

Sectors and businesses facing COVID-19: emergency and reactivation



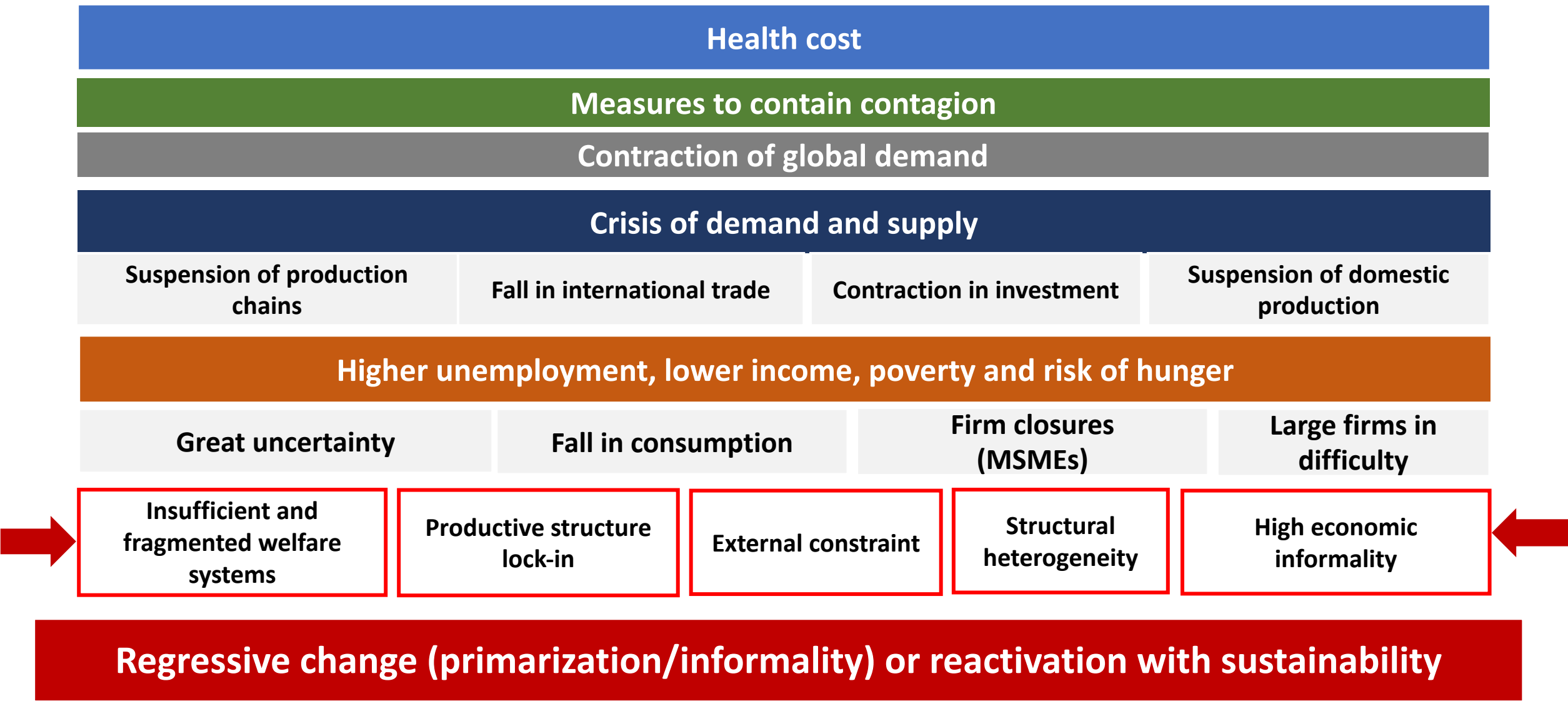
UNITED NATIONS

ECLAC



COVID-19 Observatory
in Latin America and the Caribbean
Economic and social impact

SOCIOECONOMIC EFFECTS OF COVID-19 IN LATIN AMERICA AND THE CARIBBEAN



Five messages

- The crisis has hit a **weakened productive and business structure**
- Risk of **regressive structural change**: reprimarization
- **Likely closure of over 2.7 million firms and loss of 8.5 million jobs over the next 6 months**
- The policies announced: important, but **insufficient**
- Changes in the organization of production and global chains

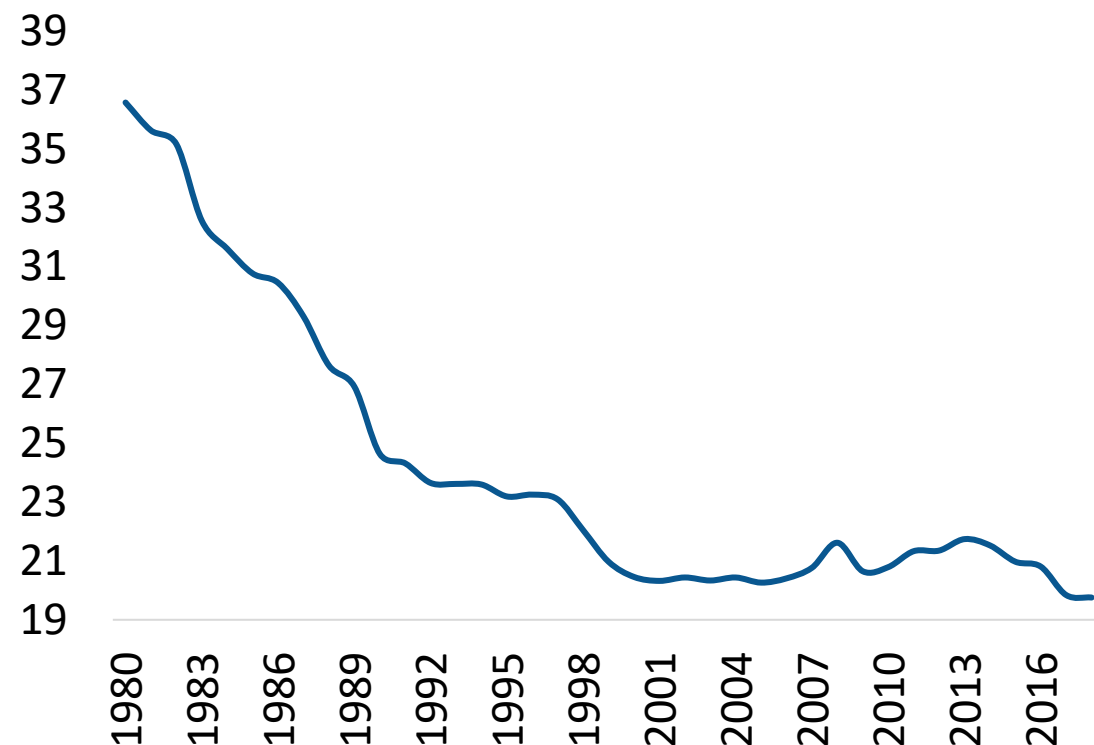
Four proposals by ECLAC

1. Liquidity support and credit access measures to last longer.
2. Payroll co-financing.
3. Cash transfers to independent workers.
4. Support for firms of all sizes.

**The crisis has hit a weakened
productive and business structure**

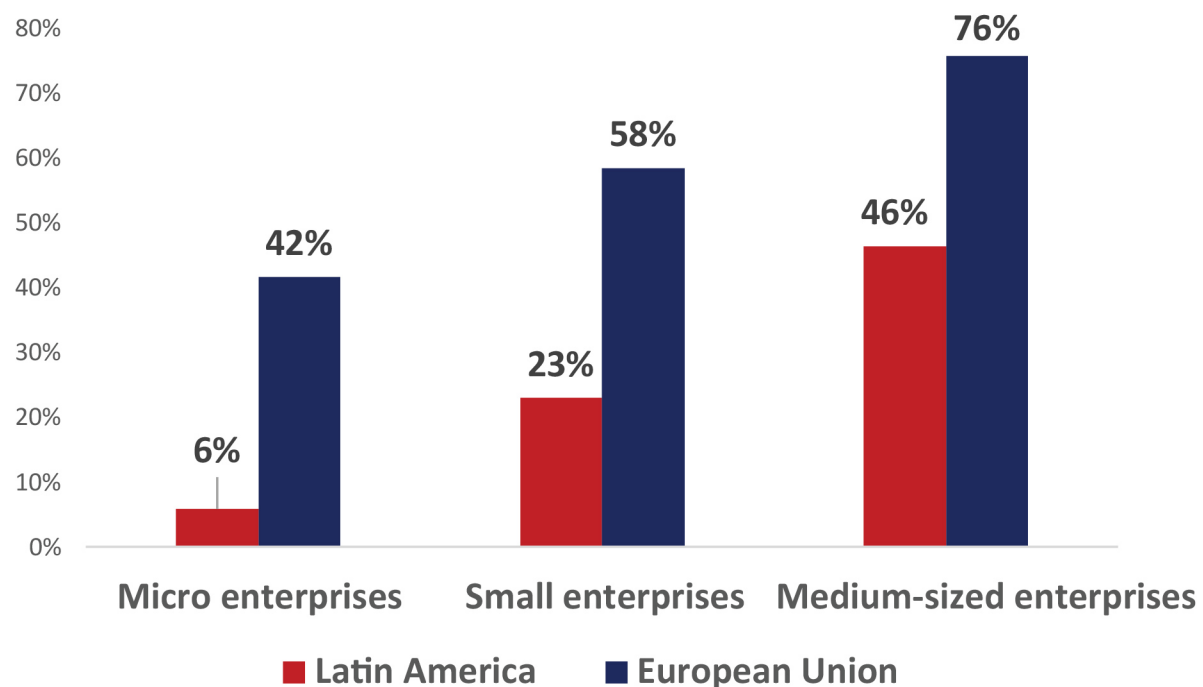
Stagnation of productivity and business heterogeneity

Latin America and the Caribbean (27 countries): relative productivity with respect to the United States, 1980–2018



Source: ECLAC, on the basis of official information.

Latin America and the European Union: internal relative productivity, 2016



Source: ECLAC, on the basis of official information.

Impacts differentiated by sector

Severe

- Tourism services
- Hotels and restaurants
- Traditional cultural industry
- Commerce
- Repairs of goods
- Transport
- Fashion
- Vehicles and parts

Significant

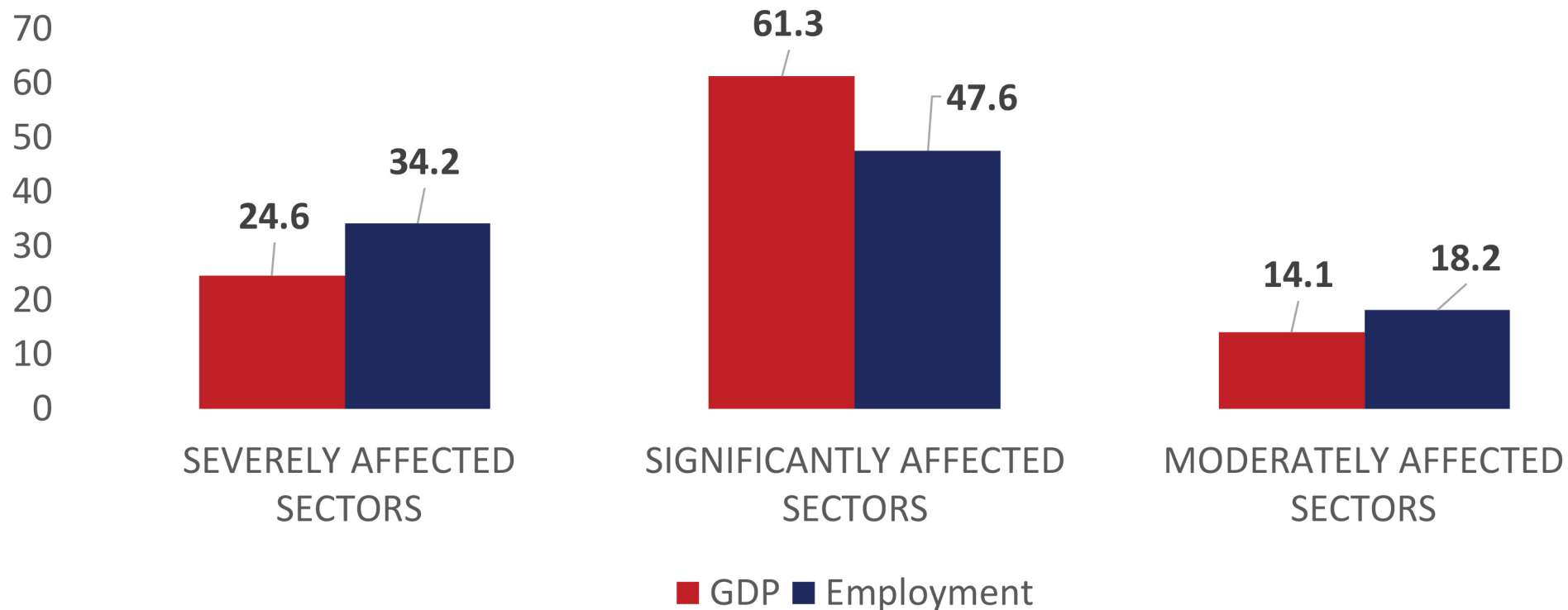
- Mining
- Electricity, gas and water
- Construction and construction materials
- Business services
- Financial activities
- Beverages
- Furniture and wood
- Chemicals
- Electronics, machinery and equipment

Moderate

- Agriculture, livestock, fishing
- Food production for the domestic market
- Medical supplies and equipment
- Medication
- Telecommunications
- Packaging

Heavily hit sectors account for over a third of formal employment and a quarter of GDP

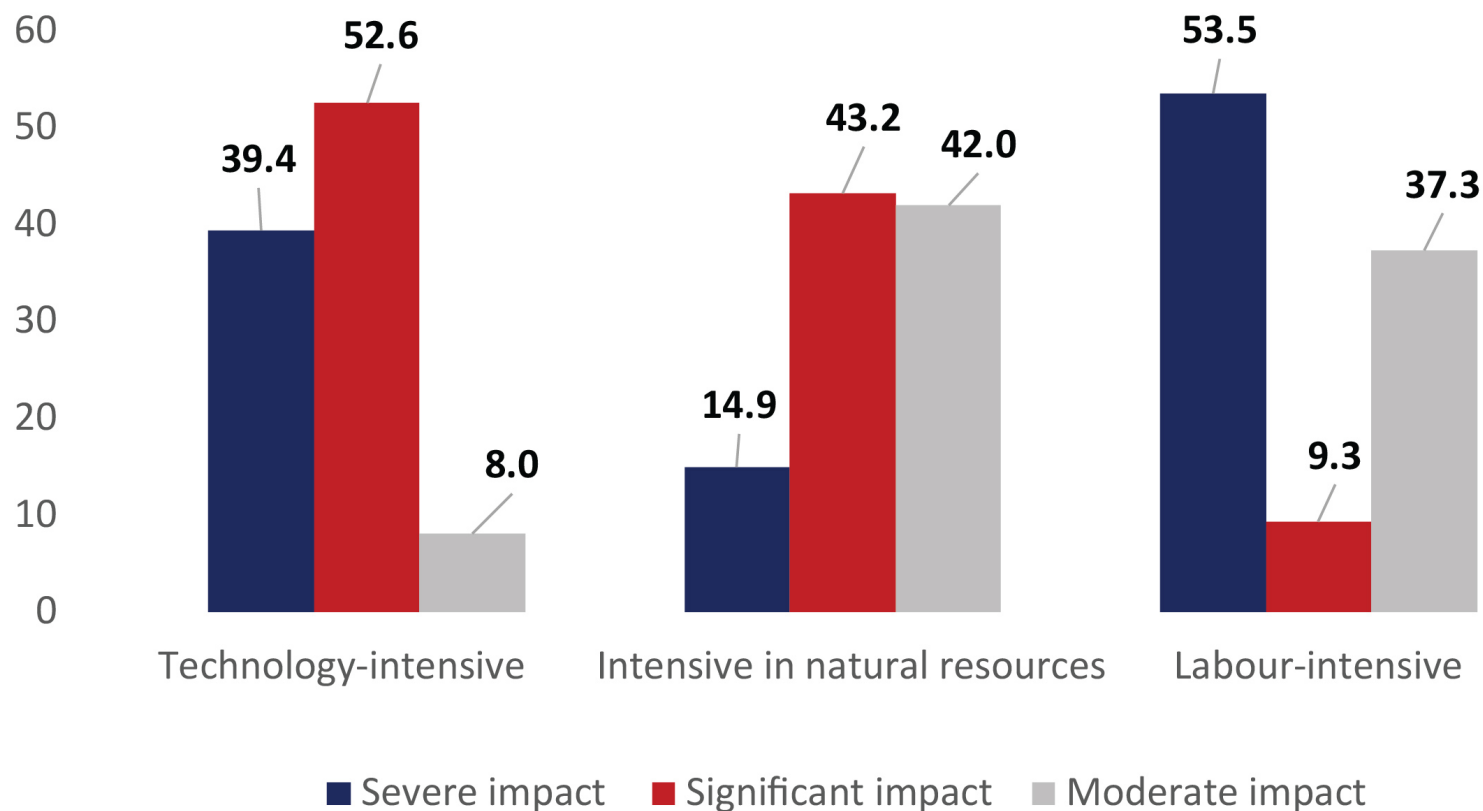
Latin America and the Caribbean (27 countries): GDP and employment by intensity of expected impact of the crisis
(Percentages)



Source: ECLAC, on the basis of official information.

Significant or severe impact on 92% of the branches of industry with the highest technological content

Latin America (8 countries): percentage of production of different groups of industrial sectors by intensity of expected impact of the crisis



- The crisis is hitting the most technologically dynamic industrial sectors hardest, which will deepen their structural problems.
- Highly likely that a regressive structural change will lead to reprimarization.

Source: ECLAC, on the basis of official information.

Steep falls in industrial production in the first four months of 2020

Country	Sector	Most affected sectors
Brazil	Industrial production -8.2%	<ul style="list-style-type: none"> • Automobiles and autoparts -31.1% • Other transport equipment -30.7%
Mexico	Manufacturing industry -10.9%	<ul style="list-style-type: none"> • Leather and footwear -29.5% • Transport equipment -26.9% • Food industry +2.5%
Argentina	Industrial production -13.5%	<ul style="list-style-type: none"> • Automobiles -40.4% • Autoparts -37.8% • Motorcycles -56.2% • Electrical equipment -41.6% • Food and beverages +1.5%
Colombia	Industrial production -7.7%	<ul style="list-style-type: none"> • Leather and footwear -37.8% • Automobiles and autoparts -36.9% • Food industry +6.1%
Peru	Industrial production -21.4%	<ul style="list-style-type: none"> • Capital goods manufacturing -47.9%

Source: ECLAC, on the basis of official information.

Measuring the impact on firms and employment



Business closures and job losses expected in the next six months

- **More than 2.7 million formal businesses will close**, including 2.6 million microenterprises
- **8.5 million formal jobs will be lost** just as a result of business closures
- Most affected sectors:
 - 1.4 million firms will close and 4 million formal jobs will be lost in the wholesale and retail trade sector
 - At least 290,000 firms will close and 1 million formal jobs will be lost in the tourism sector

63% of microenterprises and 42% of SMEs are in severely affected sectors

Latin America and the Caribbean (27 countries): number of enterprises by size and by intensity of expected impact of the crisis

Impact/Size	Microenterprises	Small and medium-sized enterprises	Large enterprises	Total
Moderately affected	812 424	138 164	5 906	956 494
Significantly affected	3 946 182	767 750	42 739	4 756 672
Severely affected	8 071 916	699 178	19 224	8 790 318
Total	12 830 523	1 605 092	67 869	14 503 484

Source: ECLAC, on the basis of official information.

19% of formal enterprises will close

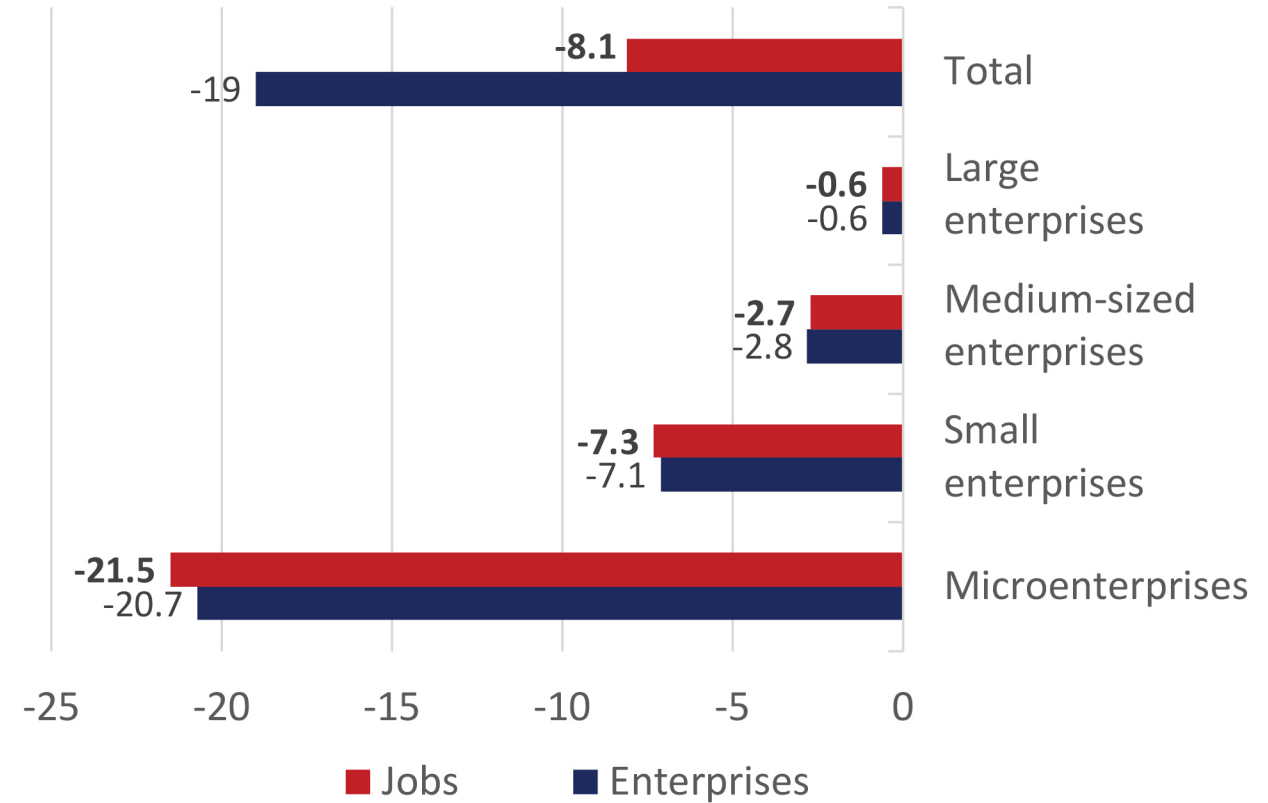
The smallest enterprises will be the hardest hit

Latin America and the Caribbean (27 countries): number of firms likely to close and of jobs likely to be lost, by size of enterprise

	Enterprises	Jobs
Microenterprises	2 650 528	6 383 958
Small enterprises	98 780	1 512 655
Medium-sized enterprises	5 943	390 155
Large enterprises	406	231 724

Source: ECLAC, on the basis of official information.

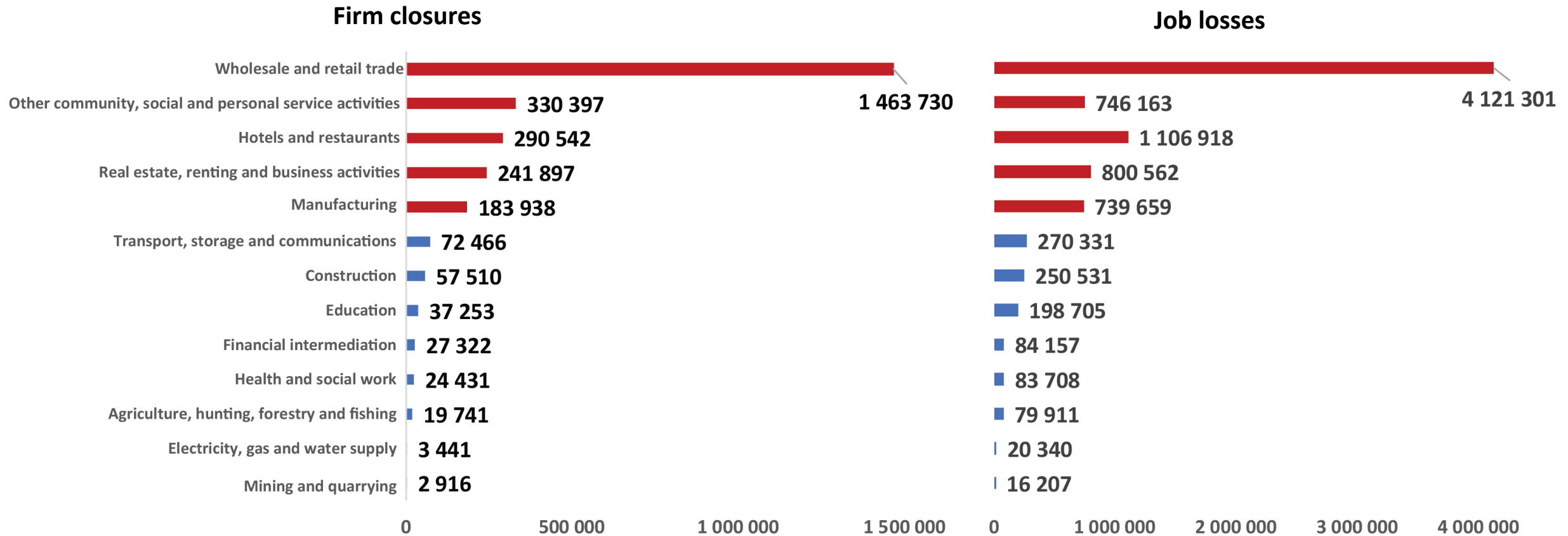
Latin America and the Caribbean (27 countries): percentage of firms likely to close and of jobs likely to be lost, by size of enterprise



Source: ECLAC, on the basis of official information.

Commerce, some services and manufacturing will be hardest hit

Latin America and the Caribbean (27 countries): number of firm closures likely and jobs likely to be lost, by sector



Source: ECLAC, on the basis of official information.

Policy responses



351 measures to save companies, employment and capacities

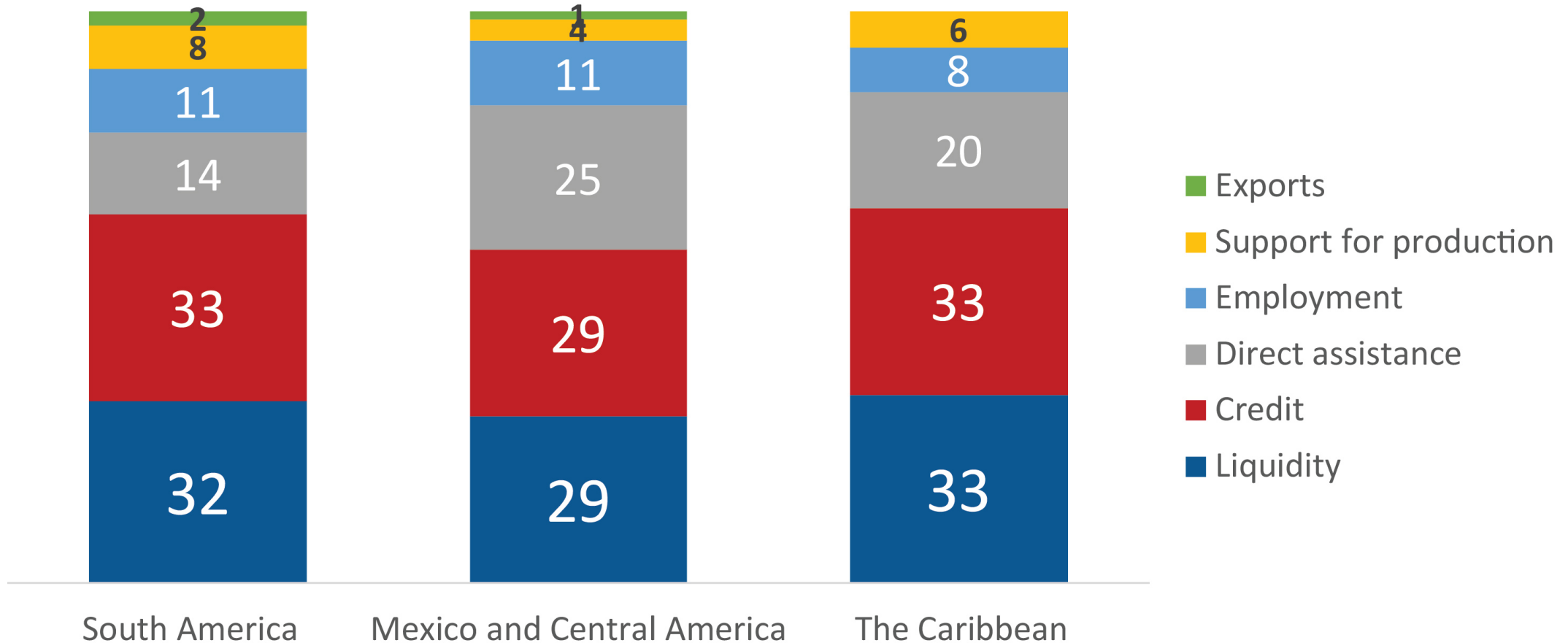
Latin America and the Caribbean (27 countries): number of countries with announced measures, by objective

Objective		Countries	Sectoral approach
Liquidity	Maintenance of short-term payment flow through postponement of payments and renegotiations	24	Sector-specific measures 23 countries
Credit	Increase in the availability of resources for credit, funds for guarantees, flexible access conditions	22	
Direct assistance	Transfer of funds (grants) or cancellation of obligations	22	
Employment protection	Avoidance of layoffs: subsidies for wages and employer contributions, suspension of wages and reduction of working hours, labour flexibilization (does not include measures to promote and regulate teleworking).	18	
Production support	Support for domestic production of essential goods and services in the emergency (includes public procurement measures)	12	
Exports	Support for export activity	5	

Source: ECLAC on the basis of COVID-19 Observatory, official communications and information from international organizations and media as of 27 May 2020.

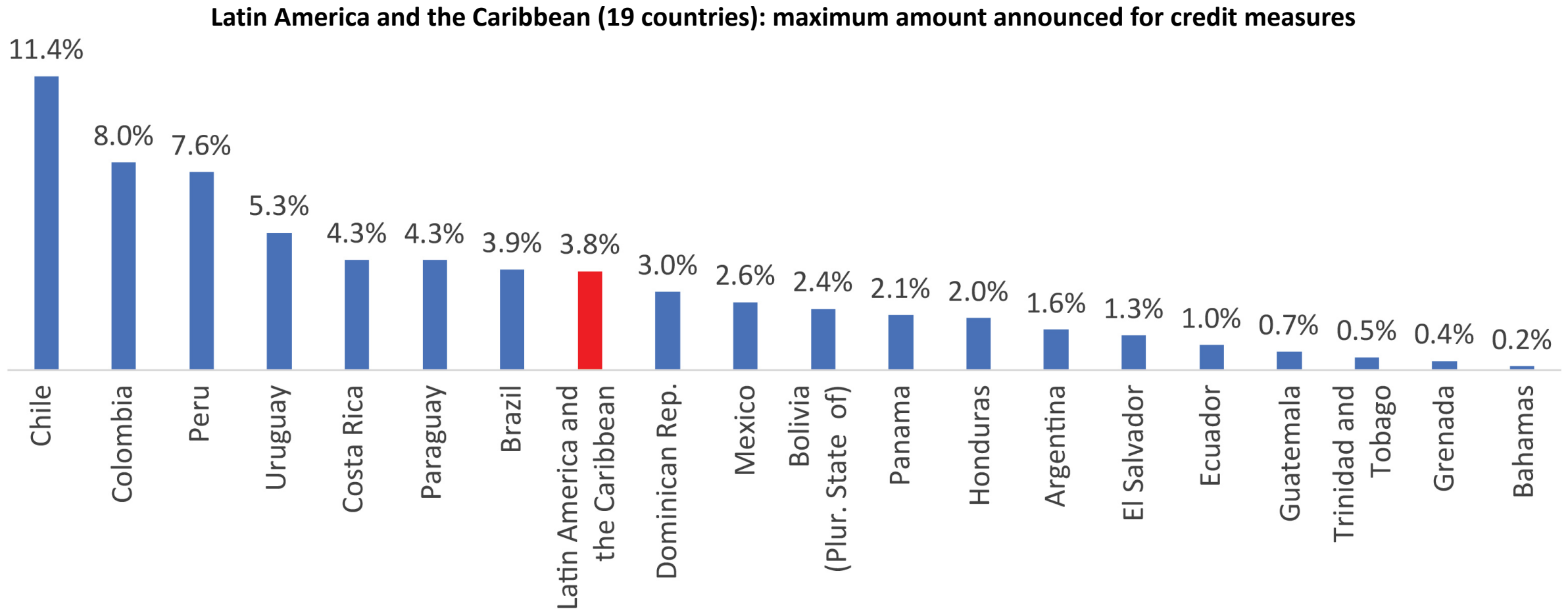
Almost two thirds involved providing liquidity and improving access to credit

Latin America and the Caribbean (27 countries): measures adopted in countries, by purpose
(Percentages of the number of measures)



Source: ECLAC, on the basis of COVID-19 Observatory, official communications and information from international organizations and media as of 27 May 2020.

In most countries, the amount encompassed by the credit measures announced is less than 4% of GDP



Note: The estimate includes the measures for which the amount was identified (73% of total credit measures reported by countries).

Source: ECLAC, on the basis of COVID-19 Observatory, official communications and information from international organizations and media as of 27 May 2020.

Important but insufficient measures

- The measures announced are based on the assumption that there will be future profits that firms can use to repay deferred taxes and other credits.
- The current outlook does not support the assumption that a couple of years will be enough.

The role of business chambers



Examples of action taken by business chambers

- Objectives
 - Reduce the impacts on the activities of companies
 - Reactivate economic activities with the least possible health risk
- Encouragement of compliance on the part of members to continue activities safely.
- Setting up of online services and facilitation of access to and dissemination of policy measures affecting business.
- Participation in solidarity campaigns, bringing together the efforts of economic groups, foreign companies, smaller firms and civil society.

Collective initiatives in countries with industrial and institutional capacity

Product	Industry/actor	Countries	Examples
Mechanical ventilators	Automotive industry, universities, partnerships with firms in the medical equipment sector	Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Uruguay	<ul style="list-style-type: none"> Argentina, Toyota, together with the autoparts company Mirgor and the Technological Institute of Buenos Aires (ITBA), is producing mechanical breathing support devices. In Brazil, the National Industrial Apprenticeship Service implemented a programme with companies in the automotive and metallurgical sectors to recover disused ventilators. In Colombia, the initiative #InnspiraMED is a collective effort of public and private institutions, set up to provide mechanical ventilators using local resources and at low cost. These are still at the testing stage. In Chile, some 14 teams are working to make viable ventilator prototypes that can be replicated on an industrial scale. In Mexico, Tecnológico de Monterrey, Instituto Nacional de Ciencias Médicas and Nutrición Salvador Zubirán, together with the firms Femsa, Metalsa, Torey and Bocar, coordinated by the Secretariat of Foreign Affairs, manufactured the first mechanical ventilator in Mexico within five weeks. It is a low-cost device that uses locally available parts and designs and has a production capacity of 600 per week.
COVID-19 test kits	Research institutes, Technology centres, universities, biotechnology companies	Argentina, Brazil, Colombia, Uruguay	<ul style="list-style-type: none"> In Argentina a test kit was developed by a partnership of private and public institutions.
Masks and other personal protective equipment	Textile SMEs	Argentina	<ul style="list-style-type: none"> SMEs in the textile sector joined forces to make over 150,000 kits per week (about 750,000 per month) based on templates and specifications provided by the government.
Hospital infrastructure	Construction, metallurgy, household items.	Colombia	<ul style="list-style-type: none"> Four companies pooled their knowledge and experience to create a prototype hospital structure made of PVC and metal.

The ECLAC proposals



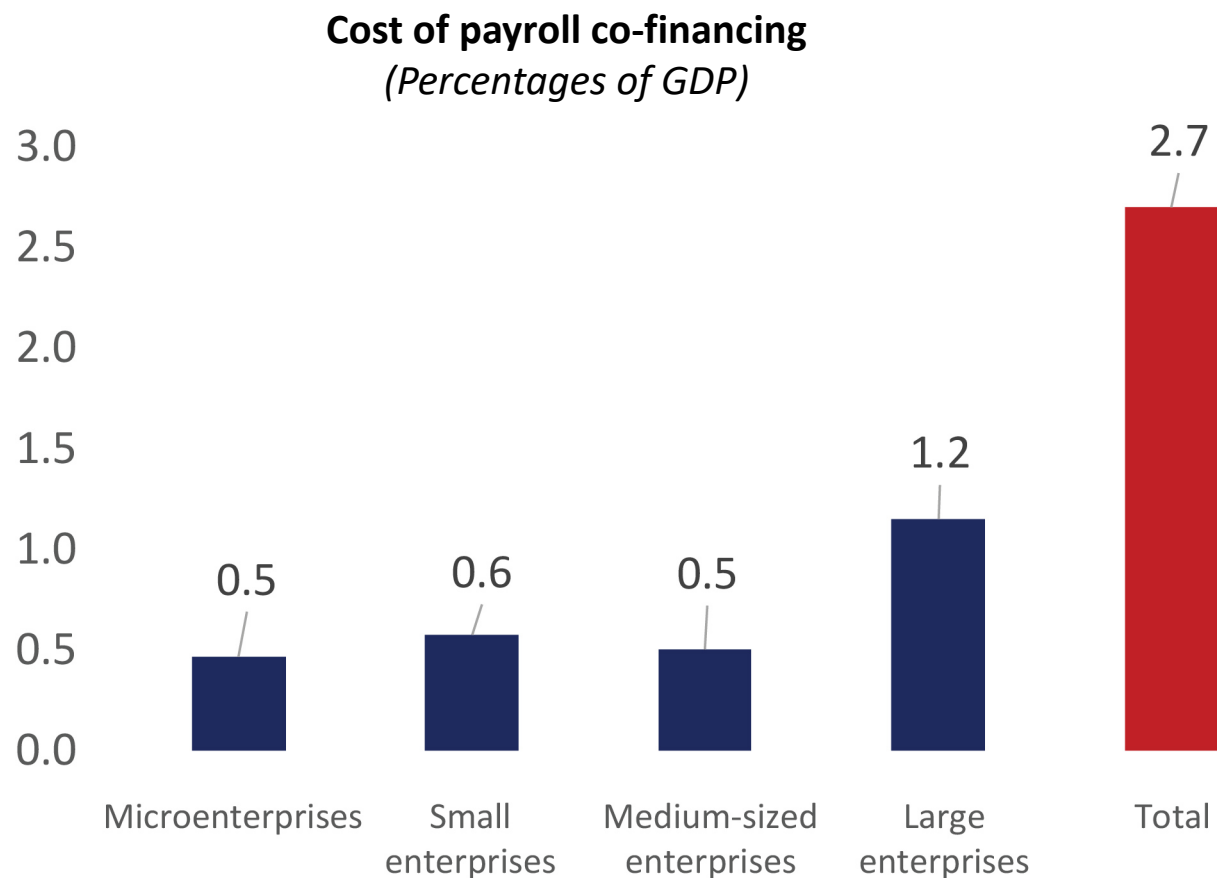
A large-scale response to avoid job and business destruction

1. Extension of maturities and scope of liquidity and lending measures.
2. Payroll co-financing.
3. Direct transfers to the self-employed.
4. Support for large companies in strategic sectors hit hard by the crisis.

Scaling and adjusting ongoing actions

- **Injecting liquidity into companies, especially smaller ones**
 - **Postponement or waiver** of tax, social security and property tax payments, or fast-tracking of tax refunds at least until the end of 2020
 - **Suspension of payment for basic services** (electricity, Internet and gas) without fines until the end of 2020
- **Improvement of credit conditions**
 - Grace periods of at least one year
 - Loan terms of five years or more
 - Strengthening of credit operations through development banking (greater propensity to assume the risk associated with smaller companies)

Payroll co-financing for six months: 2.7% of GDP

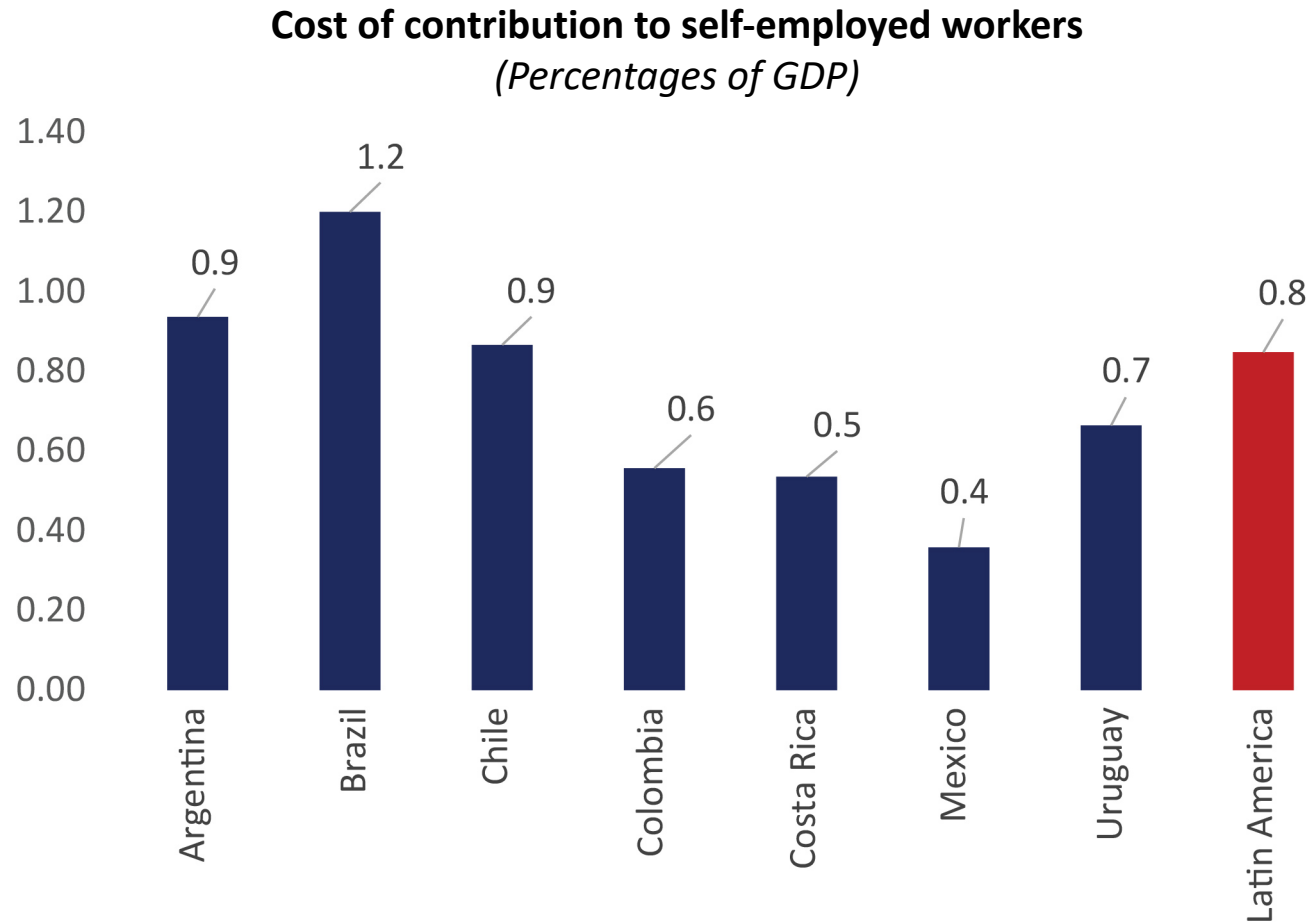


Co-financing percentages:

- 30% to large enterprises
- 50% to medium-sized enterprises
- 60% to small enterprises
- 80% to microenterprises

Source: ECLAC, on the basis of official information.

Cash contribution to 15 million formal self-employed workers for six months: 0.8% of GDP



**US\$ 300 to US\$ 500
depending
on the country**

Source: ECLAC, on the basis of official information.

Taking the role and importance of large enterprises into account

- **Large enterprises**
 - 39% of formal employment
 - More than 90% of exports
 - Leaders of the most technology-intensive sectors
 - Crucial in formation of supply chains
- **The extent of job losses and lost productive, technological and export capacity will shape the reactivation**

Reactivation measures

Access to credit on favourable terms

Payroll co-financing

Possible State involvement in recapitalization of large companies in strategic sectors

Improvements to the efficiency, transparency and regulation of capital markets

Synergies between support for companies and social protection measures

- The emergency basic income, the anti-hunger grant and the support for companies and employment form a **coordinated set of measures**
- The aim of the emergency basic income and the anti-hunger grant is to protect the most vulnerable and soften the fall in demand
- The measures to support companies can save jobs, thus preventing an increase in poverty and extreme poverty and reducing the cost of social measures

The total cost of the set of measures is less than the sum of all of their individual costs

From emergency to recovery: changing the productive structure and international integration



Reactivation will entail substantial changes for companies



Safety of workers and customers

- Disinfection of workplaces
- Supplies for personal protection
- Temperature checks
- Infrastructure for communal areas



Reorganization of production

- Adjustments to internal logistics to increase efficiency
- Creation of virtual scorecard
- Reorganization of workforces (hybrid of telework and on-premises work)
- Fast-tracked incorporation of digital technology



Business models

- Enhanced monitoring of demand
- Greater interaction with customers and suppliers to adapt products and services to consumer preferences
- Reorganization of supply chains
- Security as a key differentiating factor

The pursuit of greater productivity and efficiency must lead to a sustainable and inclusive transformation

Crisis



Higher variable costs



Higher fixed costs



Lower output

Dynamic response



Improve efficiency

- Energy efficiency
- Collective efficiency
- Big data
- The Internet of Things (IoT)



Productivity

- Products with greater value added
- Increased automation

Sustainable and inclusive model for productive transformation

Proactive industrial policy is key to preventing the crisis causing closure of businesses, job losses and environmental harm

An overhaul of production chains

- **Strategic decisions within global production networks will take into account new risk factors**
- **Companies will seek to improve the resilience of networks by:**
 - **Diversifying suppliers** by country and company (“China plus one” strategy)
 - **Nearshoring by choosing geographically closer suppliers**
 - **Reshoring strategic production and technology processes**
- **The suppliers of transnational corporations are under the greatest pressure**
- **Breaks in networks: an opportunity to develop national and regional capabilities**

A new development strategy

- Growth in production and employment is essential
- New technology: efficiency and productivity
- A big push for sustainability with equality
- Strengthening and expanding regional productive integration schemes

Policies for a new development model: address the emergency and adopt a strategy to overcome structural weaknesses in economies and societies