage compensation is calculated on the turn-over loss of the company. In the Netherlands, wage compensation ranges from 90 percent for a 100 percent turnover loss down to 22.5 percent wage subsidy when the turnover loss is 25 percent.

The wage subsidy can also be a lump sum – preferably set at or above the minimum wage. In New Zealand, for example, the wage subsidy amounts to NZ$585.80 for employees working 20 hours or more per week before the crisis (full-time); and to NZ$350 for employees working less than 20 hours per week (part-time). In Brazil, the payment amounts to BRL 600 per month for a duration of three months. Malaysia’s lump sum subsidy is based on company size and ranges from RM$600 to RM$1,200 per employee. In Croatia or the Cook Islands, the subsidy is equal to the minimum wage. In Kazakhstan, the minimum wage is paid to workers placed by employers on leave without pay.

A wage subsidy may also be a one-off payment. The simplest types of wage-subsidy schemes are one-off payments to workers or to a group of workers. Greece has introduced a one-time payment of €800 for the period of 15 March to 30 April.

In some instances, the amounts of wage subsidies are based on unemployment benefits. In Brazil, the subsidies are equivalent to the amount that workers would get as unemployment benefits, if they were made redundant. If workers have their working time cut from 100 per cent to 50 per cent, the subsidy is equivalent to 50 per cent of the unemployment benefits.

d. Will enterprises top-up the subsidy?

In many instances, the extent to which enterprises top-up the subsidy is frequently determined by regulation or in the framework of bipartite or tripartite social dialogue. In Brazil, companies with revenues above a certain threshold are required to pay 30 per cent of the workers’ salaries, while subsidies cover part of the remaining 70 per cent. In Cambodia, for garment workers, the government pays US$40 and employers are mandated to pay an additional US$30. In other instances, enterprises have more flexibility and can decide on the amount to pay on top of wage subsidies, depending on their financial capacity.

e. For how long do temporary wage subsidies last?

Unless they are one-off payments, temporary wage subsidy schemes tend to last between 3 months to one year, with possible extensions. In Germany and Switzerland, for example, schemes were initially enabled for 3 months, before being extended by another 3 months in Switzerland. In Australia and Sweden, the subsidy is available for up to 6 months.

f. Conditionalities in relation to job retention

In some instances, the obligation to keep employees on the payroll only applies during the period of the subsidy. In New Zealand, for example, the employees named in the application must be retained for the period of the subsidy.

In other instances, this obligation is extended beyond the period of the subsidy itself. In France, for example, enterprises cannot dismiss workers who benefited from
the subsidy up to twice the duration of the subsidy. That is, if the subsidy covers three months of salary, the job retention lasts 6 months after the end of the subsidy. In Brazil, the job is guaranteed during the payment of the subsidy as well as during an additional period equivalent to the subsidy.

In some countries, a generalized prohibition of dismissals has been issued for all enterprises, irrespective of whether they receive a wage subsidy or not. In Argentina, a general prohibition of dismissals and lay-offs was implemented for a 60-day period, and later extended for another 60-days period. Pakistan has introduced a ban to dismiss workers during the pandemic and employers have to pay the full amount of wages to workers.

g. How is the subsidy funded, and who administers the scheme?

Temporary wage subsidy schemes are generally funded through general taxation or social contributions paid by employers and employees. In many countries, wage subsidies are paid through general taxation. In France, two-thirds are funded from general taxation, and one third from the unemployment insurance (UNEDIC). In the case of Chile suspended workers are paid from the Unemployment Insurance. Every formal worker has a personal account which accumulates from their contribution, as well as a solidarity fund which is financed by the government every year.

In some instances, wage subsidies may be co-financed or funded from international donors. In the textile and garment industry, wage subsidies may be co-financed with international buyers. In Ethiopia, a one-off payment of wages to textile and garment workers is planned to be funded through international development assistance. Note also that the European Union’s temporary Support to mitigate Unemployment Risks in an Emergency (SURE) provides liquidity to its member states to support already in place and new implemented short-time work schemes. Its aim is that employers keep employees on the payroll and provide income support. The measure amounts to €100 billion.

The administration of wage subsidies can be very variable. In Germany, the administration of the Kurzarbeit is managed by the Federal Employment Agency, whereas in New Zealand it is the Ministry of Social Development. Other countries’ wage subsidy systems are administered through the Social Security Contributions as in Malaysia for example. In Botswana, the administration is the government taxation office on government level.

The level of government also varies. In Malaysia and Thailand, the subsidy is administered through the central government, whereas in federal countries – such as

in Australia, Germany, or Switzerland - it tends to be administered at the regional or state level.

h. What are the penalties in case of violations of the rules?

Penalties are necessary to discourage fraud. France for example charges employers with false declarations € 30 000 and a sentence of up to 2 years imprisonment. Further, employers need to reimburse the received public subsidies fully and are banned for five years of any public aid.

i. When is it too late to start a wage subsidy?

Even mid-way through a crisis, it is not too late for countries to start the implementation of a wage subsidy in order to complement other interventions. Countries that introduced other benefits, and see that the duration of the crisis is taking too long, may establish a wage subsidy scheme with retroactive effect – taking a reference date, when the workers were employed at an enterprise, and reversing the termination of the employment relationship. Malaysia for example implemented a wage subsidy scheme with retroactive effect for workers registered in an enterprise the 1st of March of 2020.

j. Some caveats

Restrictions on the movement of people and the sudden stop to contain the propagation of COVID-19 are having a strong impact on informal enterprises. The crisis is likely to have the three following consequences. First, an immediate loss of revenues of informal units, and the closing down of informal businesses temporarily or permanently, leading to job losses. Secondly, an expansion of the informal economy with many people resorting to making a living as informal micro business owners, own account workers or informal employees. Thirdly, crisis in different sector may trigger large-scale restructuring of economic activities.

In developing and emerging economies, high informality limits the reach of wage subsidies. Workers in the informal economy are by definition not registered with social security or tax authorities, and hence may frequently not be eligible. An added challenge is that in emerging economies many workers, even when they are registered and working in formal enterprises, may not have bank accounts. Many such workers are also not registered in employment records (such as employer wage books). These features make it difficult for informal workers to qualify and require the implementation of separate schemes to support them.

5  ILO Brief, 2020
6  Ibid.
Conclusions

Temporary wage subsidies in times of crisis can have important benefits. They can have positive effects on economic recoveries, and prevent mass lay-offs leading to a further economic downturn.\(^7\) Wage subsidies can be costly but tend to contribute to a faster recovery for firms through keeping qualified workforce, eliminating lay-off and rehiring costs.\(^8\) There are thus both equity and efficiency-related benefits, diversifying the burden of a crisis across the workforce and keeping job matches in the long run.\(^9\) The probability of opportunistic behaviour given the nature of the crisis is low as governments have imposed lockdown measures for non-essential sectors.

The experiences around the world show that there isn’t a single best policy design, but some lessons learned from experience can be highlighted. Temporary wage subsidies have to be adjusted to the practices of each country, but also to regulations, institutions, and above all, the capacities of governments to implement such interventions in a short period of time, in combination with the overall social protection system. Some good practices or lessons learned can however be highlighted:

\(^\uparrow\) When the payment is made to the enterprise, there should be a transparent and verifiable mechanism to ensure that the subsidy is transferred to the worker. This can be done through bank accounts, or with accompanying pay slips which state the amount of the subsidy and other relevant information, such as any deductions made. Adequate pay slips, electronic payments, and quality administrative records facilitate significantly the implementation of such programs. When subsidies are paid directly to workers, employers should explicitly state their intention to keep the employment relationship alive.

\(^\uparrow\) The amount of the subsidy should be at least equal but preferably higher than the amount of unemployment benefits (to avoid incentives to prefer unemployment) and preferably not lower than the minimum wage. When the amount of the subsidy is differentiated by enterprise size, with lower subsidies for larger firms (because of their higher capacity to pay due to their higher productivity on average), mechanisms should ensure that larger firms have an obligation to top-up the subsidies. Note that in countries where large enterprises are also covered, one question arises as to whether beneficiary enterprises should be allowed to pay out dividends, in which case the wage subsidy might be indirectly subsidizing shareholders rather than employees. In general, where employers benefit from additional supporting measures, such as credits or grants, it would be good practice for employers to top-up subsidies. One-off payment should be considered only in particular cases, notably for emergency support to enterprises and workers in particular sectors when the period of the crisis is expected to be very short.

\(^\uparrow\) To be most effective, eligibility should be as broad as possible. Budgetary constraints, however, impose limitations, in which case priority should be given to most vulnerable enterprises and sectors most affected by the lockdown or economic crisis. Ideally, subsidies should be extended not only in the case of total incapacity to work, but also for reductions in working hours. To ensure that as many workers and enterprises as possible can benefit from the scheme, it may be useful to give enterprises and workers an opportunity to register and formalize. Wage subsidies can then represent an encouragement to improve and strengthen the regimes of wage protection and formalization of the labour relations, as well as the formalization of workers and enterprises.

Temporary wage subsidies should remain, as its name indicates, “temporary”, with a clear exit strategy. The schemes should be progressively phased out as the economy recovers and synchronized with the removal of the economic restrictions at sectoral and regional levels. In principle, these schemes are most useful in the context of relatively short crises. Should the covid-19 crisis last for many months or perhaps even years, wage subsidies may soon become too costly for the very limited fiscal resources of most countries.

These types of wage subsidies are part of a broad set of instruments in the framework of combatting the crisis. It is a complementary measure to other interventions. To target the poorest households or individuals, cash transfer programs have been implemented in different countries. India for example has set up different kind of cash transfer programs targeting different groups of workers inter alia farmers and construction workers. Additionally, daily wage owners as street vendors are provided a weekly assistance of Rs 1000 after registering with the commissioner deputy. Countries such as Burkina Faso or Nepal have taken other measures such as deferred water and electricity bills to soften the burden on poor households.

Additional country examples are provided in the Appendix

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7 Hijzen and Venn, 2011  
8 Giupponi and Landais, 2020  
9 Hijzen and Venn, 2011
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