

COVID-19 and the countries of South Caucasus, Western CIS and Ukraine

Implications for Business Support, Employment and Social Protection Policies and Programming for Sustainability

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Executive Summary

This study is focused on the socio-economic impact of COVID-19 on a set of geographically non-contiguous countries located in the Eastern Europe and South Caucasus region, namely Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. The crisis has resulted in the following emerging trends: (i) Downward revisions in economic growth forecasts; (ii) exchange-rate instability; and (iii) strains on public finances. The scale and length of these impacts remain uncertain. Lockdowns and global spillovers are two main factors slowing down economies. While an emphasis on macroeconomic recovery is necessary, the pandemic has exposed many structural constraints, impeding long-term economic prospects.

The impact of the COVID-19 induced crisis on MSMEs is being felt primarily through disruptions to business activities, and subsequent cutbacks on jobs, or temporary/permanent closures. SMEs and the self-employed are particularly vulnerable as the demand for services has plummeted. The worst affected sectors, such as tourism, travel, catering, cafes, restaurants and hotels, report lay-offs or termination of contracts.

In large measure, MSMEs across the six countries are associated with low-productivity and low-quality jobs. The size of the informal economies creates an additional drag on growth and employment and estimates suggest the share of informal employment outside of the agricultural sector is almost 40 percent in Armenia, 15 percent in Ukraine, 12 percent in Moldova and 8 percent in Belarus. The prevalence of informal economic activity might exacerbate the socio-economic impact of the crisis and complicate efforts to mitigate it

For many individuals, migration is seen as a solution to counter the low-quality jobs offered at the local marketplace. The combination of an informal labour market, unemployment, reliance on remittances and low household savings are all contributing to vulnerability among large sections of society across the six countries. The examination of labour force participation indicates a persistently lower participation for women than men across the six countries, with particularly low rates in Moldova and Ukraine. Moreover, in all the countries concerned, except for Armenia,

the participation of women in the labour force is projected to decline by 2030. This could be attributed to gender-based discrimination in the labour market, scarcity of decent formal job opportunities and women's engagement in household and care activities.

Each of the countries have well-established systems of social protection, which in theory can be expanded horizontally (scaling up coverage) or vertically (improving adequacy) in times of crisis. In this respect, in recent months most of the countries have undertaken measures to expand the coverage of different social protection programmes. However, some of the structural issues in the countries' social protection systems have surfaced during the crisis.

Social protection systems are no longer aligned with labour markets that are characterized by the high prevalence of informal work and of employment on non-standard contracts (e.g. freelancers, gig-workers, seasonal workers) which limited their ability to respond effectively, thus contributing to the recovery phase. Overall expenditure levels are respectable, in terms of share of GDP, but expenditure is biased towards pension support for the elderly, reflected in the relative shares of GDP devoted to pensions compared to social assistance, child benefits and unemployment support measures. Calls for more shock-responsive social protection represent an opportunity both to invest in social protection and to ensure it is fully integrated into emergency response programmes, with the resources and institutional capacity to deliver in such situations.

Post-COVID recovery implies an acceleration of digital transformation processes, but also a need for increased public sector investment to ensure that these processes work for the benefit of the economy and society. Despite a growing online presence of advanced ICT experts from many of the countries, digital skills competencies are falling behind, and significant effort will be needed to develop workforce capacity to work remotely and to shift to digital business, and developing digital societies.

Addressing relevant structural malfunctions is required to ensure resilience to future shocks. It is worth noting that shocks are not confined to finan-

cial or health issues, and unfavourable climate and environmental conditions, demographic trends and geopolitical tensions are also likely to increase both policy uncertainty and vulnerability¹. Against this background, it is critical for the countries to be cautious about shocks and downside risks and to focus on long-term inclusive growth and resilient economic policies.

Institutional reforms to modernize economies and to build the needed infrastructure for the transformation to digital economies are needed. Three clear transformative pathways, which offer more deliberate policy and programming opportunities:

1. Combining job growth with green economies

The dominant wisdom in development policy, in both policymaking circles and business, has been that cutting greenhouse gas (GHG) emissions and meeting environmental standards can entail a sacrifice in economic growth. This outlook has been challenged through experiences in both developed and developing countries, with evidence showing that economic growth can complement environmental conservation, and the transition to low-carbon, green and circular economies can generate better jobs.

2. Build resilient infrastructure and develop innovative energy policies

Given the fact that the countries of the Western CIS and the Southern Caucasus are highly vulnerable to the effects of climate change, pollution and environmental degradation, investing in appropriate and resilient infrastructure, particularly as it applies to energy and natural resources, is critically important.

3. Implementing social protection mechanisms that provide a bulwark against impending economic shocks and climate-related and demographic shifts

Calls for more shock-responsive social protection represent an opportunity to invest in social protection and ensure it is fully aligned with emergency response programming, with the resources and institutional capacity to deliver in such situations. They also represent an opportunity to address gaps and to redesign programmes to support large shares of vulnerable working-age populations who risk falling into poverty in the face of shocks.

To support these reforms four enablers for recovery are needed: governance, gender equality, digitalization and quality education and training.

1 UNDP, *The Eastern Partnership and the 2030 Agenda for sustainable development: Pathways towards transformation*, 13 November 2019.

Introduction

This study is focused on the socio-economic impact of COVID-19 on a set of geographically non-contiguous countries located in the Eastern Europe and South Caucasus region, namely Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine (Figure 1). All countries are ranked as having 'high' human development in the United Nations Human Development Index, except for Belarus whose human development level is ranked as 'very high'. The United Nations Development Programme (UNDP) emphasizes that COVID-19 is impacting all the constitutive elements of human development².

All the countries were formerly part of the centralized Soviet economic system and they have retained relevant trade and economic ties with the Russian Federation and the Commonwealth of Independent States (CIS) countries. Moreover, the infrastructure and energy networks in the area are quite extensive and integrated. In the past decade, trade with the European Union (EU) has outpaced and sometimes surpassed trade with the CIS region, highlighting a

deepening integration and partnership with the EU market.

The countries have had markedly different political and social trajectories, which has implications on the range and scope of socio-economic impacts and on the commonalities needed for effective recovery strategies. In each country, UNDP has conducted socio-economic assessments which examine the impacts of COVID-19 on vulnerable groups and the business community.

This study begins by examining the overall macro-economic impacts and implications of COVID on each of the economies. It then goes on to examine the microeconomic impacts focusing on micro-, small and medium-sized enterprises (MSMEs) and households. It pays specific attention to labour markets, social protection, gender impacts and relevant factors for the digital agenda. It concludes with some insights on policy and programming implications for the recovery and for sustainability outcomes

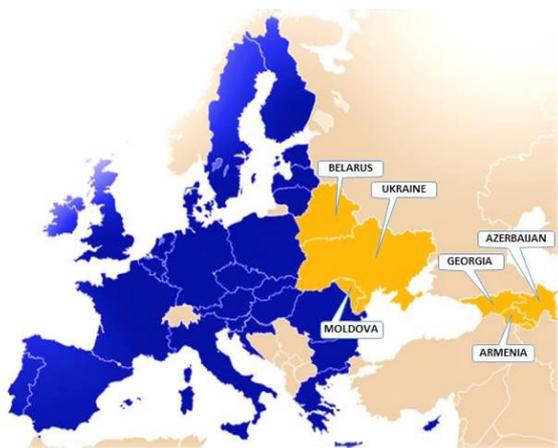


Figure 1: The six countries covered in this report

Methodological note: This paper relies on primary and secondary data to describe the relevant social conditions across the region. It has to the extent possible used both primary data collected and the findings from United Nations system socio-economic surveys and the associated response plans that have been prepared. However, the paper is not intended to be a synthesis of these documents.

2 UNDP 2020 Human Development Perspectives, *COVID-19 and Human Development: Assessing the Crisis, Envisioning the Recovery*.

Macroeconomic impact

The macroeconomic impact of the COVID-19 pandemic is occurring through a mix of external and internal factors. The internal ones are the result of the lockdown restrictions initially imposed to contain the spread of infection, leading to a temporary suspension or closure of businesses, a decline in household consumption and the reallocation of fiscal resources to cover the increased health care costs to fight the pandemic. The external factors include: (i) international commodity price fluctuations; (ii) border closures and a reduction in external demand; and (iii) travel restrictions and trade disruptions.

Declines in growth

The crisis has resulted in the following emerging trends: (i) Downward revisions in economic

growth forecasts; (ii) exchange-rate instability; and (iii) strains on public finances. Since the 2008/2009 financial crisis, economic growth across the six countries has been volatile apart from Georgia which experienced relative stability. Initial growth forecasts (International Monetary Fund (IMF) April 2020), which assumed lockdown efforts would be relatively short-lived, predicted a return (more or less) to business as usual by the fourth quarter of 2020. As the pandemic played out, hopes for 'V-shaped' economic recoveries in 2021 took hold (IMF Oct 2020, see Figure 2). However, keeping infection rates low has proven to be difficult and greater confidence in health responses by improved testing, tracing and treatment allowing social interaction will be key to reinvigorating domestic economies. Returns to pre-pandemic growth rates may well be contingent on a vaccine becoming available.



Figure 2: IMF forecast (Source: World Economic Outlook (WEO), October 2020)

In 2020 the economies experienced a deeper recession than was originally anticipated, and forecasts indicated that a slower and more gradual recovery would take place in 2021³. The IMF revisions highlight the impact caused by the greater downturn that took

place during the first and second quarters of 2020 than originally anticipated, with reduced productivity likely as businesses ramp up the necessary workplace safety and hygiene practices. The scale and length of the consequences caused by the pandemic

3 Gita Gopinath, IMF Blog, "Reopening from the Great Lockdown: Uneven and Uncertain Recovery", 24 Jun 2020. See <https://blogs.imf.org/2020/06/24/reopening-from-the-great-lockdown-uneven-and-uncertain-recovery/>

remain uncertain⁴. Lockdowns and global spillovers are two main factors slowing down economies (see Figure 3). Domestic lockdowns are estimated to have caused around half of the slowdown in growth in Armenia, Moldova and Ukraine, with Azerbaijan, Belarus and Georgia having greater exposure to the impact of downturns in tourism and commodity

prices. Border closures, disruptions to air travel and other forms of transport, as well as social distancing requirements, have had a particularly harsh impact on the tourism sector which in 2018 accounted for 39.5 percent of exports in Georgia; 26.3 percent in Armenia; 14.5 percent in Moldova; and 11.1 percent in Azerbaijan⁵.

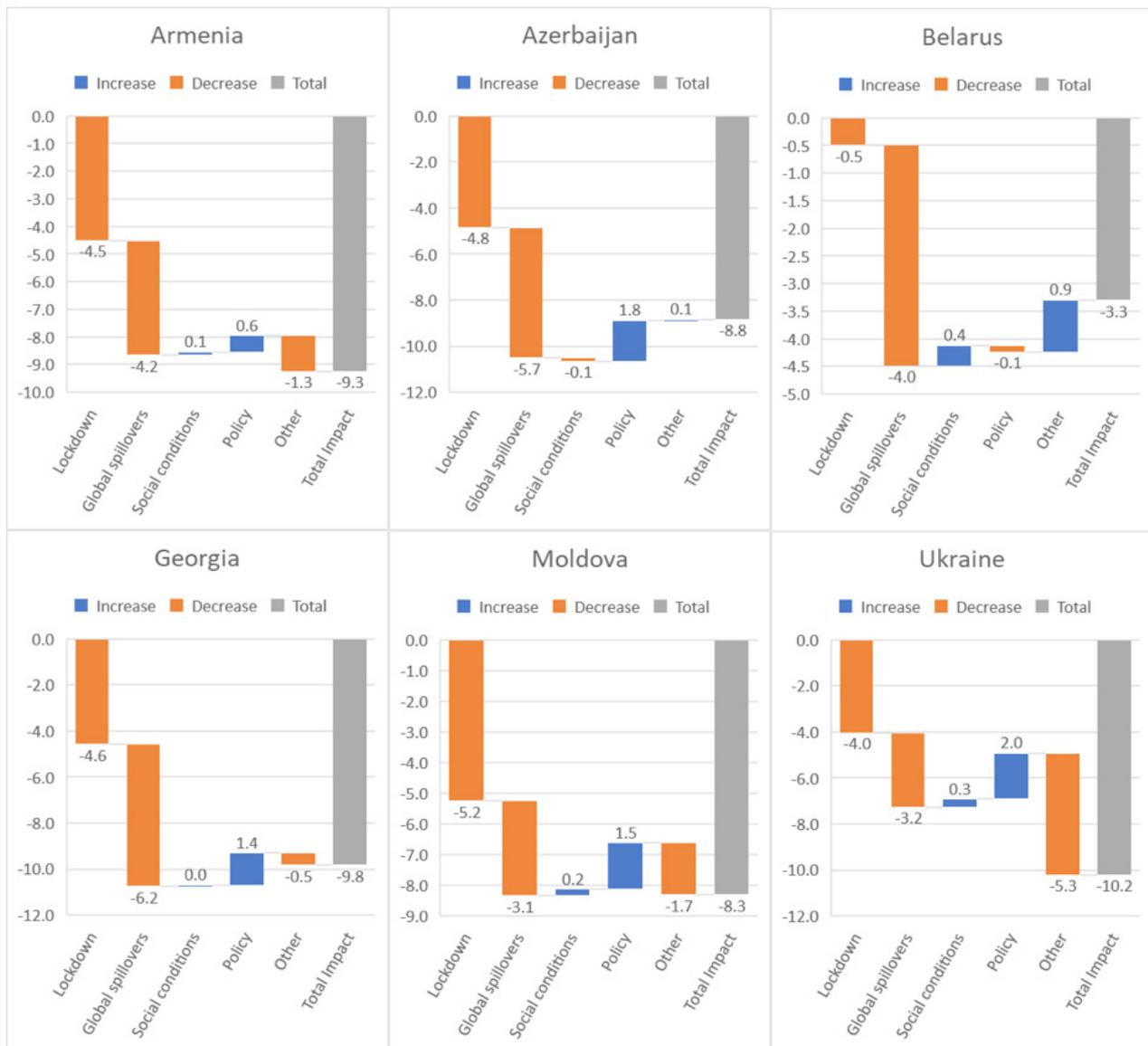


Figure 3: Total impact and downturn from the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) Model, adapted to the countries examined in this study⁶ using pre- and post-COVID WEO estimates.

Note: Real GDP growth pre-COVID estimate from WEO October 2019, Post-COVID estimate WEO October 2020.

⁴ MF, WEO Update, *A Crisis Like No Other, An Uncertain Recovery*, June 2020.

⁵ World Development Indicators (WDI) database

⁶ <https://www.unescap.org/resources/assessing-impact-covid-19-asia-and-pacific-and-designing-policy-responses-excel-based> (findings in this report are prepared by UNDP using the UNESCAP model to generate results)

International commodity prices

Overreliance on commodity exports has increased some countries' vulnerability to price shocks. Uncertainty around the length and health risks of the pandemic may further aggravate this volatility of commodity prices. Azerbaijan is heavily dependent on global oil prices. The oil and gas sector of Azerbaijan accounts for 35 percent of gross domestic product (GDP) and for more than 91 percent of the value of exports (compared to 5.7 percent for agriculture and 4.8 percent for manufacturing⁷). Belarus, on the other hand, has been reliant on oil and gas processing from Russia and in the past fuel exports have represented up to 24.4 percent of its total exports.

More recently, a reliance on Russian oil and gas has led to the emergence of differences over costs between the two countries. This resulted in some variability in supply issues for Belarus and in some measure highlighted the vulnerability of the Belarussian economy⁸. Moreover, as members of the Eurasian Economic Community, Armenia and Belarus indirectly feel the impact of the fall in oil prices through reduced exports and remittances caused by economic downturn in Russia due to reduced oil prices (40 percent of all exports from Belarus go to Russia⁹). However, with the advent of a viable vaccine, confidence has returned to commodity markets and the price of oil has also rebounded to levels above the low prices registered earlier in 2020.

Border closures and remittances

Remittances account for sizeable shares of GDP in Moldova (16 percent), Georgia (12 percent), Armenia (11 percent) and Ukraine (10 percent), making them an important driver of domestic consumption in these countries. For the group of countries, it is estimated that an average of 16 percent of the population lives abroad, with a particularly high share in Armenia (33 percent) and Moldova (28 percent)¹⁰.

In Moldova, 2019 remittances were 3.3 times higher than the foreign direct investment inflows for the year,¹¹ numbers which underscore the importance of remittances and the role of migrants and diasporas.

Labour migrants from Moldova are being considered "the new vulnerable" emerging from the COVID-19 pandemic: it is estimated that 108,750 persons in 37,500 households will fall below the poverty line, either as a direct consequence of losing their job or from disruptions in remittance flows to the receiving families. Over three million migrant workers from Ukraine were working in Russia before the COVID-19 pandemic, while in the last few years Poland had seen a large increase in migrant workers from Ukraine. The Polish Association of Construction Employers stated that by 26 March, 20 percent of the construction industry's Ukrainian workers had already returned home¹².

The fall in oil prices and other COVID-19 induced disruptions led to a drop in demand for labour in the Russian economy, especially in construction, retail trade, hospitality and catering—sectors which have been traditionally attracting migrant workers. The downward pressure of COVID-19 affected the EU labour market in a similar fashion, which is the second most attractive destination for migrant labour from a number of countries. For example, EU countries account for up to 38 percent of total remittances in Moldova.

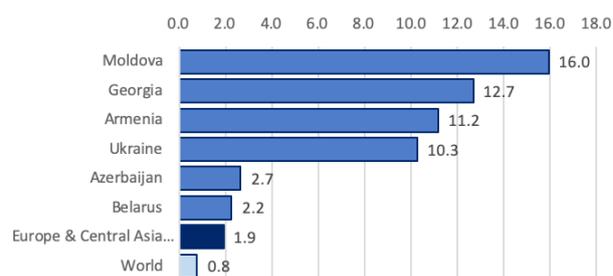


Figure 4: Remittances as a percentage of GDP, 2019 (Source: IRH Vulnerability Database)

7 United Nations, First Draft Azerbaijan Socio-Economic Assessment for COVID 19 (Unpublished August 2020)

8 Alex Foster, "Is Belarus Doomed to Dependence on Russia?" *Geopolitical Monitor*, Situation Report, 31 March 2020. See <https://www.geopoliticalmonitor.com/is-belarus-doomed-to-dependence-on-russia/>

9 UNDP (2020) Assessment of the impact of the COVID-19 pandemic on small and medium-sized businesses in Belarus. Recommendations (Unpublished)

10 Organisation for Economic Co-operation and Development (OECD), Policy Responses to Coronavirus (COVID-19), *COVID-19 crisis response in Eastern Partner countries*. See <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eastern-partner-countries-7759afa3/>

12 National Bank of Moldova

12 Maciej Martewicz, Economics, "Shut Border Risks \$47 Billion Migrant-Based Polish Industry", Bloomberg.com, 26 March 2020. See <https://www.bloomberg.com/news/articles/2020-03-26/shut-border-risks-47-billion-migrant-dependent-polish-industry>

A preliminary assessment undertaken in Moldova suggest that the value of remittances in the past have been considerably underestimated¹³. This means that the reliance of households on remittances might have been much greater than previously estimated, and the potential impact consequently more serious¹⁴, considering the travel restrictions and the inability to use the informal channels for sending money to their families.

Trade disruptions/current account balance

All the countries, except Ukraine, have small domestic markets and are highly trade dependent. Therefore, reductions in exports to the EU and Russia are not only causing difficulties for local producers—they are also putting pressure on current account balances and exchange rates. The fall in demand from Russia is affecting large manufacturing companies, and a fall in demand from China and India is also affect-

ing capacities for oil refinery products and potash fertilizer. Many industries depend on imported intermediary goods, especially from China and India¹⁵.

Current account declines have deepened in all countries driven by the following trends: (i) reductions in/disappearance of current account surpluses due to reductions in export prices/revenues; and (ii) reductions in current account deficits (or transitions to surpluses) due to reductions in imports. Ukraine, which received a significant bailout package to support its domestic economy, is expected to become a net borrower in 2021. Falls in revenue, and increases in expenditure to support the health sector, businesses, and households, have led to considerable strains on current account balances. The value-added tax, which accounts for large shares of tax revenue in the countries (33 percent in Armenia, 19 percent in Azerbaijan, 29 percent in Belarus, 42 percent in Georgia, 51 percent in Moldova and 41 percent in Ukraine¹⁶), will be affected by the reductions in remittances and domestic consumption.



Figure 5: Estimates of changes in current account balances as a percentage of GDP [Source: IMF, WEO 2020]

13 UNDP, Social and Economic Impact Assessment of COVID-19 in the Republic of Moldova. Impact Assessment Report, 25 Nov 2020. See https://www.md.undp.org/content/moldova/en/home/library/inclusive_growth/social-and-economic-impact-assessment-of-covid-19-in-the-republi.html
 14 UNDP, Social and Economic Impact Assessment of COVID-19 in the Republic of Moldova. Impact Assessment Report, 25 Nov 2020.
 15 UNDP (2020) Assessment of the impact of the COVID-19 pandemic on small and medium-sized businesses in Belarus. Recommendations (Unpublished)
 16 Op.cit. See <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eastern-partner-countries-7759afa3/>

Indications of/Extent of the macro impacts

In March, all countries except Azerbaijan experienced significant currency depreciations against the United States dollar (up to almost 25 percent compared to the

beginning of the year), and growing yields on government bonds, signalling increased concern about the health of public finances in the countries. However, the exchange rate volatility has decreased significantly, and the rates have largely stabilized since then, albeit predominantly at weaker levels than before the crisis¹⁷.

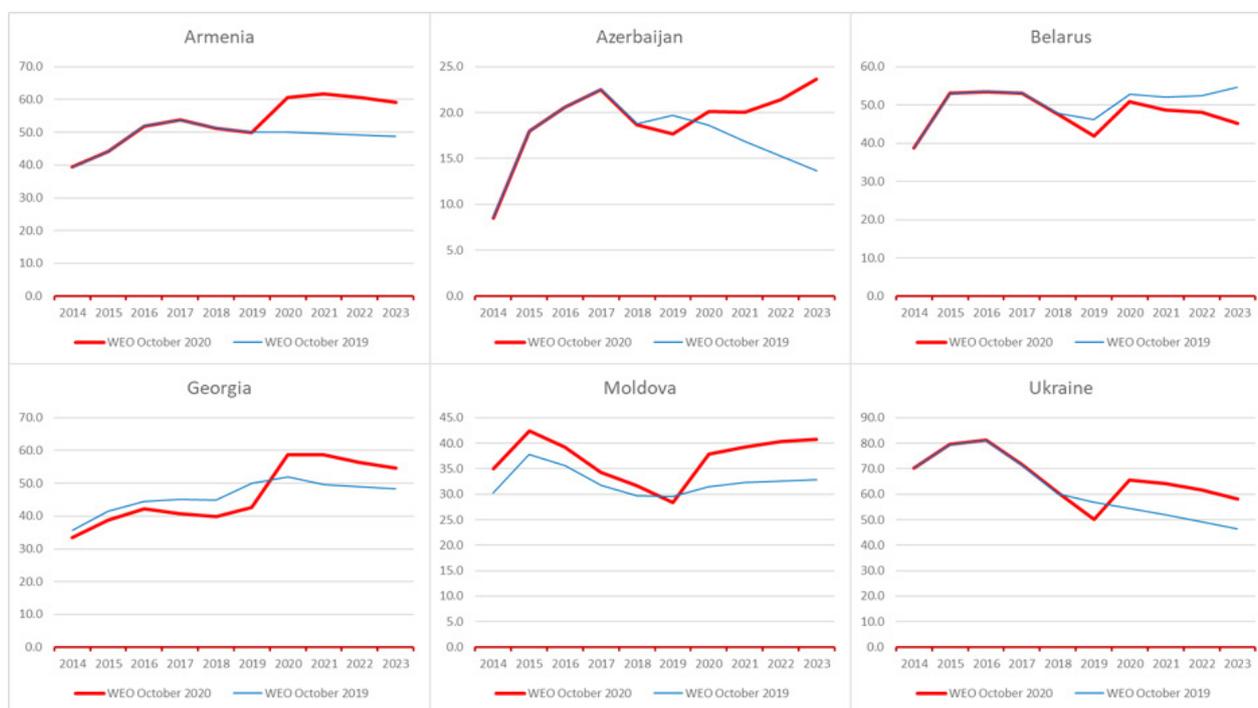


Figure 6: Projections of gross government debt (based on WEO 2019 and 2020 estimates)

All countries will require sound fiscal frameworks for medium-term consolidation, achieved through cutting back on spending, widening the tax base, minimizing tax avoidance, an examination of loss-making state-controlled assets and greater progressivity in taxation in some countries¹⁸. The fiscal debt burden is predicted to increase in all countries apart from Belarus (see Figure 6). This implies that fiscal flexibility for a recovery/stimulus packages could be at a premium in the years ahead and efficiency and effectiveness of fiscal frameworks related to sustainable development will be needed. Inadvertently, this could lead to trade-offs, such as meeting the SDGs and overall human development while paying down debt and maintaining recurrent costs.

Discussion

The last decade has seen a series of broad-based economic crises and negative shocks, including the global financial crisis of 2008–2009, the European sovereign debt crisis of 2010–2012 and the global commodity price realignments of 2014–2016, which together with regional tensions have aggravated risks and uncertainties in the six countries examined in this report. The experience of the global financial crisis and the commodity price fluctuations highlight the unpredictability and volatility in the world economy and financial markets, while exposing the vulnerabilities of national economies to external shocks, especially in commodity-dependent countries that have not managed to diversify their economies.

17 As of 28 October 2020, the Armenian dram (AMD) is only 0.2 percent weaker *vis-à-vis* the U.S. dollar compared to the situation at the beginning of the year. During the same period, the Belarusian ruble (BYN) depreciated by 3.5 percent against the dollar, the Georgian lari (GEL) by 3.2 percent, the Ukrainian hryvnia (UAH) by 1.6 percent and the Moldovan leu (MDL) by 0.1 percent. (IMF International Financial Statistics, 2020).

18 IMF, WEO Outlook Update, June 2020

The continued decline in oil prices has worsened commodity-dependent economies' terms of trade (e.g. in Azerbaijan) as their export prices have plummeted. The collapse in tourism revenues (especially for Georgia and to a certain extent Armenia¹⁹) and the overall trade slowdown in consumer goods, intermediate goods, raw materials, metals and agri-products pose considerable risks for the economies' balance of payments. Heavy external U.S. dollar-denominated debt by public and private borrowers, for example in Armenia, Georgia and Ukraine²⁰, will potentially worsen a national currency's future performance towards the first half of 2021. Notwithstanding this, for the above-mentioned countries that have relatively higher foreign denominated liabilities, sharp depreciations bring about inflation and higher debt service

burdens which offset any benefit from potentially greater exports (Collins & Gagnon, 2020)

Prior to the pandemic, economic outlooks projected a growth in GDP, or at least a measure of stability in the countries concerned. However, now most countries are facing considerable downside risks and expected recoveries in 2021 could be compromised with increasing infections coming in a second wave over the winter of 2020. While an emphasis on macroeconomic recovery is necessary, the pandemic has exposed many structural constraints, impeding long-term economic prospects. Addressing relevant structural malfunctions is required to ensure resilience to future shocks. These will be discussed in the following sections.

19 International tourism receipts (percentage of total exports). The World Bank, "International Tourism: Receipts (% of total exports—Azerbaijan, Armenia, Belarus, Ukraine, Georgia Moldova". See <https://data.worldbank.org/indicator/ST.INT.RCPT.XP.ZS?end=2019&locations=AZ-AM-BY-UA-GE-MD&start=2012>

20 External debt stocks (percentage of GNI) Georgia 101 percent, Armenia 85 percent, and Ukraine 78 percent.

Microeconomic impacts

Impact on MSMEs

The impact of the COVID-19 induced crisis on MSMEs is being felt primarily through disruptions to business activities, and subsequent cutbacks on jobs, or temporary/permanent closures. SMEs and the self-employed are particularly vulnerable as the demand for services has plummeted. Due to significant revenue losses, many MSMEs have become insolvent or bankrupt. Small firms have limited reserves to cover longer periods of inactivity, they are less likely to have the collateral (or confidence) needed to access loans, and thus the ability to purchase the know-how and equipment needed to reprofile and adopt new business processes (e.g. digitalization, e-commerce).

Findings from enterprise surveys have documented the harsh impact of lockdown measures on small businesses. A major share of MSMEs have closed their operations and their employees have either not been paid or have been given leave without pay. The worst affected sectors, such as tourism, travel, catering, cafes, restaurants and hotels, report lay-offs or termination of contracts.

Initial results from Socio-Economic Impact Assessments (SEIA) and enterprise surveys find that:

- ▶ In Belarus 59 percent of SMEs had experienced a decline in domestic demand, and 19 percent a decline in demand from export markets²¹.
- ▶ Almost all SMEs surveyed in two Armenian regions had been negatively affected by the pandemic, and 30–40 percent (depending on the region) had made cuts to their labour force²².
- ▶ In Azerbaijan, around 30 percent of the MSMEs had to partially close down their operations and an even larger number, 52.5 percent, had to close down their operations completely²³.
- ▶ In Moldova, MSMEs account for 71 percent of value added and employ 60 percent of the work-

force²⁴, primarily in retail and wholesale trade, agriculture, manufacturing and construction. Most MSMEs have reported declines in sales of up to 75–100 percent²⁵.

- ▶ In Ukraine, up to 700,000 enterprises, which employ between 3.5 million to 4 million people²⁶, stopped their business activity in March–May 2020 due to the lockdown and an inability to operate in the changed market conditions. These enterprises, which are now struggling to return to pre-lockdown production levels, constitute some 25 percent of all businesses and labour workers active in Ukraine.

Underlying causes

Pre-crisis, MSMEs were key features of the economies and labour markets in the countries. They are concentrated in the trade, catering, agricultural and construction sectors, and often operate in the informal or semi-informal sector (the latter being dominated by self-employed businesses operating on the basis of “patents”, with reduced tax obligations and reduced social security rights). They have proven to be adept at exploiting the flexibility inherent in their small size, but it is difficult for formal and informal sector MSMEs to grow beyond a certain size; or there are no incentives for them to grow unless they are fully or partly state-owned.

The manufacturing sectors of the economies remain small and tend to be characterized by a few ‘gazelles’ in the formal sector that manage to make leaps forward, and many small enterprises with few incentives or means to develop further. Agriculture remains a relatively large sector in some countries, but it is dominated by the low productivity of smallholders, a sector which until now has also served to absorb excess labour in times of shocks, especially in the absence of other formal sector employment opportunities (e.g. for the female labour force in Azerbaijan).

21 Survey based on a random sample of small and medium-sized enterprises (SMEs): 64 percent of SMEs report a contraction in revenues, 24 percent have been forced to cut bonuses and salaries and 25 percent reported layoffs. <http://covid-economy.by/business>. UNDP (2020) Assessment of the impact of the COVID-19 pandemic on small and medium-sized businesses in Belarus. Recommendations (Unpublished)

22 United Nations (2020), Socio-Economic Impact Assessment of the Covid-19 Outbreak in Armenian Communities.

23 Survey conducted between 1 April – 15 June 2020.

24 United Nations Moldova, Oxford Economics, *Republic of Moldova—Bracing for domestic and external COVID-19 shocks*, 30 April 2020.

See <https://moldova.un.org/en/44744-republic-moldova-bracing-domestic-and-external-covid-19-shocks>

25 UNDP, Needs Assessment and Evaluation of COVID-19 Impact on MSMEs, June 2020.

26 The Ukrainian Chamber of Commerce and Industry.

Table 1: Structure of the economies, 2018. (Sectors as a percentage of GDP)

	Agri- culture	Mining, Man- ufacturing, Utilities*	Manufac- turing	Con- struction	Trade, Hotel, Catering	Transport, Communi- cations	Other
Armenia	14	18	11	7	13	6	33
Azerbaijan	14	44	5	8	12	8	15
Belarus	6	26	21	5	11	11	26
Georgia	7	13	9	7	16	8	36
Moldova	10	15	11	8	16	9	28
Ukraine	10	21	12	2	14	10	27

* Figures include data from the International Standard Industrial Classification (ISIC) C-E and ISIC -D.
(Source: United Nations Statistical Division (UNStat), Istanbul Regional Hub Vulnerability Database.)

All the economies of the six countries face some rigidities despite many governments pursuing public policy reforms in the transition to market economies. However, structural rigidities are intricately entwined with duality in labour markets. COVID-induced disruptions have further entrenched and made visible the vulnerabilities of the working poor and the precarious nature of the jobs, particularly in the informal sector, which disproportionately affect workers in lower income brackets.

The impact on women led MSMEs in different sectors have been worsened by the loss of cash flows and of demand during the lockdown. For example, 22.5 percent of the businesses in Azerbaijan were headed by women and they were up to 20 percent more affected by COVID-19 than those headed by men. Most women led MSMEs did not have the means to operate their businesses remotely. In the period between 1 April to 15 June 2020, all women entrepreneurs in the sample surveyed had closed their businesses altogether. Women predominate in areas such as catering, the services sector, manual labour, factory work and tourism, all which are highly dependent on social interaction and deeply impacted by the COVID-19 social distancing restrictions.

In large measure, MSMEs across the six countries are associated with low-productivity and low-quality jobs. This has been well-documented and reflects the undiversified nature of the economies and export

baskets, leading in some cases to aspects of 'Dutch Disease' with local firms being unable to compete with cheap imports. Goods exports in these countries are dominated by mineral resources, and capital rather than labour-intensive sectors dominate the economic structure.

Employment vulnerabilities

The SEIAs draw attention to workforce cohorts in the informal sector and MSMEs, which have been the most affected by the risk of job and income losses. For example, in Belarus alone, estimates suggest that 114,000 employees of micro and small enterprises were at risk of losing their jobs²⁷. According to the UNDP assessment of the COVID-19 impact on Belarusian SMEs, 16 percent of SMEs had to reduce the number of staff in the wake of the COVID-19. A public survey organized by the research institutions SATIO and the Belarusian Economic Research and Outreach Centre (BEROC) found that around 50 percent of respondents had experienced a decline in their income²⁸.

It is estimated that 25-35 percent of the workforce is concentrated in sectors that are being hardest hit by COVID-19, such as tourism, construction, retail trade, hotels and restaurants²⁹. Although they are affected by loss of income-earning opportunities, these workers were largely uncovered by government crisis-response programmes or inadequately

27 <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eastern-partner-countries-7759afa3/>

28 BEROC Economic Research Center: Policy Brief: Diagnosing COVID-19 Impacts on Entrepreneurship <http://www.beroc.by/en/publications/fpb/policy-brief-diagnosing-covid-19-impacts-on-entrepreneurship/>

29 <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eastern-partner-countries-7759afa3/>

covered by formal social protection systems. While, Belarus devotes almost 15 percent of its GDP to social protection programmes, the resources are not adequately weighted towards the poor. The system offers very little protection to workers in terms of unemployment benefits, comprising a negligible 0.006 percent of GDP³⁰.

From a poverty reduction perspective, unemployment benefits are considered the most efficient among all social protection measures³¹. However, the low coverage and below subsistence minimum benefit level makes the social protection system ill-prepared to effectively respond to rising unemployment for formal and informal sector workers and to business disruption for small/micro business owners. In 2019, Georgia allocated \$113 million for financing the Targeted Social Assistance Programme, or approximately 0.6 percent of GDP³². The value of the transfer varied between \$10–9 per month per family member, depending on the welfare score band³³. However, the amounts of transfers are considered too low to have a substantial effect on families' welfare³⁴.

Factors underlying employment vulnerability

Apart from Belarus, vulnerable employment in the countries ranges from 55 percent in Azerbaijan down to 15 percent in Ukraine (Figure 7). This vulnerable group of workers have found themselves in an increasingly difficult position as a result of the pandemic. According to the results of Moldova's COVID-19 SEIA³⁵, the self-employed (or own-account workers), while not being considered part of the traditionally vulnerable, craftsmen, small entrepreneurs and microenterprises, have seen declines in sales, restricted access to raw materials and a decline in domestic demand, and, consequently,

they have serious concerns about declines in liquidity/cashflows. The SEIAs also note that the average self-employed income is only 53 percent of the average salary for persons self-employed in agriculture, and 82 percent for the self-employed in sectors outside of agriculture. Many will not qualify for or have access to bank financing.

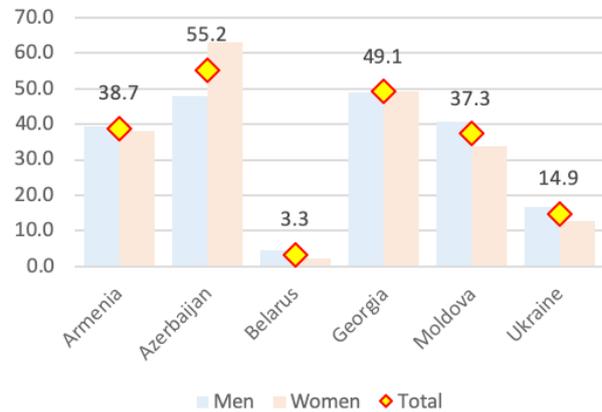


Figure 7: Share of vulnerable workers as a percentage of total employment.
(Source: ILOSTAT 2019)

The size of the informal economies was estimated to range from approximately 30 percent of GDP in Belarus to over 50 percent in Georgia in 2015 (see Table 2). Estimates from the ILO suggest the share of informal employment outside of the agricultural sector is almost 40 percent in Armenia, 15 percent in Ukraine, 12 percent in Moldova and 8 percent in Belarus (Figure 8). The prevalence of informal economic activity might exacerbate the socio-economic impact of the crisis and complicate efforts to mitigate it. Those operating informally are often difficult to reach, and while these businesses may usually continue trading during periods of economic downturn, the nature of the lockdown measures has made this restrictive and threatens the thin economic margins these businesses work under and their viability.

30 OECD (2019), Public unemployment spending (indicator). <https://data.oecd.org/socialexp/public-unemployment-spending.htm>

31 Kateryna Bornukova, Gleb Shymanovich and Alexander Chubrik, "Fiscal Incidence in Belarus—A Commitment to Equity Analysis", Policy Research Working Paper No. 8216, World Bank, 2017.

32 SSA (2020) Statistical Data. See http://ssa.gov.ge/index.php?lang_id=GE0&sec_id=610 [in Georgian]

33 SSA (2020) Social Programmes. See http://ssa.gov.ge/index.php?lang_id=GE0&sec_id=34 [in Georgian]

34 UNICEF Georgia. *The Welfare Monitoring Survey 2017 Report*, 2018.

35 UNDP, Social and Economic Impact Assessment of COVID-19 in the Republic of Moldova. Impact Assessment Report, 25 Nov 2020.

Table 2. Estimates of the shadow economy as percentage of GDP, 2015.

Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
36.0	43.7	32.4	53.1	39.7	42.9

Source: Medina and Schneider (2018), IRH Vulnerability Database

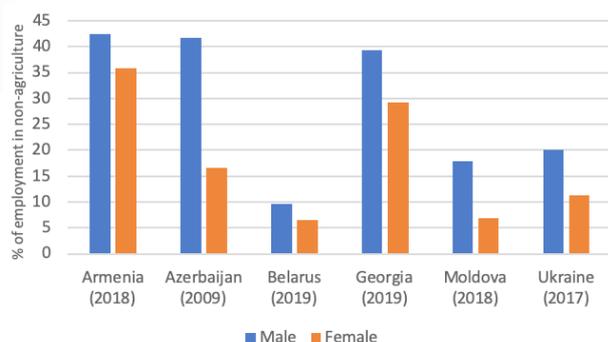


Figure 8. Share of informal employment in non-agricultural employment (%). (Source: ILOStat, Georgia National Statistical Office, Azerbaijan³⁶ National Statistical Office)

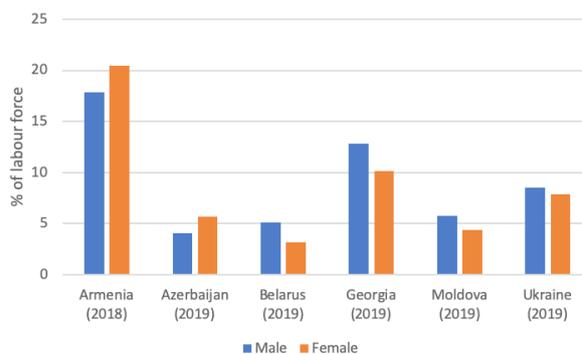
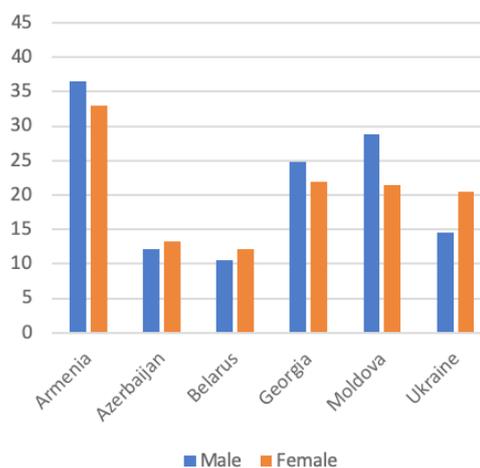


Figure 9. Unemployment Rates 15+ years (2018) (Source: ILOSTAT)

Overall, the employment challenges pre-crisis was considerable, and they were not always fully reflected in unemployment figures, but rather in underemployment rates, and in the prevalence of low quality, low paid, low productivity and unprotected jobs. Employment in Belarus seems likely to be less affected, which might be attributed to the large state-owned enterprises, which employ over half of the workforce. In Azerbaijan, employment challenges are intricately linked to low diversification of the economy and the country's export basket and the inability of the private sector to generate jobs that would attract younger generations and allow for upward mobility (Figure 9).



For many individuals, migration has been seen as a solution to counter the low-quality jobs offered at the local market place characterized by low wages and precarious employment, but which also created other vulnerabilities. While migration has largely been driven by the structural weaknesses of economies, in some ways it has reinforced the existing rigidities by increasing the reservation wage for those left behind, increasing the labour cost and creating disincentives, in particular among women, to participate in the labour market (beyond subsistence farming), who also carry the burden of housework and family care.

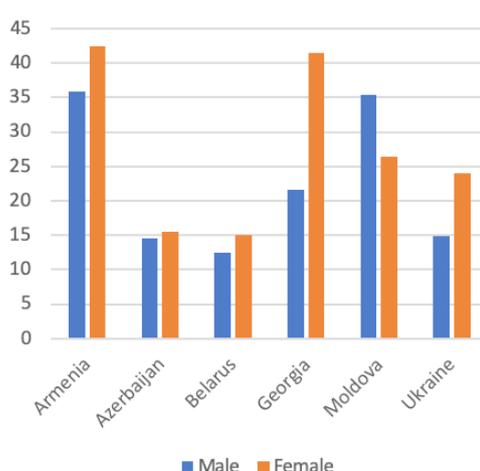


Figure 10. Share of youth 15-24 years old not in employment, education or training (Source: ILOSTAT. ILO-modelled estimates for 2020)

³⁶ According to the author's calculations, the informal employment in non-agriculture is as high as 47 percent based on ILO-modelled estimates and Azerbaijan National Statistical Office data on "employees with a contract".

Impact at household level

The combination of an informal labour market, unemployment, reliance on remittances and low household savings are all contributing to vulnerability among large sections of society across the six countries. ILO's estimates of the share of the

'near poor' among the working age population (over 15 years), i.e. those who are below the \$5.50³⁷ per day poverty line, are particularly high for Armenia and Georgia, where agriculture still constitutes a large share of employment. This implies that significant increases in poverty could occur in the face of continuing shocks.

Table 3. Poverty and vulnerability levels (Income poverty: extreme, LMIC, UMIC, UIC). (%) (2020)

Poverty line	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
\$1.90	1.4	4.5	0.0	0.0
\$3.20	9.3	...	0.0	15.7	0.9	0.3
\$5.50	41.8	...	0.5	42.8	12.8	2.3

[Source: WB Macro Poverty Outlook (MPO) for Europe and Central Asia 2020, Oct 7th Forecast, https://www.worldbank.org/en/publication/macro-poverty-outlook/mpo_eca]

Box 1: Country Outlook: Key Challenges and Recent Developments

Belarus: Measured at the \$5.5/day threshold, the welfare impact is projected to be small, with poverty rates increasing by 0.1 percentage point in 2020. The impacts will be more significant at higher poverty thresholds. The last recession of 2015–2016 was associated with a 2 percentage point increase in the national poverty rate, and a 15 percentage point increase in the share of the population below the minimum consumption budget.

Georgia: The economy is projected to contract by 6 percent in 2020, with severe welfare impacts, while poverty could rise by 2.8 percentage points, using the \$3.20 purchasing power parity (PPP) 2011 international poverty line, or by 4.6 percentage points using the national poverty line in 2020. This translates to as many as 160,000 Georgians becoming impoverished. There was a sharp rise in unemployment both due to the closure of economic activities (including of MSMEs, a big employer) in the country and the return of migrant labourers, with 500,000 Georgians at risk of "downward mobility"³⁸.

Moldova: Poverty is expected to increase as households grapple with the effects of COVID-19, including loss of employment and earnings, a reduction in remittance receipts, the return of the most vulnerable migrants due to border closures and the worsening economic situation abroad. The scaling up and modification of social interventions, including through increased support to vulnerable groups and the extension of unemployment benefit coverage to returning migrant workers and former informal sector workers, are likely to attenuate the effects of the crisis on poverty.

Ukraine: Moderate poverty (the World Bank's national methodology for Ukraine) declined from a peak of 26.9 percent during the crisis of 2015 to an estimated 17.8 percent in 2019 due to a reduction in the unemployment rate to 8.6 percent and a 9.8 percent growth in real wages. Disposable income grew by 6.6 percent in Q1 2020, but the COVID-19 outbreak is likely to negatively impact employment and real wages and to create conditions for an increase in poverty rates.

37 This is usually used for upper-middle income countries, but Ukraine and Moldova are lower middle-income countries.

38 This could mean open unemployment, underemployment or contraction of wages and incomes.

The loss of remittances will have a sizable impact on household disposable incomes, hence on aggregate household consumption:

- In Moldova, up to 255,000 migrants have a probable intention to return, with approximately 79,000 of them stating their intention to stay in Moldova for a longer period. The same study found that for 118,000 households remittances constitute more than 50 percent of disposable income³⁹.
- In Armenia, official statistics confirm that almost 250,000 people rely on remittances sent by family members working abroad, and that 98 percent of remittances are spent on routine consumption expenses⁴⁰.
- In Georgia, remittance inflows saw a sharp drop (-42.3 percent) in April 2020, although the recovery in June compared to the same period in 2019 was strong (17.8%). Remittances from Russia recorded the biggest decline⁴¹.

- In Ukraine, the EU and Poland have become the two most important destinations for emigrant labour, with remittances accounting for over 12 percent of disposable income of households. For households with migrant workers it is estimated that remittances accounted for between 50 percent to 60 percent of their budgets⁴².

The flow of remittances remains an important livelihood strategy for many families across this group of countries and the rebound in these will depend on how the destination countries cope with the waves of infections and people's willingness to travel. Following the first wave, remittance flows seemed to recover somewhat, but with the onset of second wave and in the winter this recovery is likely to be uncertain. The inability of local labour markets to absorb returning migrants will exacerbate household vulnerability and place additional burdens on public services.

Box 2: Aspects of Poverty in Moldova

[Source: UNDP SEIA]

The impact of COVID-19 related consequences, including the lockdowns, suggests that disparities in incomes, poverty and unemployment are likely to be exacerbated across Moldova. Poor households experienced high pre-existing vulnerability (with 18.6 percent of the population living below the national poverty line in 2019), as well as the virus' strong impact and duration. Poor households are exposed more to adverse movements in the labour market, given their higher representation in unqualified or low-skilled jobs. In addition, for families with many children the problem is compounded, with the average income of a five-member household being just above the poverty line at MDL1,651 (comprising just 63 percent of the average income of a two-member household). Uncertainties and vulnerabilities in income and employment are also reflected in basic consumption, with the lowest household income quartile consuming on average 169 litres of milk and 30 kilograms of meat annually less than the top household income quartile. In some rural areas, resource poverty can be observed, with only 68 percent of rural households having access to running water.

Social protection

Each of the countries have well-established systems of social protection, which in theory can be expanded horizontally (scaling up coverage) or vertically (improving adequacy) in times of crisis to extend

or improve support to those most vulnerable to the economic impacts of the crisis. In this respect, in recent months most of the countries have undertaken measures to expand the coverage of different social protection programmes. Armenia, for example, has made available a one-time top-up payment (50 per-

39 UN Social and Economic Impact Assessment of COVID-19 in the Republic of Moldova. Impact Assessment Report, 25 Nov 2020.

40 UNDP, *Socio-Economic Impact Assessment of the COVID-19 Outbreak in Armenian Communities*, 18 September 2020.

41 PMCG Research, "Impact of COVID-19 on Remittance Inflows in Georgia". Economic Impact Indicators, Tbilisi, Georgia. See https://pmcresearch.org/publications_file/527b5f23bae7dad44.pdf

42 Jerzy Pieńkowski, *The Impact of Labour Migration on the Ukrainian Economy*, 15 April 2020, Discussion Paper 123, European Commission.

cent) of the usual benefit paid to eligible families with children if the parent(s) have lost their jobs. Azerbaijan expanded unemployment benefits, and Ukraine increased coverage of existing schemes and provided one-off assistance to pensioners receiving less than UAH5,000 per month⁴³.

In Azerbaijan, as part of the COVID-19 response package, the government expanded the coverage of the unemployment assistance programme to 600,000 unemployed citizens for a three-month period (April–June) by providing a monthly allowance of Azerbaijan Manats 190 (equivalent to \$110). Criteria for registration have been eased, and for citizens without Internet access a call to local employment centres was sufficient to register as unemployed and to provide them the required information.

However, some of the structural issues in the countries' social protection systems have surfaced during the crisis. These systems are no longer aligned with labour markets that are characterized by the high prevalence of informal work and of employment on non-standard contracts (e.g. freelancers, gig-workers, seasonal workers) which limited their ability to respond effectively, thus contributing to the recovery phase. The gaps in social protection coverage means that, in practice, systems are not capable of guaranteeing social protection across the life cycle. Some underlying issues that limit the capacity of social protection systems to contribute to the response and recovery include the following ones:

Levels and structures of expenditure:

Overall expenditure levels are respectable, in terms of share of GDP, but expenditure is biased towards pension support for the elderly, reflected in the relative shares of GDP devoted to pensions compared to social assistance, child benefits and unemployment support measures. For example, in Belarus, pension expenditure represents around 8 percent of GDP, while social assistance for those of working age represents 1.1 percent and benefits for children

represent 0.2 percent (in Moldova the shares are 7.5 percent, 2.4 percent and 1.3 percent respectively; in Ukraine: 13 percent, 2.4 percent and 1.8 percent)⁴⁴.

Low levels of coverage and of adequacy of social assistance and employment support for the working age population and their families:

Although most countries have been able to rebuild parts of the social protection systems that were sundered in the post-independence period, the non-contributory i.e. tax-based financing limits the space for social spending. The financing space to a great extent depends on macroeconomic stability and the growth performance of national economies.

Even countries with broad coverage, for example Georgia, where 67 percent of households receive at least one of the main social welfare benefits (old-age pension, social package, targeted social assistance (TSA))⁴⁵ and which allocates 7 percent of GDP⁴⁶ to social protection programmes, has limited reserve funds, which can be released for scaling up of social transfers in times of crisis. Scaling up of the TSA programme to cover families, who did not qualify for assistance prior to the COVID-19 crisis, was possible with external lending from the International Monetary Fund, the World Bank or Asian Development Bank, which provides only short-term solutions.

The Belarus Government has negotiated a \$85 million loan with the WB to support short- and long-term social protection measures to cushion the adverse impact of the economic downturn and to prevent the permanent loss of private sector employment. Although countries have been able to use existing social assistance systems as a basis for scaling up coverage during the crisis, or for delivering one-off top up payments for example, the fact that base levels of coverage and adequacy were so low has limited the effectiveness of these measures. Increases in coverage have not always been sufficient to provide support to broad sections of the vulnerable (Figure 11).

43 United Nations Regional Coordination Mechanism, Europe and Central Asia, United Nations SDG Group, Europe and Central Asia, *COVID-19 and social protection in Europe and Central Asia*. See <https://www.social-protection.org/gimi/RessourcePDF.action?id=56790>

44 Issue-Based Coalition on Social Protection, UNDG Europe and Central Asia, Joint Advocacy Messages, September 2018.

45 UNICEF, *Georgia Welfare Monitoring Survey 2017 Report*.

46 IMF Data. Access to Macroeconomic and Financial Data. "Georgia: Expenditure by Functions of Government", 2020. See <https://data.imf.org/?sk=89418059-d5c0-4330-8c41-dbc2d8f90f46&sld=1435762628665>

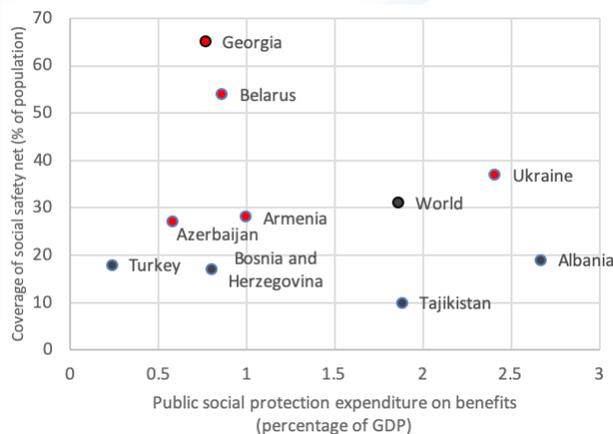


Figure 11: Coverage of social safety net (as percentage of population) and public social protection expenditure on social benefits (as percentage of GDP).

(Source: ILO, 2019; World Bank *The Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE)*, 2019)

Countries that had progressed with social protection reforms before the crisis were better positioned to redress the impact of the COVID-19 crisis. For example, Azerbaijan increased the basic rates of most of the social protection schemes. The targeted social assistance was increased and extended with an increase of the basic rates. During the pandemic, the government continued to deliver the existing social protection schemes with no major disruptions. As part of the 2019 social protection reform most of the social protection schemes were increased to AZN 224 (\$191) per family,—AZN 329 (\$193), and the nominal wage—ANZ 712.3 (\$419), thus reducing the risk of these groups falling into poverty.

COVID-19 accentuated the vulnerabilities of unregulated labour migrants in the social protection systems. Some 37 percent of surveyed migrants from Moldova reported that the host country provided no support⁴⁷, the reason being that their status meant that their social integration was incomplete and therefore they lacked a broad measure of social protection. Their situation is also consistent with the fact that 28 percent of the sample reported precarious labour contracts and lack of access to social safety nets.

Outdated approaches to/assumptions behind social protection design

Low investment in social assistance is in some countries underpinned by outdated approaches to

social protection design, coupled with ideological approaches which has discouraged any form of support for the working age population in particular, due to (i) an overestimation of the potential of the private sector to generate decent jobs; and (ii) an overestimation of the potential impact of social assistance in discouraging job searches/encouraging 'passivity', even when formal sector jobs were in short supply, and when large sections of the working age population were prepared to 'actively' seek migration options in order to find jobs.

Gaps in social insurance coverage

Because social insurance payments and coverage are traditionally linked to formal sector employment, large shares of the informal workforce and migrants have no social insurance coverage (e.g. no rights to a pension, maternity leave or sick leave). This has led not only to gaps in social insurance coverage, but to threats to the financial sustainability of state pension funds. Low pension levels limit the incentive to join formal social insurance schemes. There has been a lack of or insufficient efforts to extend social insurance coverage to the informal sector; and a lack of efforts focusing on incentives rather than on punitive approaches.

In line with the social protection reforms, the Government of Azerbaijan has increased the number of households receiving the TSA. In April 2020 the number increased by 14 percent, covering around 79,500 households, with a plan to further increase this to 90,000 households by the end of 2020. These figures indicate that significant gaps exist in the social protection system in terms of the extent of coverage of vulnerable families.

Lack of coordination between the design and implementation of social protection and employment policies

There has been limited investment in employment policies and institutions, and lack of alignment between cross sectoral approaches to employment and social protection policies and the institutions responsible for delivering them. Calls for more shock-responsive social protection represent an opportunity both to invest in social protection and to

47 IOM, Rapid Assessment of COVID-19 impact on migrant livelihood and well-being. <https://publications.iom.int/books/rapid-needs-assessment-covid-19-related-vulnerabilities-among-migrants-armenia>

ensure it is fully integrated into emergency response programmes, with the resources and institutional capacity to deliver in such situations.

It represents an opportunity to address gaps, and to redesign programmes to support the large shares of the vulnerable working-age population who risk falling into extreme poverty in the face of shocks. It also represents a chance for the design of programmes with new innovative forms of coordination and collaboration between social protection and employment support programmes, as part of intersectoral approaches to reducing vulnerability in the labour market and promoting decent work.

This would involve exploring the potential of social assistance schemes to have more impact if aligned with employment activation and support schemes. It would also mean, inter alia, avoiding automatic disqualification from social assistance support upon entering employment. Social assistance schemes can also provide incentives for transitioning to greener work, including transitions to climate smart agriculture (for example, helping and accompanying/

supporting agricultural households to make the transition which often requires some initial investment). A precondition for social protection playing a more promotive and transformative role would be investment in employment services, agricultural extension services or case management. Social protection and employment policies combined can also contribute to the reintegration of migrants.

More shock-responsive social protection systems, which can contribute to employment promotion, implies finding fiscal space, at a time when state budgets are under strain. Expenditure levels are already high, and while there is some scope for reallocation, this remains limited compared to the financing required. Although there is a bias towards pension expenditure, this does not mean that pension expenditure should be reduced: one of the systems' achievements is that quasi-universal pension coverage for the elderly is guaranteed, and this should not be compromised. New non-traditional forms of financing will have to be sought, including, for example, the reallocation of subsidies for non-sustainable use of energy and natural resources.

Box 3: Aspects of inequality in Azerbaijan

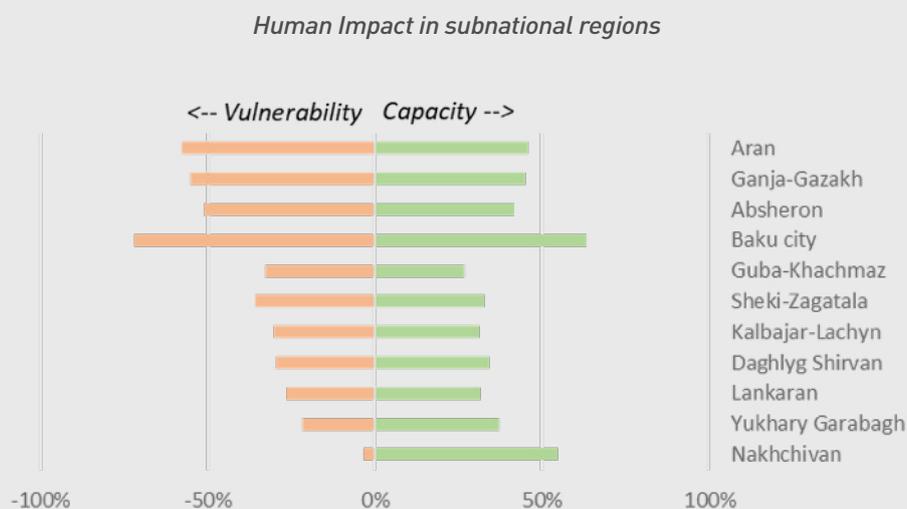
Source: United Nations, First Draft Azerbaijan Socio-Economic Assessment for COVID 19 (Unpublished August 2020)

Certain regional inequalities make people living in some regions more vulnerable than others. The assessment created a set of human impact vulnerability and capacity indicators across five areas—livelihoods, living conditions, food security, social inclusion and gender equality. Aran, Ganja-Gazak, Absheron and Baku are likely to be the most impacted. Baku city and Nakhchivan have higher human impact capacity indicators, indicating better coping abilities in people and systems in these areas.

Inequalities are also present in access to devices and the Internet. The UNICEF surveys reveal that 73 percent of families surveyed had access to Internet at home and 70 percent of schoolchildren had access to devices to access remote learning. Given the limited availability of fixed-line Internet in parts of the country, especially in rural areas, some students and teachers have to use mobile Internet, which is significantly more expensive, potentially leaving children from disadvantaged families with limited or no access to on-line learning and resources.

Box 3: Aspects of inequality in Azerbaijan

Source: United Nations, First Draft Azerbaijan Socio-Economic Assessment for COVID 19 (Unpublished August 2020)



Overall the assessment results make evident the following two human impacts: 1. Different groups of people are being affected differently largely owing to pre-existing structural deficiencies and vulnerabilities; and 2. Spatial inequalities exist across economic regions likely to affect the people living in each one differently.

Note: This assessment was completed prior to the recent outbreak of the conflict in Nagorno-Karabakh

Labour force participation, the care economy and gender impacts

The COVID-19 crisis has increased and drawn attention to women's unpaid care burdens, which are an underlying cause of their vulnerable position in the labour market. In that regard, their situation has grown starker with the onset of the pandemic with the increased burden of unpaid care disproportionately falling more heavily on women. Women have had to take up additional care burdens while maintaining other critical roles within the workplace, household and communities. The closures of schools and day-care centres have massively increased childcare needs, with impacts on working mothers especially. The effects of the crisis on working mothers are likely to be persistent, due to the heightened risks of returning to the labour market. For example:

- The share of women spending more time in domestic work is greater than for men (62.9 percent vs. 55.8 percent). The majority of women (86.4 percent) working from home also experienced an increase in the burden of all household chores (UNDP Azerbaijan SEIA).
- Moldova is among the countries with the highest increases in time devoted to unpaid domestic work, with around four in five women experiencing an increase in at least one household chore.⁴⁸

In the education, health and services sector, however, women's employment rates are three to four times greater than those for men, and all these sectors have been harder hit during the pandemic resulting in a decrease in working hours⁴⁹. However,

48 UN Women 2020, *The Impact of COVID-19 on Men's and Women's Lives and Livelihoods in Europe and Central Asia*, Preliminary Results from a Rapid Gender Assessment, 2020, p. 22. See <https://www2.unwomen.org/-/media/field%20office%20eca/attachments/publications/2020/07/the%20impact%20of%20covid19%20on%20womens%20and%20mens%20lives%20and%20livelihoods%20in%20Europe%20and%20central%20asia.pdf?la=en&vs=5703>

49 Ibid p15

men may be facing greater risks of unemployment partly due to reductions in the numbers of blue-collar jobs, for example in construction.

The examination of labour force participation indicates a persistently lower participation for women than men across the six countries, with particularly low rates in Moldova and Ukraine. Moreover, in all the countries concerned, except for Armenia, the participation of women in the labour force is projected to decline by 2030. This could be attributed to gender-based discrimination in the labour market, scarcity of decent formal job opportunities and women's engagement in household and care activities.

Women's unemployment rates have been generally lower than for men, except in Armenia and Azerbaijan and in countries with high rates of self-employment (e.g. Armenia, Azerbaijan and Georgia), where women are overrepresented in the category of contributing family workers and underrepresented as both wage earners and as employers.

The trends during the pandemic highlight increasing difficulties in reversing pre-pandemic trends. This means that significant efforts to support women in recovery policies are needed.

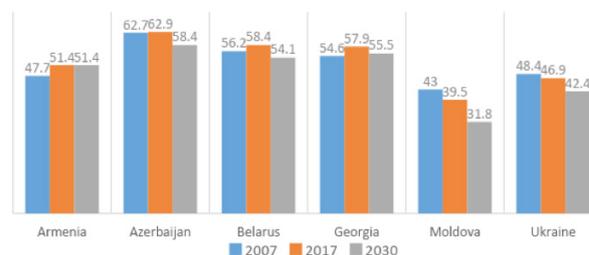


Figure 12: Female labour force participation rates (percentage of female population aged 15+)
(Source: ILO STAT)

Women earn as much as 78 percent (Ukraine) and as little as 50 percent (Azerbaijan) compared to men's earnings. Some gender wage gaps are due to industrial and occupational segregation, or the result of women working fewer hours than men.

Box 4: Gendered impacts in Armenia

Results from the UNDP-led SEIA show that:

- Women-led and men-led businesses in Armenian communities have been affected differently by the pandemic, with the former group reporting a more severe impact during the initial phases of the crisis. A possible reason is that more women-led businesses operate in hard-hit sectors such as hospitality, beauty and wellness services. In addition, 75 percent of the women-led businesses participating in the survey are small-scale entities with a smaller turnover.
- The sectors where staff changes were relatively higher traditionally employ more women than men. According to the survey results, among the companies that have made staff changes, the ones with higher shares of female employees (50 percent or more) have the highest share of staff turnover (72.6 percent of respondents).
- Qualitative research findings show that women face significant challenges in protecting their rights to access sexual and reproductive health-care services.
- The spread of COVID-19 increased the workload and household responsibilities for women. A higher percentage of women devote more time to household activities, such as cooking, cleaning, household management and shopping, than men after the COVID-19 outbreak, as reported in the households survey. The qualitative assessment revealed that the time women spend on caring for the elderly, sick and disabled adults has also increased.

Women are concentrated in public sector jobs (where traditional gender roles encourage female employment in health and education), which tend to offer low pay but relatively secure employment, and also

rights to maternity leave and benefits. Women are also active in agriculture, where there is more flexibility to integrate care duties. However, gender gaps in care have also evolved in the pandemic with as

much as 70 percent of women versus 59 percent of men spending more time in unpaid domestic work⁵⁰. In total work time, women spend more time working than men.

Gender-based violence

Assessments show that during the pandemic, urban women were more likely to report experiencing discrimination than rural women. A regional assessment suggests that while data was not alarming concerning increases in discrimination, 10 percent to 18 percent of respondents reported increases in some countries⁵¹. This is accompanied by evidence of a spike in violence against women in lockdown and that stress, situational uncertainty, employment loss and poor emotional and mental health associated with the lockdown measures may stimulate or worsen violence behind closed doors. The survey data shows that women are more likely to report higher levels of perceived increases in domestic violence—a reported 9 percent increase in Georgia and 12 percent in Azerbaijan⁵². Several countries have embarked on institutional responses including by taking the following actions:

- ▶ In Georgia, to mitigate the socio-economic effects of COVID-19, the Ministry of Economy and Sustainable Development has expanded economic support programmes and with a special emphasis on women-run businesses making it easier for them to apply in the assessment of applications resulting in more women applying.
- ▶ In Moldova, the Ministry of Health, Labour and Social Protection undertook a rapid assessment on gender-based violence collecting data and information on victims' needs during and after the state of emergency, as well as an evaluation of the system's response to such cases during the peak of the COVID-19 crisis.
- ▶ In Ukraine, the Ministry of Interior and the National Police have launched the @Police_Helpbot chatbot on Telegram Messenger to inform people about domestic violence and to help victims find aid.

Digitalization challenges

The restructuring of economies and reprofiling of businesses to respond to shifts in demand and to accommodate remote working, as well as changes in how public services are delivered (e.g. increased use of online applications to accommodate social distancing), imply an acceleration of digital transformation processes, but also a need for increased public sector investment to ensure that these processes work for the benefit of the economy and society.

Digital connectivity of workplaces

Accelerating digitalization will be key to helping microenterprises adapt to online retail trade and commerce and enabling teleworking, but also to facilitating access to health and government services, including social protection and ensuring equal access to remote learning. Between 27 percent and 38 percent of surveyed companies report having intensified their online business activity, such as sales, in response to the COVID-19 outbreak, while up to 45 percent of firms in Georgia, for example, have introduced solutions to make remote work possible⁵³.

According a recent study, in Belarus only around 22 percent of SMEs are using digital systems for work with clients and for business operations and personnel management in day-to-day activities⁵⁴, which affects SMEs' productivity and resilience vis-à-vis external shocks. According to UNDP's assessment of SMEs, digitalization and use of advanced technologies in the context of COVID-19 in Belarus, 48 percent of SMEs lack digitalization of internal business processes for effective functioning, 33 percent of SMEs would want to enter new market segments using online tools, while 24 percent of SMEs are planning to create new digital products and services. However, low awareness of available tools among SMEs and a shortage of resources or internal capacity to mainstream innovations into the business processes are important constraints on prospects for a more robust adoption of digital tools.

50 UN Women 2020, *The Impact of COVID-19 on Men's and Women's Lives and Livelihoods in Europe and Central Asia*, Preliminary Results from a Rapid Gender Assessment, 2020, p 23

51 UNDP Rapid gender assessment of SEIA reports in Europe and Central Asia, Initial Findings October 2020, unpublished

52 UN Women 2020, *The Impact of COVID-19 on Men's and Women's Lives and Livelihoods in Europe and Central Asia*, Preliminary Results from a Rapid Gender Assessment, 2020, p 37

53 Organisation for Economic Co-operation and Development (OECD), Policy Responses to Coronavirus (COVID-19), COVID-19 crisis response in Eastern Partner countries. See <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eastern-partner-countries-7759afa3/>

54 Hanna Aginskaya, Radzivon Marozau, "The use of information technologies by Belarusian business", BEROC Working Paper No. 63, http://www.beroc.by/en/publications/working_papers/the-use-of-information-technologies-by-belarusian-business/

Workforce's digital skills and access to digital infrastructure

Countries are falling behind in terms of digital skills competencies if the proxy measure of the ability to find, download, install and configure software is used (Figure 13). Despite a growing online presence of advanced ICT experts from many of the countries, the low proportions of ICT skills shows this lag in the workforce's capacity to work remotely and to shift to digital business, and developing digital societies will take some time and significant effort.

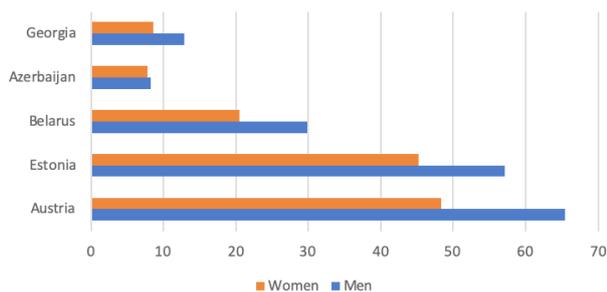


Figure 13. SDG Indicator 4.4.1. Proportion of youth and adults with ICT skills (% finding, downloading, installing and configuring software) (ITU, 2020). (Latest data available varies from 2016 to 2018)

Data on use of the Internet and of mobile phone technology suggests that the countries are relatively well-placed. According to World Bank data, the number of individuals using the Internet as a percentage of the total population is above the global average in all the countries, ranging from 63 percent in Georgia and Ukraine to 79.8 percent in Azerbaijan. Furthermore, the number of mobile cellular subscriptions per 100 people is above the global average in four out of the six countries, ranging from 121.3 in Armenia to 136.4 in Georgia. Compared to the global average (106.4), Moldova and Azerbaijan underperform in this regard, with respective numbers of 88.0 and 103.9.

Notwithstanding, except Belarus and Georgia, countries are considerably behind in terms of Internet broadband subscriptions (Fig. 14). A remote worker or an MSME are less likely to have high-speed Internet at home. The average broadband download speed is estimated to be around 11 Mbps.

In conjunction with improving access to digital infrastructure and digital skills for the workforce and MSMEs, digitalization of public services can significantly improve the business environment. For, as the time and costs of administrative procedures decrease, information can be disseminated more effectively and, consequently, service delivery becomes more predictable. Mobility restrictions and social distancing measures have played a catalytic role in expediting digitalization processes in public services, especially in institutions that oversee COVID-induced social welfare payments and services. In that regard, digitalizing critical public services that help productive capacities to function remains an avenue for improvement. Increasing attention to digitalization should include addressing gender gaps in skills, access and use, and ensuring gender equality in the use and delivery of e-services

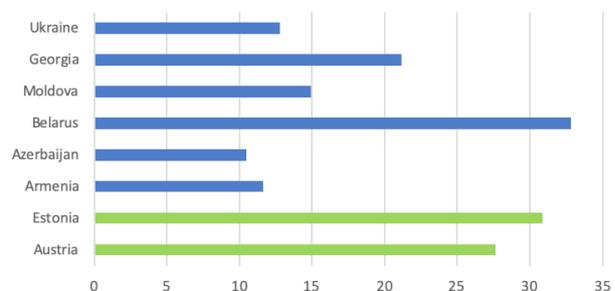


Figure 14: SDG Indicator 17.6.2: Fixed Internet broadband subscriptions (2 mbps or above) per 100 inhabitants (ITU, 2020)

Conclusions: Policy and programming implications

As highlighted, the overall macroeconomic situation has been volatile. As countries have continued their transition to open market economies, their economic fortunes have been tied increasingly to regional and global conditions (Although it could be argued that Azerbaijan and Belarus are less open, they are quite vulnerable to international commodity price fluctuations). It is worth noting that shocks are not confined to financial or health issues, and unfavourable climate and environmental conditions, demographic trends and geopolitical tensions are also likely to increase both policy uncertainty and vulnerability⁵⁵.

Against this background, it is critical for the countries to be cautious about shocks and downside risks and to focus on long-term inclusive growth and resilient economic policies. Expected reforms should pave the way for institutional improvements that contribute to economic growth and wages via higher productivity. The effective use of monetary and fiscal policies should be complemented by policies that address poverty, inequalities, climate change and labour market challenges, and that include universal access to social protection, greater economic diversification and continued efforts to expand formal employment.

Increasingly, the continued transformation and regional integration will require these institutional reforms to take hold in order to modernize the economies and to build the needed infrastructure for the transformation to digital economies. Three clear transformative pathways, which offer more deliberate policy and programming opportunities, include:

- Developing inclusive green economies that support resilient sustainable growth and job creation
- Investing in resilient infrastructure and innovative energy policies
- Implementing social protection mechanisms that provide a bulwark against impending climate-related and demographic shifts.

Combining job growth with green economies

The dominant wisdom in development policy, in both policymaking circles and business, has been that cutting greenhouse gas (GHG) emissions and meeting environmental standards can entail a sacrifice in economic growth. This outlook has been challenged through experiences in both developed and developing countries, with evidence showing that economic growth can complement environmental conservation, and the transition to low-carbon, green and circular economies can generate better jobs, contribute to poverty reduction and help build social inclusion if managed properly (ILO and the United Nations Environment Programme 2012).

Investing in a green economy is expected to bring about greater levels of employment: in the waste sector alone, there is an EU-wide potential for generating 400,000 new jobs.⁵⁶ Taken together, the cumulative effects of greening the economy—which include adding more diverse jobs to the market, reducing environmental risks and ecological scarcity, increasing resilience and improving well-being and social equity—are crucial elements of an improved quality of life for everyone.

Build resilient infrastructure and develop innovative energy policies

Given the fact that the countries of the Western CIS and the Southern Caucasus are highly vulnerable to the effects of climate change, pollution and environmental degradation, investing in appropriate and resilient infrastructure, particularly as it applies to energy and natural resources, is critically important. In fact, infrastructure is so important that it appears as both an explicit goal and as an implicit means to implement and achieve all other SDGs. The spillover effects and returns to investment for infrastructure spending need to be well defined to ensure it supports smart growth.

⁵⁵ UNDP, *The Eastern Partnership and the 2030 Agenda for sustainable development: Pathways towards transformation*, 13 November 2019.

⁵⁶ European Commission, *The EU Environmental Implementation Review: Common challenges and how to combine efforts to deliver better results*, 2017 (Brussels, 3.2.2017). COM (2017) 63 final.

Apart from developing energy-related infrastructure to provide clean energy access to urban and rural areas, other forms of infrastructure, for example, transportation in the form of roads, railways, ports and airports, are also key to ensuring people's mobility and connecting rural areas to domestic and regional markets, which in turn contribute to a country's economic development. It should also be noted that infrastructure that connects markets inside countries is as important as infrastructure that connects markets among countries. Meanwhile, sustainable water infrastructure will both improve people's lives by providing access to clean water and, if done correctly, help to manage an important environmental resource in a sustainable manner.

Implementing social protection mechanisms that provide a bulwark against impending economic shocks and climate-related and demographic shifts

The pandemic has highlighted weaknesses in existing social safety nets. In addition, the countries of Eastern Europe and the Southern Caucasus are facing large impending demographic shifts brought on by rapid population ageing. Population ageing is expected to have a profound effect on the support ratios. In 2015, the six countries on average had 6.1 workers per retiree, but this ratio is projected to decline to 2.5 by 2050.⁵⁷ The largest decrease is expected to happen in Azerbaijan where the support ratio is estimated to fall from 11.1 to 3.4.

Declines in working-age populations and pandemic-related decreases in migration flows means governments will have to give increasing attention to social safety nets. In addition, climate change and the increased intensity and frequency of extreme weather events also risk negatively impacting national economies and the sustainable livelihoods of local populations in these countries.

Calls for more shock-responsive social protection represent an opportunity to invest in social protection and ensure it is fully aligned with emergency response programming, with the resources and institutional capacity to deliver in such situations. They also represent an opportunity to address gaps and to redesign programmes to support large shares of

vulnerable working-age populations who risk falling into poverty in the face of shocks. And they represent opportunities for the design of programmes with new, innovative forms of coordination and collaboration between social protection and employment support programmes, as part of intersectoral approaches to reducing vulnerability in the labour market and to promoting decent work.

Governance and accountability, at its simplest, refers to the whole range of institutions, instruments and processes needed to negotiate, mediate, solve problems, generate decision-making and create new opportunities in society. They also entail adherence to the rule of law and to principles of transparency and accountability in policy design and implementation. Governance further encompasses broader themes, such as the quality of public administration, effective institutions and institutional arrangements, stakeholder involvement and partnerships and processes for addressing social needs and inclusion, best illustrated by the core SDG principle of "leaving no one behind".

Ensuring **gender equality** and stronger support for women's rights, including achieving gender balance within government and across other forums, is a prerequisite for countries taking full advantage of their economic and social potential. Ensuring gender equality is also important from the perspective of data collection and analysis. Gender mainstreaming in public policies, combined with ensuring gender disaggregated data to measure progress on all policies implemented, can lead to better monitoring and better outcomes for all.

The implications of COVID-19 suggest that governments, businesses and society more generally will increasingly look to **digitalize** productive processes and government services. However, the six countries seem to have relatively low proportions of digital skills. Due to their size and flexibility MSMEs can re-profile relatively quickly, but they need access to initial finance and to digital ecosystems to support the transition. Public sector investment means a greater likelihood of local solutions for the increase in domestic public sector demand for digital solutions.

⁵⁷ A support ratio is defined as the number of workers (persons aged 20 to 64 years) divided by the number of retirees (persons aged 65 or over). The support ratio in the counties is calculated based on United Nations Department of Economic and Social Affairs (UNDESA) population statistics.

All six countries participate in the EU4Digital Initiative that aims to extend the EU's Digital Single Market in the Eastern Partnership.

Providing **education and vocational training** is particularly important in the context of impending reforms in the economy and society of most countries. While many such programmes exist, adjusting and upgrading these skills so that people can benefit from new economic possibilities centred around digital and ICT services, along with new technology engaging in green economy activities, seem relevant.

Quality education as a driver to unleash the potential of all the SDGs is especially relevant in several contexts: first, in light of the changing structure and nature of the economy to ensure that skills match the needs of a changing economy; secondly, given the increasing outmigration of youth who may be leaving due to a lack of jobs and a lack of necessary skills to compete in a changing labour market; and, thirdly, to increase public knowledge and therefore support of the sustainability component of economic development. This might also include measures to improve information exchange among the countries, to promote regional integration and to support high quality programmes in national languages.⁵⁸

58 Eastern Partnership Civil Society Forum, "EaP CSF Policy brief Joint Staff Working Document EaP—Focusing on key priorities and deliverables—Assessment and recommendations by the civil society" (May 2017). See http://eap-csf.eu/wp-content/uploads/EaP-CSF-Policy-Brief_2020-deliverables.pdf.



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