

# Spectrum

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Social Protection ▲ The World Bank ▲ Spring 2001



Meeting  
Employment  
Challenges  
in the  
Global  
Economy

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Social Protection is a collection of measures

to **improve** or protect

human capital, ranging from labor market

interventions and publicly mandated

unemployment or old-age insurance to

targeted income support. Social Protection

interventions **assist**

individual, households, and communities

to better **manage**

the risks that leave people vulnerable.

◀ Cover Photo: Yosef Hadar

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### Viewpoint

#### Modern Slaves

*The following was excerpted from a submission by Kevin Bale.*

Slavery has been with us for thousands of years. It has been present in most cultures at one time or another, taking slightly different forms. Like other types of crime it has changed over the centuries, but for most of us slavery means what happened in the 19th century. We believe slavery ended with the campaigns that brought an end to legal slavery. Nothing could be further from the truth.

Slavery means controlling someone completely using violence, paying them nothing, and exploiting them economically. By this measure there are 27 million slaves in the world. Many are kept in a new form of slavery that has emerged since 1945. This new slavery is different, slaves are cheaper today than at any time in human history. Slaves were major capital purchases in the 19th century, today they are so cheap they are disposable.

Studies have documented the slave origins of several international products such as carpets, sugar, and jewelry. We may be using slave-made goods or investing in slavery without knowing it. Slave-produced cocoa, for example, goes into the chocolate we buy. Rugs made by slave children in India, Pakistan, and Nepal are mainly exported to Europe and the US. The global economic value of slavery is estimated to be \$13 billion per year. But, there is no clear picture of the economy of slavery.

If there is good news about modern slavery, it is the dramatic growth in media interest, public awareness, and official action. A story earlier this year of a "slave ship" off the coast of Benin was just one of a growing number of stories that stirred public interest. With growing public support, organizations like the United Nations and the World Bank are able to bring more resources to bear to build databases, develop effective interdiction, work out ways to free and rehabilitate trafficking victims, help erect laws, and conduct the research needed to address the issue. A representative of Anti-Slavery International explained, "It is very heartening, after years of neglect on this issue, to be part of a global movement against slavery. It is still in its infancy, but it is growing everyday."

*Kevin Bale is a Principal Lecturer at the Roehampton Institute of Surrey, England, and the world's leading expert on contemporary slavery. He is the author of Disposable People: New Slavery in the Global Economy, University of California Press (1999).*

# Welcome

Dear Reader,

The ability to work is the only asset of many of the world's poor people. This is why labor markets matter so much to the World Bank mission of poverty reduction and economic development. It is through paid work that most people can generate income to meet their material needs, get a sense of self-worth, and better integrate into society. Sound labor market policies can support workers by reducing unemployment and underemployment and by helping them manage and cope with the risks associated with unemployment, low income, and poor working conditions. Well-functioning labor markets contribute critically to economic and social development.

In this issue of *SPectrum*, we not only take a closer look at the World Bank Labor Market Team's cutting-edge work, but also provide an overview of the global trends dominating today's labor markets. Globalization, the revolution in information and communication technologies, shifting macroeconomic policy, the growing importance of the informal sector, changing population patterns, and the changing role of women are just the most visible of a host of dramatic developments that have altered employment over the past quarter-century. These enormous changes raise an array of challenges for workers, employers, governments, trade unions, and policy-makers.

You will find a range of articles in this issue, covering a diversity of issues from designing effective labor market programs to considering the role of international labor standards in a globalizing world. You will find pieces that span the globe, from improving conditions for Thai workers in the wake of the Asian financial crisis to appreciating the life of informal sector workers in South Africa.

I also want to mention the latest product from the Labor Market Team. In collaboration with the World Bank Institute (WBI), we have sponsored a new flagship course on Labor Market Policies held for the first time this spring in Washington, D.C. This course provided participants – from all the six regions of the Bank's work as well as OECD countries – with a solid grounding in the key issues that arise in the labor market. During the next year, we plan to offer this event again, extending its reach on a regional basis and by utilizing distance learning technologies. You can read more about the Labor Market Policy course on page 41.

Let me end by offering a quote from World Bank President James D. Wolfensohn. "Work – safe, productive, and environmentally sound – is the key to economic and social progress everywhere. In the advice it gives governments and in the policies it promotes, the World Bank has long recognized the critical value of work. This is more than an economic issue; it is at the heart of human development."

Enjoy your reading.

Yours truly,



Robert Holzmann

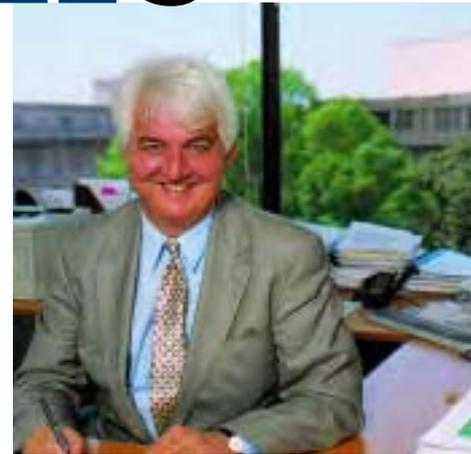


Photo: Robert Radifera



# Closing the Gap

Too many workers in developing countries are failing to reap the potential benefits of the information technology revolution and globalization. Investing in human resources and designing effective social protection strategies for informal-sector workers must be priorities for development and poverty reduction.

Rapidly evolving information technologies and globalization present opportunities for employment and improvements in incomes and working standards in developing as well as in developed countries. However, a closer look reveals that benefits have been slow to come for workers in developing countries. The gaps between the developing and the developed world are large and growing on almost all dimensions of the labor market. The challenges that this poses are formidable and innovative responses will need to be taken inside as well as outside the labor market policy envelope.

In a new study on the key global trends and major labor market policy issues, Gordon Betcherman, leader of the World Bank's Labor Market team, spells out what is needed if policy makers are serious about closing the gap. He emphasizes three critical challenges that must be central to these efforts to generate employment and income opportunities in all countries — how to develop human resources, how to offer effective social protection to workers, and how to regulate the labor market to protect the fundamental rights of workers in an economically efficient manner.

## The Growing Gap

Today about 160 million workers worldwide are unemployed. This figure does not include the millions squeaking out a subsistence living by working in informal sectors. About a half billion workers around the world cannot earn enough to raise their families above the US\$1 a day poverty line. These problems are greatest in developing countries where improvements in the economic and social conditions of workers have been elusive.

by Lotte Lund

Economic performance is the primary determinant for labor market conditions. Betcherman's study speaks in clear language about the magnitude of the gap in productivity and income between developing and the developed countries. This is most evident in the statistics on Gross National Product (GNP). GNP per capita in the OECD countries ranges from 60 times greater than the corresponding figure for the poorest region (South Asia) to seven times greater than the level of the best-off developing region (Latin America and the Caribbean).

“With the exception of East Asia, developing regions have not narrowed the gap over the past few decades. This does not mean the economies of these regions did not expand during these years but whatever growth there was did not meet the huge population expansions in much of the developing world,” says Betcherman.

The growing gap is also evident in real wage trends during the 1990s. While most OECD economies continue to show moderate but consistent growth in real wages, the situation in developing countries has been very uneven and often very disappointing. “Many East Asian

▼ WB labor economist Gordon Betcherman points to dramatic growth of the world's labor force as a key challenge.



countries have had substantial increases in real wages – although gains were rolled back somewhat during the regional financial crisis of 1997. Elsewhere, however, wages often have deteriorated and in the case of the two poorest regions – Africa and South Asia – many countries experienced real wage declines of the order of 25 percent or even more during the 1990s,” says Betcherman. His study also shows that on top of this, inequality also appears to be increasing in most developing countries.

According to the study, all of these trends reflect four key factors that are now shaping labor markets around the world: urbanization and the changing economic structure; globalization; technological change; and the expanding informal sector. “These trends are all closely linked. Together they are affecting the structure and content of employment, the possibilities for employment and earnings growth, and the nature of the relationship between capital and labor,” says Betcherman.

### Key Factors

#### Urbanization

The changing economic structure involves a progressive shift from agriculture to industry and, subsequently, to services. Urbanization is an accompanying process. “In a sense, these trends are an expected part of development,” says Betcherman, “but what we are seeing today is not only the ‘pull’ of jobs in cities but also the ‘push’ of

declining opportunities in traditional sectors outside urban areas. In many developing countries, the result is an historically unprecedented growth of mega-cities which is creating enormous pressures to accommodate the booming labor supply.”

Betcherman’s study documents the explosion in urban labor markets in developing countries. He argues that these “structural” changes pose huge challenges that cannot be ignored by national governments or international organizations.

#### Globalization and Migration

Globalization is a much debated phenomenon and an important part of the controversy concerns its impact on workers. As countries become more interdependent through increasing flows of goods and services, capital, and technology, the rules governing the labor market seem to be changing as well.

“Globalization provides opportunities for economic growth and thus, employment and rising incomes. However, it also raises concerns about the downside labor market risks in the form of unemployment, downward wage pressures, and a ‘race to the bottom’ in working conditions and public policy. To this point, however, the debates on globalization are hampered by the fact that we simply do not have enough solid evidence on its effects on labor markets,” says Betcherman.

## Exploding Urban Labor Markets in Developing Countries

A century ago, just 10 percent of the world’s 1.6 billion inhabitants lived in cities. Now 50 percent of the 6 billion people on the planet are urban residents. By the middle of this century, two-thirds of a total population of 10 billion will be in cities. This urban growth is concentrated in developing countries where huge mega-cities are becoming almost commonplace. Seven of the world’s 10 largest cities are now in developing countries and by 2020, nine will be. More than half of the urban inhabitants of Asia, Africa, and Latin America live in poverty.

### The 10 Largest Urban Areas

	1980		2000		2020
	million		million		million
Tokyo	21.9	Tokyo	26.4	Bombay	28.5
New York	15.6	Bombay	18.6	Tokyo	27.3
Mexico City	13.9	Mexico City	18.3	Lagos	26.5
Sao Paulo	12.5	Sao Paulo	18.0	Dhaka	24.0
Shanghai	11.7	New York	16.7	Karachi	21.7
Osaka	10.0	Lagos	14.1	Sao Paulo	21.3
Buenos Aires	9.9	Calcutta	13.2	Mexico City	19.6
Los Angeles	9.5	Los Angeles	13.2	Jakarta	19.4
Calcutta	9.0	Shanghai	13.0	Calcutta	18.8
Beijing	9.0	Buenos Aires	12.7	New Delhi	18.5

Source: The Population Institute; Population Reference Bureau

Many researchers, however, have documented a general trend towards worsening employment outcomes for unskilled workers during the period when trade and investment liberalization has taken place. “This trend – especially in the case of developing countries – runs counter to what would be expected on the basis of international trade theory,” says Betcherman. According to the textbooks, increased international trade should lead to more intensive use of – and thus rising prices for – the abundant factor which is unskilled labor in the case of developing countries.

One controversial issue where more empirical evidence is required concerns the effect of globalization on the level of employment. “By stimulating improvements in productivity and output, globalization can play an important role in job creation. On the other hand, to the extent that freer trade, for example, affects formerly protected sectors, then significant job destruction can occur as well,” says Betcherman.

While discussions of globalization tend to focus on flows of goods, services and capital, the movement of workers is also part of the phenomenon. International migration is nothing new, but globalization appears to motivate displaced workers to look for work elsewhere. Also, reduced transportation and communication costs both increase the likelihood of relocating and returning, as well as making it more feasible to emigrate without losing contact with one’s home country.

“There are many dimensions to the current international migration of workers,” says Betcherman. “These include the movement of both unskilled and highly-skilled labor. In the former case, migration may contribute to poverty reduction and economic growth but there is also a host of policy issues including illegal trafficking, undocumented entry, “sweatshops,” and the social protection of these workers. In terms of migration of skilled workers, there are concerns about “brain drain” when developed countries tap in to developing country supplies of high-tech workers.

### **Technological Change**

The study also addresses the dramatic changes associated with information and communication technologies (ICT). In developed countries, this is seen as the key to spurring output and productivity growth.

“Technological innovation also holds great promise for developing countries – first by offering these countries the possibility of becoming important locations for emerging technologies and services; second by providing the possibility of ‘leapfrogging’ earlier stages of development; and third by creating opportunities to alleviate poverty through improved productivity and growth,” says Betcherman. However, he warns that while ICT may have the potential to stimulate development and reduce poverty in low-income nations, here too potential is not being realized.

To start, diffusion of the new technologies has been heavily weighted towards the developed countries. This only widens existing gaps. The study uses data collected by the World Bank and the International Labour Organization as documentation. For example, the critical communications infrastructure is heavily concentrated in high-income countries. “Only three percent of the telephone infrastructure is in low-income countries and 18 percent in middle-income countries, with the rest in the richest nations. Tokyo and Manhattan each have more phone lines than all of Africa, according to World Bank statistics. Internet access is even more tilted towards high-income countries,” says Betcherman.

While the new technology overall seems to be associated with net employment gains, ICT clearly alters the composition of employment through the processes of job creation and destruction. Industrialized countries are increasingly involved in high-technology industries while shedding lower-technology ones. “However, developing countries – with their lower cost structure – can accelerate up the value chain. Two examples of this are India and South Africa which both have developed productive IT sectors with labor cost advantages,” says Betcherman. Unfortunately, there are not enough examples of developing countries building comparative advantages through a strong local skill base and infrastructure, and an appropriate regulatory framework.

### **Informalization**

At the same time that globalization and the ICT revolution have been taking place, we are also witnessing a somewhat unexpected trend – the

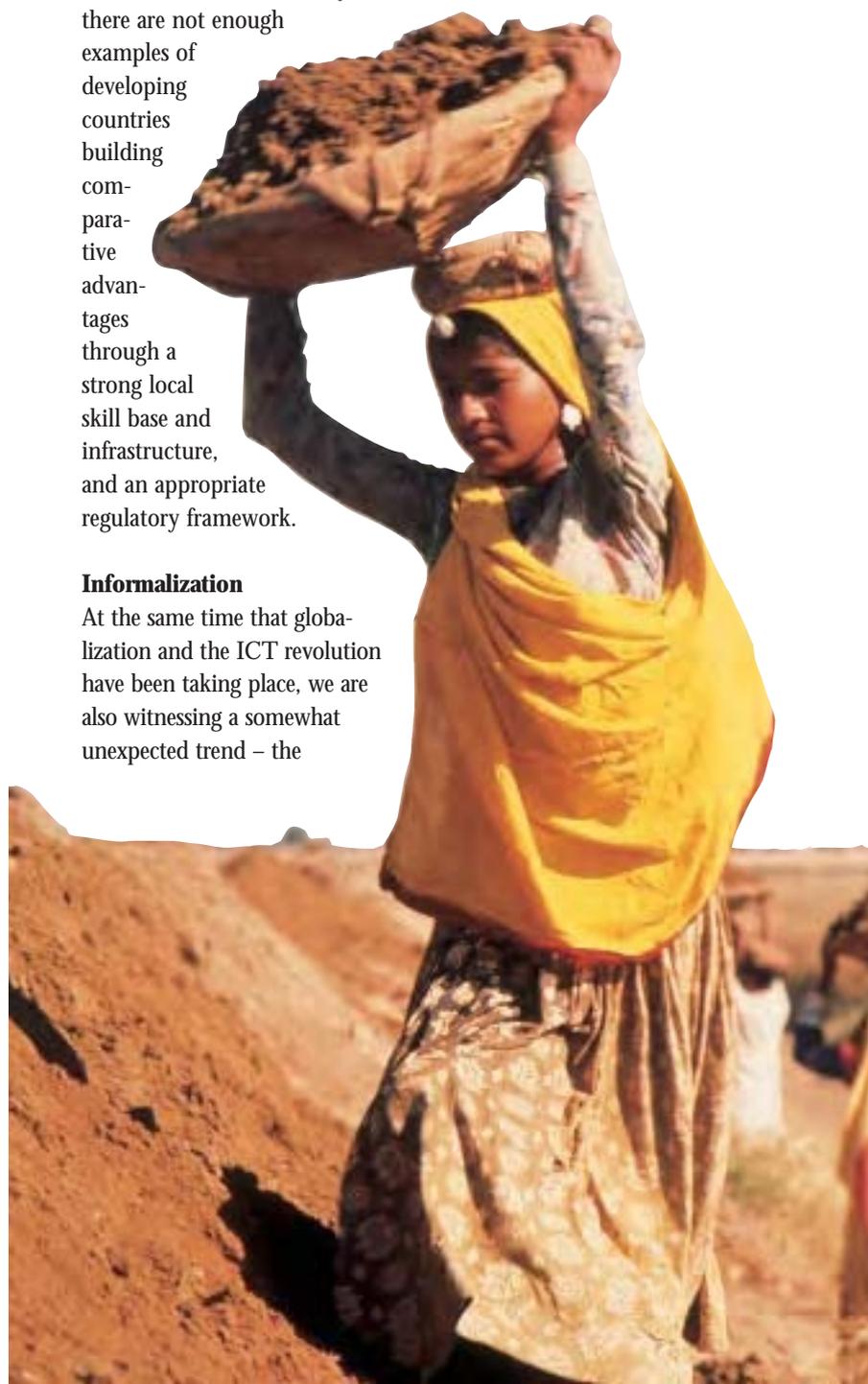


Photo: Ray Willin

growth in informal sector employment outside the reach of tax systems, social security plans, and government regulation. “Development economists have traditionally assumed that informalization would diminish over time,” says Betcherman. “Yet in many, if not most, developing and transition countries, the opposite seems to be the case. This is challenging longstanding views of development, but also raises a number of challenges for policymakers.”

The exact size of informal labor markets is difficult to calculate because of data problems and difficulties in precisely defining the sector. In many developing countries, available estimates suggest that the majority of the labor force is in informal employment. These workers are often poor and — lacking formal social protection — are often especially vulnerable. At the same time, there is evidence that informal sectors also include dynamic and vibrant activities which make important economic and social contributions.

### The Challenges

#### Investing in Human Resources

Regardless of the stage of development, investments in human capital must be a high priority. “The implications of the economic and technological changes for public policy are clear. The importance of human resource development must be reinforced, from basic education to lifelong learning,” says Betcherman.

“If globalization and technological change are to change present opportunities for economic growth and employment generation, human capital is a crucial factor in taking advantage in these opportunities as well as minimizing social costs associated with adjustment. This is true at the individual level as well as the national level,” he continues.

#### Social Protection and Regulation

The social protection of workers has been strained by the growth of informal employment and the limitations of traditional, informal means of social risk management. This has been exacerbated by the major crises that have affected so many developing countries in recent years. For example, the East Asian financial crisis quickly spread to the labor market, resulting in large-scale layoffs, real wage cuts, a deterioration in working conditions, and substantial flows of workers from the formal to the informal sector. While informal employment and informal community and family support helped many workers in the region, the rising hardship was evident. Governments were not prepared to deliver labor market and social protection programs when the labor market situation called for it. One lesson learned from this experience has been the need to put in place sound and realistic social policies that will better enable countries to deal with future crises. From his work on the East Asian crisis, Betcherman has seen that policy interventions can be improved by better information systems,

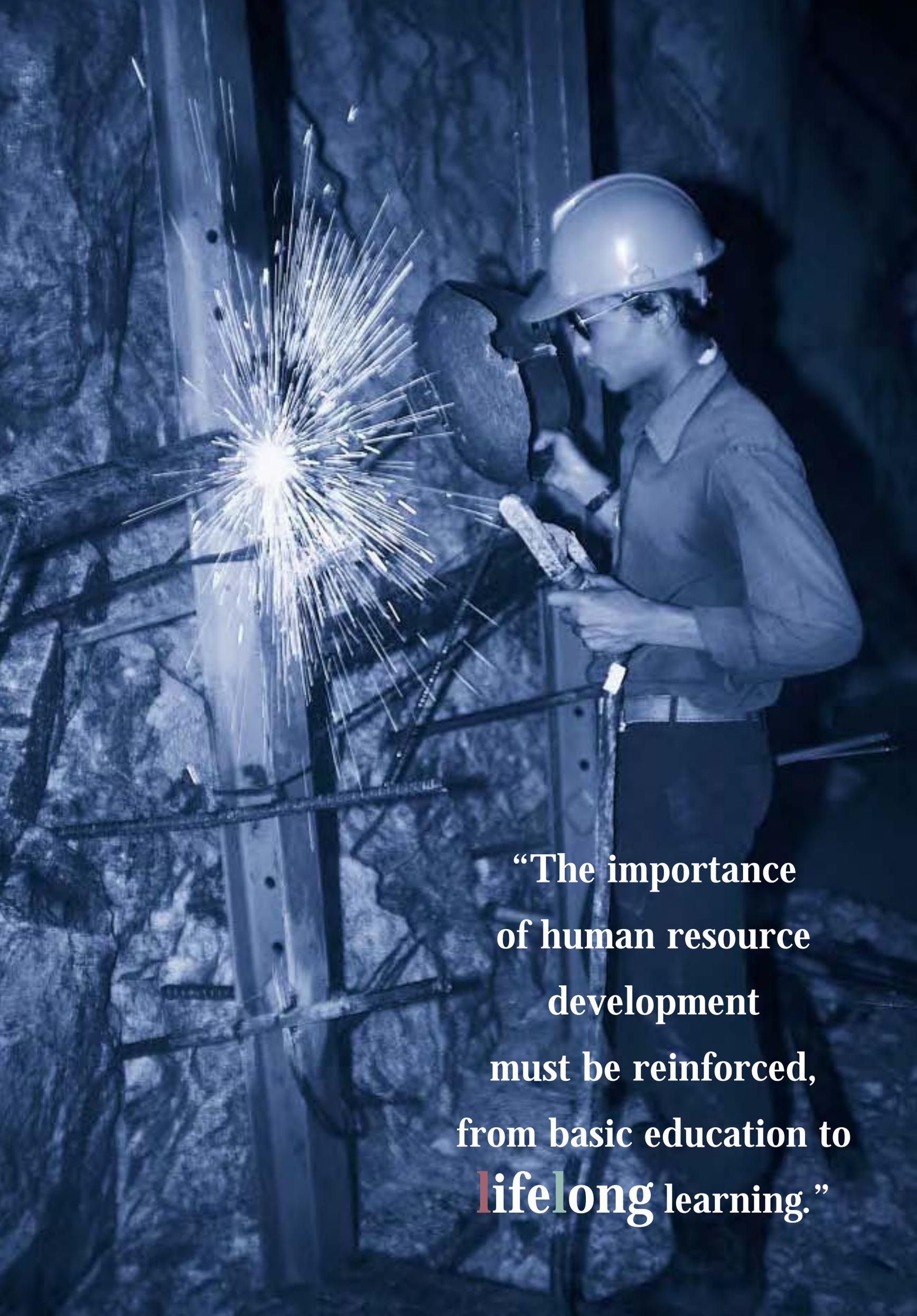
more responsive institutions, and better coordination across agencies and programs — areas where he and his team can provide technical assistance.

Policymakers must also regulate labor markets more efficiently. There are many aspects involved and views are diverse. This issue is becoming more complex with expanding globalization as countries are becoming increasingly concerned about staying in line with their competitors and as many labor market issues also spill across national borders. What is critical is the link to economic and social outcomes. How the labor market is regulated can affect the rate of job creation and destruction, productivity, wages and profit; and the degree of social protection afforded workers. Important tradeoffs must be understood and taken into account by policymakers. For example, strong employment protection rules are understandably attractive to governments concerned about the vulnerability of workers. However, this may come at a price as employers may be reluctant to take on workers. Rigid hiring and firing rules tend to benefit “insiders” on the job market while having the opposite effect for the “outsiders” who are often women and young workers trying to get a foothold in the labor market.

### The Way Forward

The labor market challenges faced by the developing world are formidable. Betcherman finds some success stories that can be told, but these are overshadowed by the troublesome trends. He remains hopeful, however. “The experience of the developed countries and their cutting-edge practices can offer a useful guideline. Collaboration ‘across the development divide’ will be essential as well as always keeping the unique ‘initial conditions’ in developing countries in mind,” he says. ▲

*Gordon Betcherman is Senior Economist and leader of the Labor Markets Team in the Social Protection Unit in the Human Development Network at the World Bank. His paper “An Overview of Labor Markets World-Wide: Key Trends and Major Policy Issues,” will be published soon.*



“The importance  
of human resource  
development  
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**lifelong** learning.”



Photo: Lotte Lund

# Thailand After the Crisis

After the economic crisis of 1997 revealed stark shortcomings in social protection, the Thai government took action. Today, social protection has become a cornerstone in the broad set of reforms to rebuild Thai society.

by Lotte Lund

The financial crisis of 1997 revealed several structural inadequacies in Thailand's social protection system, as Thai workers had to rely on their own resources, their families, their employers, and their neighbors to survive the severe contraction of the economy. The government is now working with the World Bank and other donors to put in place policies and programs which will better protect Thai workers in the future.

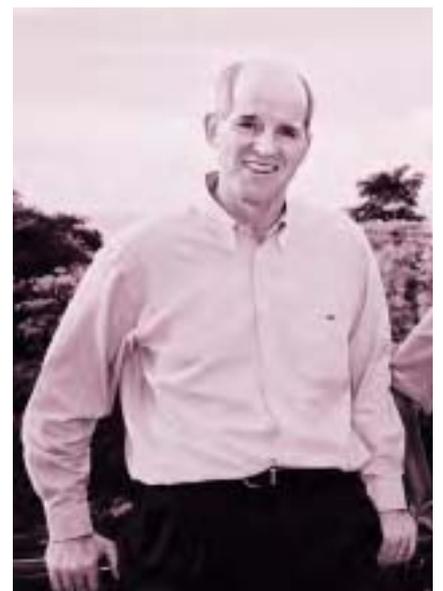
Thai workers have been the unsung heroes since July 1997, when Thailand became the first of the East Asian developing economies to be hit by a global financial crisis. Thai workers adapted to the economic downturn by utilizing their informal safety nets, reducing working hours, cutting back on luxury expenditures, relying on transfers from friends and family, and other private measures that demonstrated Thai self reliance in dealing with adversity. However, the crisis also revealed how the poorer wage earners had been put disproportionately at risk due to the lack of effective labor market policies leading up to the crisis. This was made evident in a study, "Thai Workers and the Crisis," recently published by the World Bank Office in Bangkok in cooperation with Thailand's National Statistical Office.

"While the government response to the economic crisis has been significant and effective in easing impacts, some of it came rather late, especially the employment programs targeted towards the poorer members of the society. This reflected the lack of safety net preparation for a completely unexpected and unprecedented economic contraction," says Christopher Chamberlin, Lead Operations Officer in the World Bank's Bangkok office, who has worked closely with the Royal Thai Government on the reform process since the crisis. An ADB social sector loan was the first tranche of social assistance, followed by the World Bank Social Investment Project (SIP), and then the Government's stimulus package in 1999.

## Response to the Crisis

The crisis response package was financed by external borrowing. In March 1999, the Cabinet approved the borrowing of US\$1.45 billion, the so-called Miyazawa package – named after Japan's Finance Minister at the time. The Miyazawa package consisted of loans from the World Bank, the Asian Development Bank, the Japan Export Import Bank and the Japan Bank of International Cooperation (JBIC). It was by far the largest of the interventions targeted at the poor and unemployed, providing employment to 88,967 graduates and to 3.4 million unskilled workers for an average of 18 days.

Another important project implemented during the crisis was the SIP, co-financed by the Thai government, the World Bank, JBIC, UNDP, and AusAID for a total of US\$450 million. Launched in November 1998, SIP scaled up government safety net programs that were constrained by budget austerity and supported a new program to finance community-led safety net services. Nine different government entities received financial support from SIP, but the most dramatic performance was turned in by the Social Investment Fund. This new institution was created to focus on community and village level safety net services and mobilize a large voluntary response from civil society to help implement the program in some of the poorest communities in Thailand.



Christopher Chamberlin ►  
leads the World Bank's  
effort to aid Thai workers.

Photo: Lotte Lund

## Transparency: The SIP Story

A mid-term review found that SIP has enjoyed high beneficiary satisfaction and high civic involvement. An important factor in the success of the project so far has been that its transparency reached unprecedented levels for Thailand via an internet database of 12,000 SIP sub-projects. The website monitors the implementation of the sub-projects through up-to-date information pertaining to project activities and contracting. Daily updates are entered by the different ministries and agencies implementing SIP. The database is used by the Government to report on SIP progress. Ordinary citizens can call up a report on sub-projects in their own province or by sector. The website is presented in both Thai and English and can be accessed at <http://www.thaisip.org>.

Transparency has helped create a healthy competition among the SIP implementing agencies, while creating a helpful awareness of potential public scrutiny. The Ministry of Labor and Social Welfare (MOLSW) was the first to launch field activities in training courses for the unemployed. Soon the Ministry of Interior and other agencies followed with their public employment generation programs. Mr. Sommai Phasee, Deputy Permanent Secretary in the Ministry of Finance, played a leading role in the design of both SIP and the Miyazawa initiative. “The large number of beneficiaries of both Miyazawa and SIP helped in reducing unemployment at a time of sharp economic distress, while setting up good models for transparency and project management.”

### A New Development Partnership

As Thailand moves out of the crisis mode and builds on the lessons learned over the past few years, the World Bank and Thailand's other development partners are working with the government to develop an approach to poverty reduction which mirrors Thailand's holistic development framework. This cooperation, known as the Country Development Partnership (CDP), establishes a roadmap for reforms in strategic areas, while mobilizing technical assistance for capacity building in order to achieve these reforms. The CDP process is driven by the Government and facilitates the engagement of the private sector and civil society in policymaking and capacity building. The four main reform areas of CDP are competitiveness, governance, environment and social protection.

Jayasankar Shivakumar is the World Bank's Country Director for Thailand and the architect of the new CDP instrument. “Thailand is a unique client and we needed a unique instrument to serve our client's needs. So, the CDP instrument responds to the Thai appetite for sustained policy innovation, while providing resources on a grant basis so that public debt levels, already increased due to the crisis, are not augmented. Should macro or sectoral conditions change and external financing becomes an issue, the CDP could, at a later date, be used to provide rapid financing of the well identified and analyzed priorities in any of the four reform areas.”

The centerpiece of the Social Protection Country Development Partnership (CDP-SP) is labor market policy. The program is set up as a three year rolling reform program financed through grant resources. It falls within the mandate of Thailand's Ministry of Labor and Social Welfare, focusing on four areas – occupational safety and health, employment services, labor market information and social assistance – as requested and defined by the government. In all these areas, realistic benchmarks and targets are being identified along with activities and technical assistance that will enable these targets to be met. Furthermore, a broad range of stakeholders – including workers representatives, employers, other relevant ministries and donors – are being closely consulted and are involved in this process. Ian Chambers, director of the Bangkok Area Office, of the International Labour Organization (ILO) welcomes the CDP-SP. “It is useful for the World Bank to enter in this way and to work with the stakeholders in helping the government develop a coherent program of reform in the labor field.”

This program also has been well-received by the Government. “The crisis brought to the forefront Thailand's need for a comprehensive social protection package. I am glad to say that the Thai government is moving actively in this direction and that our partners, including the World Bank, are supporting us in this process” says Mr. Elawat Chanadrprasert, Permanent Secretary of the Ministry of Labor and Social Welfare.

### Safety and Health First

Recent data has indicated both a sharp increase in the number of reported industrial accidents and a rapid increase in the number of small and medium scale enterprises (SMEs) in Thailand over the past few years. The two may be linked. Although survey information on accidents in SMEs is scarce in Thailand, evidence from other countries highlights the inverse relationship between the number of accidents and the size of enterprises. In addition, evidence points to the limited coverage of workers' compensation schemes in protecting workers who are victims of industrial accidents in Thai enterprises.

In order to improve occupational safety and health (OSH) compliance, coverage and efficiency, CDP-SP will evaluate the performance and effectiveness of Thailand's current OSH standards, regulatory framework, institutional structure, and expenditure and financing patterns. Based on good practice lessons of international experience, CDP-SP will assist the development of improved OSH programs. In addition, the use of innovative financial incentives aimed at developing and implementing cost-effective OSH programs with small and medium sized firms will be explored. Finally, CDP-SP will work with the government in addressing the limited coverage of the workers' compensation scheme in Thailand. The ILO is providing technical guidance for CDP-SP in this area.

#### Improved Employment Services

Another crucial CDP-SP component will improve the coverage and effectiveness of Thailand's employment services. Thailand's new constitution, passed in 1997, emphasizes the Thai government's commitment to provide employment opportunities to all people of working age. Currently, services provided by the Ministry of Labor and Social Welfare are inadequate to meet the needs of the large number of unemployed and underemployed. Less than one-third of the unemployed looking for work are being served by public or private placement services.

The Royal Thai government is now collaborating with the World Bank and other partners in developing a reform program to improve the effectiveness and coverage of its employment service. The reform will also improve the legal and regulatory framework for private sector providers so as to expand their role in reaching unserved workers. The objective is to provide high quality job information, placement and counseling services to all segments of the labor market nationwide. The ILO, GTZ and JICA are key partners.

#### Statistics and Social Assistance

CDP-SP will also focus on building the National Statistical Office's capacity in labor market and social assistance data collection, processing and dissemination. Leading policymakers admit that they were acting in the dark when the crisis broke out, as they did not have the needed data in time to take appropriate action. This project will improve survey instruments that seek to assess the socio-economic and labor force conditions in the country and ensure that the data are appropriately utilized for policy and planning. Benchmarks have been developed for each year of the proposed partnership in order to achieve these objectives.

Finally, the CDP-SP will seek to improve the effectiveness of the delivery of cash and in-kind social welfare programs.

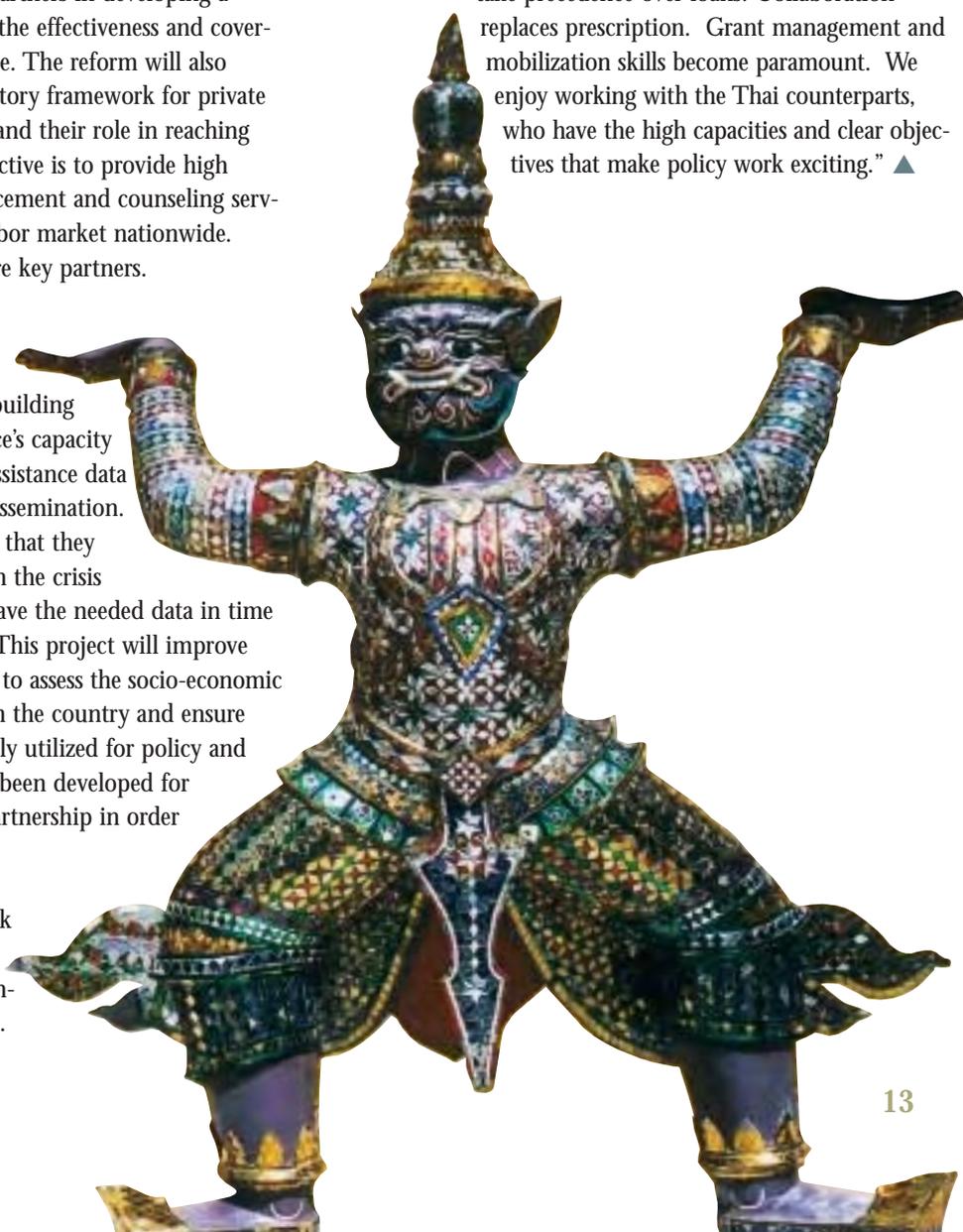
The Thai Department of Public Welfare must achieve new partnerships with civil society and local governments in more decentralized operations.

#### The Way Forward

Until the onset of the crisis, Thailand had relied mainly on rapid growth and full employment to improve standards of living. The economic crisis forced a review of that approach. As post-crisis interventions started to show results in the summer of 1999, pessimism about the prospect of recovery began to lift. Key questions remain about whether the recovery will be sustained; whether the income losses suffered in the crisis years will be recouped; and whether healthy growth will resume. The answers lie in the progress of structural reform to put Thailand back on track to prosperity.

"CDP-SP is a positive step in this direction. The Thai government is keen for CDP-SP to succeed. We have tried to focus CDP-SP in four core areas but there is demand to expand it so we are exploring the possibilities of extending the partnership to include new areas such as unemployment insurance, minimum wages and services and grievances relating to labor disputes," says Mr. Kirisak Chancharaswat, the CDP-SP project director within MOLSW. Echoing those sentiments,

Christopher Chamberlin, the task manager of CDP-SP says, "This is a challenging new initiative. It calls on the Bank to think in new ways and provide services with a fresh perspective. Reforms take precedence over loans. Collaboration replaces prescription. Grant management and mobilization skills become paramount. We enjoy working with the Thai counterparts, who have the high capacities and clear objectives that make policy work exciting." ▲



# Feeling Lucky

*A well-organized labor force helped a Thai textile company survive the crisis.*

Luckytex, a textile company located in the industrial area of Bangpoo-Mai, north of Bangkok, is a good example of how a company can benefit from a well-organized workforce and close relations between workers and management. Luckytex employs 563 workers, of whom about 400 are members of the union.

"I am sure our good working relations here is one of the reasons why we as a company managed to stay healthy during the crisis," says Managing Director Varoon Laoitthi. "Management and workers were fighting for the same goal. We were in the same ship and we had to work together. Otherwise the ship would sink," he says.



When the crisis hit in 1997, the cost of imported raw materials for the production of Luckytex jumped 100 percent, so profits went down dramatically. Rather than immediately lay off workers, management and workers sat down together and drew up a plan for the company. "20 years ago, we would just have reduced the number of workers. This time we worked out a long-term policy. If we did not have this constructive communication within our company, I think the factory would have closed like many of our competitors did," Varoon says.

The new plan involved sacrifices for all, including management. "The managers took salary cuts. The workers cut their working hours so nobody was laid off. We also made a plan for saving energy," he explains.

"Many managers have the wrong impression of organized labor. Often the employees feel that they are being taken advantage of. Our company's philosophy is that we stand on three pillars: customers, employees, and shareholders. We must keep all three pillars strong, and that is why we manage to stay above the line," explains Varoon, who himself started out on the floor in Luckytex and has worked his way up within the company. ▲



Photos: Lotte Lund

# Matchmaking in the Labor Market: The Role of Private Employment Agencies

Private employment services using the efficiency of the Internet are now playing a crucial role in matching job-seekers with job-vacancies in Thailand. Existing regulations have been so strict that many of these commercial services are de facto illegal. In cooperation with the World Bank, the Thai government is now working on redesigning the legal and regulatory framework in order to bring the private service providers on a level playing field while ensuring that they provide high quality services.

The Thai Department of Employment's Senior Expert on Labor Market Analysis, Pirune Marakatat, is very pleased with the development. "The public system is bureaucratic. People need to sign up and become members and fill out forms in order to be able to use our system. Many of the private sites are more convenient. If the private sites are doing a good job, I think we should take advantage of it and cooperate with them," she says. ▲

## Time to Put on the Hardhat

Economic loss from work related accidents in Thailand has been estimated at 4 percent of the country's Gross Domestic Product. At the same time, the number of inspectors is so low that it would take them 10-20 years to inspect all registered firms just once, according to Dr. Chaiyuth Chavalitnitikul, Senior Expert on Occupational Safety and Health of the Thai Ministry of Labor. He is therefore pleased that a primary objective of the Country Development Partnership (CDP) between his country and the World Bank is to improve working conditions in the Thai labor market.

The number of reported industrial accidents in Thailand has increased sharply in the last decade. So far, the Government has responded with new regulations mandating companies of more than 50 employees to set up a safety and health committee and to appoint professionally trained safety officers. In addition, all managers and supervisors of these larger companies are required to receive at least two days training on safety and health issues. However, much more needs to be done in order to ensure that all workers – including those working in small enterprises – will be eligible to receive workers' compensation if they suffer an accident.

CDP-SP will further improve safety standards and regulations as well as the level of compliance in the small and medium-sized enterprises. The new schemes encourages workers and employers to work together. ▲



Shipyards  
Workers in  
Thailand.

# Toil, Sweat, and Trade:

## What Can Be Done to Improve Working Conditions in Developing Countries?

by Amy Luinstra

In Bangladesh last November, 1,250 workers at Chowdhury Knitwears scrambled desperately to escape a fire started by faulty electrical wiring. Fifty-two of them, mostly young women and a few children, died – either trampled, suffocated or burned – when they found the main exit locked.

In Indonesia last January, local researchers revealed widespread verbal abuse, physical and sexual harassment, and accusations of denied medical services in footwear and apparel factories. Along the United States-Mexican border, women workers in foreign-owned “maquila” factories continue to be subjected to illegal pregnancy tests and fired if the results are positive. Most abhorrently, in parts of South Asia, children have been found chained to looms, forced to make carpets that eventually reach the discerning markets of North America and Europe.

Few disagree that there is something terribly wrong here. Lower wages in developing countries are to be expected for various reasons outlined in economics textbooks, but why does such production seem to defy basic standards of decency so frequently?

### The Global Production Labyrinth

Identifying the causes of sweatshop conditions in developing countries is only slightly less contentious than prescribing solutions. Most will agree, however, that it has something to do with globalization – a process qualitatively different than the expansion of trade and integration of national economies that occurred throughout the last century. Globalization is driven primarily by a segmentation of production into many stages in many countries.

The vulnerability of countries forming the links at the bottom of this global supply chain is underscored by the dynamic nature of such production. Unlike previous eras of growth in international commerce in which multinational firms established and operated facilities in other countries, under current practice, multinationals contract with factories which may be producing goods for many different firms. Contracts are often short term, leaving the multinational firms the flexibility to move production quickly to take advantage of incentives offered by other countries, changing patterns of trade, more favorable exchange rates or other changes in the institutional environment.

The diffusion of production across a global supply chain complicates government efforts to collect taxes, regulate labor practices, and carry out other public sector responsibilities that were manageable when firm activities were more consolidated. Consider, for example, the jurisdictional and capacity issues involved in the following scenario cited by Aret Van Heerden of the Fair Labor Association: A multinational name brand clothing firm from Country A contracts with a factory owner from Country B for production of merchandise according to certain design specifications. The factory is located in Country C and staffed with migrant workers from Country D. Which labor law applies? Who is responsible for enforcing the law? What incentive exists for authorities to sort out the jurisdictional conundrum and regulate the working conditions in this factory?

The answers are not clear and the incentive issue is paramount. Understaffed labor ministries not only lack the capacity to inspect factories, they often lack the desire or mandate to do so. Although the evidence supporting a “race to the bottom” is not conclusive, governments are worried that tightening enforcement of labor laws will chase off much needed foreign investment and jobs. In a country like Bangladesh where garment manufacturing accounts for 75 percent of export earnings, this fear is understandable.

### Filling the Governance Gap

If the government authorities responsible for labor inspection and enforcement are not able to ensure decent working conditions in these factories, who is? In short, no one. The vast majority of production for the global economy remains unregulated.

To be certain, the International Labour Organization (ILO) plays a vital role in developing labor standards and building capacity of governments and employer and worker organizations. While their technical expertise on labor standards is unparalleled, the ILO is not a global labor inspectorate. Nonetheless, the ILO’s established supervisory mechanisms provide an important forum for airing complaints against countries who violate international labor standards. Their extensive experience in the field also provides responsible businesses and policymakers a wealth of information about adopting appropriate regulation for workplaces in developing countries.

Limitations in labor standards enforcement at the national and international levels of public policy has created space for new forms of regulation, much of it emerging from the private sector. The following are examples of attempts to fill the governance gap in the global economy:

- International organizations develop guidelines for multinational enterprises and make compacts with companies to disclose information on labor practices.
- Rich countries include mechanisms for promoting better labor standards in bilateral trade agreements with developing countries.
- Trade union organizations negotiate framework agreements with prominent multinational firms.
- Competing companies join forces to develop mechanisms for assuring customers that products were not produced with exploited labor.
- Non-governmental organizations establish labeling schemes in an attempt to guarantee retailers and consumers that products were produced under fair conditions.
- Students mobilize university campuses to boycott sweatshop goods.
- Human rights advocacy organizations bring – and win – class action lawsuits against American retailers for violations of worker rights in production facilities abroad.
- Concerned activists inundate offending companies with email and faxes when tipped off by an ever-increasing network of watchdog organizations in developing countries.

Consumer concerns have fueled many of these initiatives by multinational corporations (MNCs). A 1999 survey of American consumers by Marymount University found that three-quarters would avoid shopping at a retailer that they knew sold garments made in sweatshops. An overwhelming 86 percent would pay an extra dollar on a US\$20 garment if guaranteed that the garment was made under fair conditions. Multinational corporations are increasingly responsive to such concerns and beginning to accept responsibility for the conditions under which their goods are produced – even when those goods are made by factories they don't own.

The reputational risk is even higher for major name brand corporations. “Marketing [by high-end merchandisers] is no longer on a cost basis, but on an image and status basis,” explains Pharis Harvey of the International Labor Rights Fund. News stories of sweatshops and exploitation of workers are the fastest way to expunge the images of vitality, sophistication, and health these corporations are promoting.

Harvey envisions a future where source countries compete on the basis of good working conditions, rather than low wages. The key to creating a competitive market for labor standards is widely accessible and independently verified information about factory conditions. Sabel, O'Rourke, and Fung (May 2000) outline a proposal for an alternative regulatory regime they call

## The Original Purveyor of International Labor Standards

The International Labour Organization (ILO), a specialized United Nations institution, has been working to improve working conditions worldwide since 1919. At the ILO, representatives of workers, employers, and governments negotiate international labor standards that can be ratified and implemented by member states. The system has produced an extensive body of 183 Conventions and 191 Recommendations on labor practices ranging from fundamental rights such as freedom of association to technical guidelines on employment services.

In 1998, the ILO issued the Declaration on Fundamental Principles and Rights at Work. The Declaration identified the following four principles as core labor standards, applicable to all countries, regardless of level of development. The Declaration emphasizes the obligation of members to “respect, promote, and to realize,” these principles, even if they have not ratified the relevant ILO conventions.

- Elimination of all forms of forced or compulsory labor
- Effective abolition of child labor
- Elimination of discrimination in employment
- Freedom of association and the right to collective bargaining

<http://www.ilo.org>

Ratcheting Labor Standards based on these principles. They propose ranking companies on the basis of their social performance and the rate at which they improve. The rankings and the method used to determine them would be available to the public. The incentive for both companies and monitors to improve would force best social practice to continually “ratchet” upwards in a race to the top. (See Social Protection Discussion Paper No. 0011, available at <http://www.worldbank.org/sp>).

All this activity to promote better working conditions has yielded a few success stories. Workers at selected factories in Bangladesh's export processing zones are given safety equipment and have access to on-site medical facilities, childcare, and banks. Workers in El Salvador filling orders for the Gap enjoy clean, well-ventilated factories and have recourse to independent monitors for complaints. An employers' organization in the Philippines is exploring ways to improve labor practices and become known as a location for ethical sourcing.

## Limits of the Response

Despite the efforts of MNCs to adopt, monitor and enforce codes of conduct within their supply chain, the scenarios described at the beginning of this article are still common. As the players in this field struggle to define good practice, improve their credibility, and have more impact on the ground, other forces are pushing in the opposite direction. The fragility of economic recovery in East Asia and worrying signals from a cooling American economy are heightening competitive pressures in these industries. Companies may be looking to cut costs and if there is anything corporations can agree on about monitoring, it's the expense.

Elliot Shrag, senior vice president for global affairs at the Gap clothing company, expressed frustration in a New York Times article of April 24, 2001. "We can't be the whole solution. The solution has to be labor laws that are adequate, respected, and enforced."

Adequate government leadership is key to reaching other sectors of the economy as well. Looking at the big picture, even the best efforts of the most responsible corporations are dealing with only a small slice of production in developing countries. It is for relatively few industries – apparel, footwear, sporting goods, and toys – that consumers seem to care about working conditions. Even within those sectors, it is primarily those corporations that rely on name brand loyalty – Nike, Gap, Mattel, etc. – that are forced to take consumer concern seriously.

## What Role for the World Bank?

The daunting challenge of improving working conditions along a complex global supply chain requires the cooperation and passionate efforts of many players. The

market itself has proven to be a potential ally in this endeavor as companies respond to consumer demand, but a holistic approach is needed. The ILO and national governments provide critical leadership in this field. Multinational corporations, monitoring organizations, trade unions, NGOs and consumer groups all play important roles as well. The World Bank is recognizing the relevance of workplace issues to its mission of poverty reduction.

The Bank has been seeking ways to support the various approaches to improving working conditions – building government capacity to enforce regulation; enhancing respect for international labor standards; and supporting development of private sector initiatives. The World Bank's Global Child Labor Program, for example, works closely with the ILO's International Programme on the Elimination of Child Labour and the International Organization of Employers to promote the eradication of the most harmful forms of child labor. The Bank's International Finance Corporation (IFC) provides guidance on good workplace practices to the investors it supports. Furthermore, Bank staff have begun to evaluate the status of core labor standards in the poorest borrowing countries. The Bank will continue to explore how to best encourage safe and fair working conditions in developing countries.

Jobs and income are self-evidently important for fighting poverty. But jobs that risk the health, education, and dignity of poor people are hardly the best option for poverty reduction. Security, empowerment, and opportunity – the key themes of the World Bank's 2000/01 World Development Report on poverty – may be possible in the global economy, but not without concerted effort and vigilance. ▲

# Improving Conditions of Work in the Global Economy

## Web Resources on Private Sector Initiatives

Business for Social Responsibility – <http://www.bsr.org>  
Campaign for Labor Rights – <http://summersault.com/~agj/clr/>  
Clean Clothes Campaign – <http://www.cleanclothes.org>  
Ethical Trading Initiative – <http://www.ethicaltrade.org>  
Fair Labor Association – <http://www.fairlabor.org>  
Global Alliance for Workers and Communities – <http://www.theglobalalliance.org>  
Global Exchange – <http://www.globalexchange.org>  
Global Reporting Initiative – <http://www.globalreporting.org>  
International Labor Rights Fund – <http://www.laborrights.org>  
Marymount University Center for Ethical Concerns – <http://www.marymount.edu/news/garmentstudy/>  
National Labor Committee – <http://www.nlcnet.org>  
Rugmark – <http://www.rugmark.org/>  
SA8000 – <http://www.cepaa.org>  
Sweatshop Watch – <http://www.sweatshopwatch.org>  
UNITE Stop Sweatshops Campaign – <http://www.uniteunion.org>  
Workers Rights Consortium – <http://www.workersrights.org>

Donors to the International Development Agency (IDA), the World Bank's concessional lending program for the least developed countries, wanted to draw attention to labor issues and working conditions worldwide. To do so, they recommended that the World Bank include analysis of core labor standards in its Country Assistance Strategies (CAS). The Social Protection Unit developed a website to help staff: (1) learn about core labor standards; (2) find information on compliance within particular countries; and (3) analyze the status of core labor standards and any potential World Bank response in the CAS.



<http://www.worldbank.org/cls>



# Decent Work and Poverty Reduction



by Stanley G. Taylor  
International Labour Organization (ILO)

International Labour Organization and World Bank partner to meet the challenge of globalization

The realization that globalization has meant both increased opportunity and prosperity as well as poverty and deepening inequality, has given new impetus to strengthening cooperation between organizations in the multilateral system. The 1997 Asian financial crisis unequivocally demonstrated the close relationship between economic, financial and social policies. Problems of human insecurity, unemployment and poverty have returned to the top of the political agenda in most countries. The social dimension of globalization and the issues it creates for the world of work have become major public concerns. There is a realization that markets do not function in isolation from their social and political contexts. Social protection and social dialogue are increasingly seen as integral elements of the adjustment process and employment issues are at the heart of poverty reduction.

In this context, the ILO's Director-General, Juan Somavia, has initiated a process of reform and modernization to meet the widespread preoccupation of people to find decent work in the midst of considerable change. The Decent Work agenda was created to promote opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity, whether in the formal or informal sector of the economy. Decent Work is the converging focus of the ILO's four strategic objectives: the promotion of rights at work; employment; social protection; and social dialogue. Promoting Decent Work requires the building of effective partnerships and alliances.

World Bank President James Wolfensohn's Comprehensive Development Framework, the Poverty Reduction Strategy Papers (PRSP) process, and the Prague commitment to make globalization work for all are entirely consistent with the Decent Work approach. As Mr. Somavia explained in his address to World Bank staff in March 2000, the traditional dichotomy between economic and social policy had often led to poor policy choices and underinvestment in social and human capital. Cooperation in integrating the Bank's poverty reduction and the ILO's Decent Work agenda could lead the way to more effective integrated solutions. Both were founded on the principles of participation and national ownership. Both share an analysis based on empowerment, security and opportunity. The increasing convergence between the ILO and the Bank

in understanding key questions such as the empowerment of the poor, overcoming social risk, the importance of good governance, the need for sound economic policies, and the centrality of productive employment in reducing poverty, provide a solid base for cooperation.

The ILO, in cooperation with its national tripartite constituents, is committed to supporting comprehensive development and the application of the Decent Work agenda to strengthen participation and maximize poverty reduction outcomes in the context of the PRSP process. In consultation with the Bank and the national authorities, five countries (Mali, Tanzania, Cambodia, Nepal and Honduras) were selected for a special effort, and progress is being made in an ever-broadening number of other countries as well. There are many other examples of good cooperation such as the joint work on East Asian labor markets including a recent joint publication [see pg. 36], and the on-going project to develop innovative ways of bringing healthcare insurance to workers in the informal sector.

The recent World Bank Labor Market Policy Course was a particularly good example of how the Bank and the ILO can bring their respective agendas together in a mutually strengthening way to serve the interests of a broad client group [see pg. 41]. Seven ILO resource persons joined the faculty for this two-week program covering such issues as labor standards, labor regulation, vocational training, employment services, workers in the informal sector and child labor. Three ILO staff contributed to the discussions as course participants. One of the sessions led by the ILO provided an opportunity for a discussion of labor standards and the ILO Declaration on Fundamental Principles and Rights at Work. The session also introduced the Bank's Core Labor Standards Toolkit [<http://www.worldbank.org/cls>], an excellent initiative – itself the product of effective cooperation between our institutions. The debate on the social dimension of globalization is taking place in a special working party of the ILO Governing Body where the Bank has made and is expected to continue to make an important contribution. ▲

*Stanley G. Taylor is the Coordinator for Relations with International Financial Institutions, Bureau for External Relations and Partnerships, ILO Geneva*



# Solidarity Forever?

## Trade Unions and the World Bank

Establishing education campaigns on HIV/AIDS; reaching out to workers in the informal sector; deepening collaboration with NGOs – the list could be an agenda for a typical meeting at the World Bank. Instead, these are some of the topics discussed at the World Congress of the International Confederation of Free Trade Unions (ICFTU) held in Durban, South Africa, in April 2000.

As the international trade union movement broadens its agenda on development issues, so has the scope of dialogue with the World Bank and the International Monetary Fund (IMF). At high-level meetings in Washington, DC, with the ICFTU last fall and with the World Confederation of Labour (WCL) this spring, debt relief and the Poverty Reduction Strategy Paper (PRSP) process featured prominently in the discussion.

The diversified agenda at such meetings continues to examine the bread and butter issues of the labor movement: core labor standards, including respect for freedom of association, restructuring of state-owned enterprises, and other employment and social protection concerns. Identifying a proactive role for trade unions in combating the spread of HIV/AIDS is also an issue of emerging importance. Trade unions are also concerned about World Bank relations and collaboration with other UN agencies, especially the International Labour Organization.

The World Bank has increasingly welcomed policy dialogue with the international trade union movement over the last three years. Establishing a formal mechanism for institutionalizing this dialogue with the World Bank and IMF was discussed in meetings with the ICFTU in October 2000. The format of such a mechanism will be determined in a follow-up meeting this July.

by Amy Luinstra

The trade unions have welcomed these efforts to improve dialogue at the international level. All agree, however, that better consultation with trade unions at the country level could play a bigger role in the Bank's operational work. Too often, trade unions note, consultation occurs only after important decisions have been made or with too little notice for meaningful contributions by trade unions.

One effort the Bank is supporting to improve consultation with trade unions not only by Bank staff but also client governments, is related to the PRSP process. At the request of selected governments undergoing preparation of PRSPs, the Bank will be offering workshops on civic engagement and participation for government officials and members of civil society, including trade unions, in various locations.

“Solidarity” between the Bank and trade unions is not likely any time soon, but it is not necessarily the most important goal of the discussion. Agreement to disagree, when based on frank dialogue and appreciation of each perspective, is a possible, even positive, outcome of ongoing dialogue. Furthermore, delineating areas of consensus and possibilities for joint work in high priority areas (e.g. HIV/AIDS, privatization) offers exciting opportunities for constructive engagement on our shared agenda of a world free of poverty. ▲

*For details concerning workshops on Civic Engagement and Participation in PRSP countries, contact Amy Luinstra in the Social Protection Unit by e-mail at [aluinstra@worldbank.org](mailto:aluinstra@worldbank.org).*

# Protecting



Durban, South Africa

# Workers in the Informal Sector

by Dhushyanth Raju and Sudharshan Canagarajah

Our recognition and understanding of the informal sector has been hindered because its activities and employment, almost by definition, resist easy identification and statistics. However, what is clear is that it is a pervasive and persistent economic feature in most of the developing world, particularly in low-income countries. Recent estimates indicate that informal-sector employment in developing countries accounts for anywhere from one-fifth to four-fifths of total (non-agricultural) employment. In terms of its contribution to GDP, the informal sector accounts for a quarter to two-fifths of annual output in developing countries in Asia and Sub-Saharan Africa. The importance of the informal sector is brought into sharp relief when juxtaposed against the stagnant formal sector characterizing many developing countries.

## What Exactly is the Informal Sector and Who Works There?

One problem with the informal sector is defining it. However, three decades of international research, much of it conducted by the International Labour Organization (ILO), has helped shed some light on its major characteristics. In fact, even the term “informal sector” is a misnomer because it encompasses economic activities in a range of sectors, including retail trade, transport, repair and maintenance, construction, and manufacturing. Hence, the term “informal economy” is more fitting. By and large, informal economy activities are competitive and unregulated. They are largely one-person operations.

Informal sector enterprises hire very few workers and a significant share of owners rely on family for additional labor. Employment relations are diverse, typically based on personal or social agreements rather than formal written contracts. Workers tend to be low-skilled and wages are generally low in both relative and absolute terms. Capital investments and technological inputs are minimal. Skills and credit are usually acquired through non-institutional sources.

It is commonly perceived that informal sector activities are illegal in the sense of operating outside the institutional and regulatory framework. But this does not hold uniformly across countries. Compliance with tax, social security, and labor regulations varies considerably, but appears to be associated with the size and type of activity. However, operating outside the legal framework imposes costs in the form of reduced opportunities and increased constraints, increasing both the exposure and vulnerability to risks faced by informal sector participants.

## Managing Risk

Workers and their households in the informal sector typically lack both income and social security. Because the majority are subsistence earners, saving to insure against risks from ill-health, disability, death and other shocks is nearly impossible as current basic consumption needs take immediate priority. Fluctuations or disruptions in income flows can have severe repercussions on the short- and long-term welfare of these households.

At the same time, most of the social and worker welfare schemes provided for the formal sector have been largely unavailable to the informal sector. Specific public programs targeting informal sector workers have had poor results in terms of both effectiveness and adequacy of protection.

There are numerous, often small-scale, NGO and bilateral donor programs that focus on assisting informal sector workers. Most programs have provided valuable support but have not been able to adequately and effectively address the sector's varied social protection needs. Furthermore, most of these programs do not contend with the structural problems in the economy which form the root cause of the challenges faced by the informal sector.

As a result, informal sector workers usually rely on informal household- and community-based measures to manage risks. However, these measures are often makeshift – a less-than-desirable response to the failures on the part of the State and market in the provision of social protection. Thus, there is a growing interest in developing comprehensive and sustainable social protection options for those in the informal sector. This has become an ever more compelling need in the wake of globalization and economic liberalization.

### Towards a Comprehensive Social Protection Approach

Any strategy to provide social protection for the excluded and marginalized needs to extend beyond income and social security after a risk has become a reality. Let's take the 2000/01 World Development Report framework of "Attacking Poverty" and apply its three-pronged strategy – opportunity, empowerment and security – to the social protection challenges in the informal sector. (<http://www.worldbank.org/wbp/wdrpoverty/index.htm>.)

A comprehensive approach based on the WDR framework will not only protect the informal sector from the consequences of risk, but can also help to prevent and mitigate risk. Macro policies – trade reforms, price and exchange rate liberalization – are some of the important instruments governments can use to promote opportunities for the informal sector. Such opportunities will help the informal sector grow, potentially reducing current risks. Adopting macro policies will reduce the need for many targeted programs that place a heavy fiscal burden on the State.

Through regulatory reform, policymakers not only promote opportunity, but also facilitate the social and economic empowerment of those in the informal sector. Studies show that the majority of informal sector workers are disenfranchised and disempowered. Addressing this problem will go a long way in meeting the needs of the informal sector and forms an integral part of a comprehensive social protection approach for the sector.

The third prong of the strategy is security. The recent Social Protection strategy paper, *From Safety Net to Springboard* (<http://www.worldbank.org/sp>), describes a range of social risk management mechanisms. The strategy emphasizes the need for government to rationalize and streamline social security programs to be administratively and institutionally effective in dealing with the needs of the informal sector. Such an approach would also entail extending some of the existing formal sector programs to the informal sector – an area which has seen some innovations in the recent past. Measures to develop community-based risk management instruments for the informal sector must also be promoted.

Policies and instruments can be designed to provide effective social protection for the informal economy. The future lies in a comprehensive approach – encompassing *security* against the many risks informal sector workers and their households face; stimulating *opportunities* to be gained through informal sector activity, and *empowering* participants in the sector. The informal sector needs to be recognized as an integral part of the modern economy and social protection as a proactive way of engaging with a dynamic and vibrant sector. ▲

*Dhushyanth Raju is a consultant with the Labor Markets Team in the Social Protection Unit and Sudharshan Canagarajah is Senior Economist in the same group.*

### Welfare Funds in India

Given the inappropriateness of formal social security provisions, alternative approaches have been sought to address the social protection needs of informal sector workers. Statutory "welfare funds" introduced by the government of India are considered an innovative approach in this regard. These funds provide basic social protection, primarily health care, housing, and education assistance to certain groups of workers such as those employed in the beedi, construction, film, and mining industries. They are financed by taxes levied on the production, sale, or export of products. This arrangement promotes worker participation in these schemes. A similar scheme is administered by the state and co-financed with contributions from employers, workers, and government.

For more information on welfare funds:

- *The Unorganized Sector: Work Security and Social Protection*, edited by Jhabvala, Renana and R.K.A. Subrahmanya (2000). New Delhi: Sage Publications.
- "Basic Social Security in India" by Shashi Jain (1999). *Social Security for the Excluded Majority: Case Studies of Developing Countries*, edited by Wouter van Ginnekan. Geneva: International Labour Organization.

# Appreciating the Informal Economy

by Francie Lund

## A Case Study from South Africa

Local governments worldwide are currently faced with the twin challenges of promoting orderly urban management and responding to new forms of labour market participation. More and more people are working informally – many in their own homes, but many occupy public spaces such as pavements and parks, typically vending or providing services. In some countries, such as South Africa, local governments complicate the situation by implementing programs to support micro-enterprises as poverty reduction measures. How can these sometimes conflicting policy purposes be reconciled?

The experience of Durban, South Africa, offers a useful case study. The Durban Unicity municipality faces major challenges: Durban has nearly 3 million residents, some in dense urban environments; unemployment rates are well over 20%; and there is deep poverty and steep inequality. The city wishes to improve its competitiveness and attract foreign investment.

The municipal government is increasingly aware that the health of the formal economy depends on the vitality of enterprises in the informal economy, but striking the right balance in public policy has been difficult. The informal sector was completely over-regulated during the apartheid years – entrepreneurial activity by black South Africans was harshly suppressed. In 1990, all regulations on informal trade were lifted, and many central city areas experienced a rapid increase in street vending activities, with growing negative public perceptions about this form of work.

In 2000, a far-sighted local Development and Planning Department working in collaboration with the Economic Development Department set in motion a year-long policy development process. A Technical Task Team comprising officials from different departments (such as Health, Informal Trade, Police, Transport, Development and Planning, Small Business Support, the Inner City Revitalization Project) was formed to undertake a research-based and consultative process to develop a policy for integrating the concerns and interests of informal workers into local government – in essence, a move towards proactive re-regulation.

A starting point for this initiative was the appreciation of the informal economy as a permanent part of the economic and urban landscape. The need for an enduring policy, rather than one-time targeted interventions, was fully acknowledged. Research about the dynamics of the informal economy and sector specific formal-informal economic linkages underpinned policy formation. Sufficient budget was allocated for consulting with formal business and especially with organizations of informal workers as well as NGOs. Vital contributions were gleaned from lessons learned in a number of innovative pilot projects that the municipality had already put in place in support of informal workers.

The product of this research and consultation has been accepted by the main political parties in local government. The basic components of the proposed policy are the following: (1) reduce costs of registering for informal workers; (2) place differentiated value on pavement spaces depending on location (in the same way that formal business space is differently valued); (3) identify cost-effective and practical ways in which local government can strengthen organizations of informal workers, so that the municipality has strong partners with whom to negotiate; (4) provide appropriate support services to micro-enterprises, including security of site on the street and in built markets, notification about impending changes, and referral to affordable small business advisers.

Institutional changes will allow for informal business associations to participate in the same committee structures as those of formal business. A simpler system of registration and licensing will be developed and positive incentives provided for different categories of workers to engage in upgrading activities. Those vending fresh food, for example, will get recognition and reward for improving standards of hygiene following courses run by the City Health Department. Similar incentives will be offered for crime prevention programs initiated and managed by informal economy organizations.

An Implementation Working Group has been set up to take the process forward and much will depend on continuing the development of capacity inside the local government. All involved are aware that this process of implementing reforms will be difficult and will depend on strong leadership, genuine commitment to institutional change from key officials, and strong negotiation skills on behalf of both officials and informal business leaders. However, it is clear to all stakeholders that this is the way to proceed to ensure that the informal sector remains vibrant and contributes to economic development and poverty reduction.

Local government needs to integrate appreciation for the importance of the informal sector into its economic development strategy and its urban planning processes. Once clearly articulated and accepted policies are in place, the specific role of local government in assisting with building schemes of social protection can be explored. ▲

*Professor Francie Lund of the School of Development Studies, University of Natal Durban, South Africa, worked as external adviser to the municipal task team which developed a policy for the city's informal economy. She is also the part-time coordinator of the Social Protection Programme of the International Research-Advocacy Network, Women in Informal Employment, Globalizing and Organizing (WIEGO).*



# Entrepreneurship in 10 Square Feet

by Lotte Lund

Unemployed workers in the Philippines are struggling to make ends meet. Transplanting policies that work elsewhere is not the best option.

**O**n a Manila street corner, Eduardo Capio\* is proving his entrepreneurship in 10 square feet of pavement. In late 1999, along with 1,800 other workers, Capio lost his job as a machinist at the National Steel Corporation in the southern city of Iligan. Investors had been waiting out the economic slowdown and, because no new jobs were available in Iligan's local economy, he thought he would try his luck in Manila.

Capio and his family have tried coping with his loss of earnings by borrowing from friends and relatives. At times, they have been forced to part with pieces of his wife's jewelry at one of Manila's numerous pawnshops. He hadn't known about the small stash of semi-precious trinkets; apparently, his wife had bought some items on installment years ago and gradually paid for them when she worked as a part-time cook at an eatery near the National Steel Corporation.

He could not afford to stay unemployed, so every day you find him on the street corner selling fruit. The money he earns is crucial to his family's survival, but falls well short of supporting their previous lifestyle. They have cut many expenses, at times even for food. They did not seek the help of a doctor when one of the children was sick. Capio is now considering taking his younger son out of the private school and putting him into public school. He is hoping that his brother who works for a construction firm in Saudi Arabia will make good on his offer to help pay for the tuition of the older son set to enter college this June. Otherwise, the boy may have to quit school for a while.

Capio's story shares many characteristics with the stories of other unemployed workers in the Philippines. Over the last decade, the unemployment rate has been around 10 percent – significantly higher than in other Southeast Asian countries. And, like Capio, many workers have only limited means to cope with unemployment. Workers employed in the formal sector rely on severance pay although it is often difficult to obtain if their former employers face bankruptcy or are unwilling to pay. Even then, such workers are better off than the informal sector workers for whom there is little or no protection.

## Request for a New Policy

In 2000, a team led by World Bank Economist Milan Vodopivec, Makoto Ogawa, seconded from the Japanese government, and Jude Esquerra, consultant from the Philippines, conducted a study to evaluate policy options to help Filipino workers like Capio deal with unemployment. The team used the opportunity to analyze a variety of income support possibilities such as unemployment insurance, unemployment assistance, severance pay, unemployment insurance savings accounts, public works and micro-finance programs.

"The question of choosing the right program for the unemployed is very complex," explains Vodopivec. He lists a series of questions that needs to be addressed in order to make the right choices: How does a candidate program interact with other labor market institutions? Does the program respond to a country's income shocks such as recessions and natural disasters? Does the country have sufficient administrative capacity to carry out a program? Does the program fit into existing informal, as well as formal, market-based mechanisms of risk management? Or, is there a risk of disrupting or displacing existing mechanisms such as transfers between family members? Is the program attuned to the prevailing norms and culture?

Milan Vodopivec ►  
examined policy  
option for assisting  
unemployed workers  
in the Philippines.



\* A composite character

# “The question of choosing the right program for the unemployed is very complex.”

“Developed countries use unemployment insurance (UI) as the primary means of income protection of the unemployed. In these countries, UI has different objectives, but is not primarily an anti-poverty program. In low-income countries where the poverty problem is so much more pressing and where public policy must choose its priorities more selectively, unemployment insurance programs may make less sense,” explains Vodopivec. “By its very nature, UI is unlikely to benefit the poorest workers. Moreover, these programs are supposed to offer benefits only to those not working. In a poor country with a large informal sector, is it impossible to properly monitor UI claimants and, in any case, do we want to discourage informal employment as a means to cope with formal unemployment? There may be other approaches that offer higher welfare gains, especially to the poor and that do not displace existing social protection mechanisms.”

“After an in-depth analysis of the different options available to unemployed workers in the Philippines, it was clear that no program offered a single superior policy recommendation,” says Vodopivec. He and the team nonetheless drew policymakers’ attention to the possibility of a two-pronged approach that would enhance income protection for the unemployed as well as reduce the risk of becoming unemployed. Their recommendations also included interventions targeted to informal sector workers.

## Unemployment Individual Savings Accounts (UISAs) – An Idea Worth Considering?

The World Bank team recommended that policymakers explore the possibility of establishing individual savings accounts. Aimed primarily at formal sector workers, these accounts could be drawn on in periods of unemployment or could also be designed to assist workers in coping with other needs such as health care, education, and income for retirement as well.

“Unemployment Individual Savings Accounts are very much a new idea and, frankly, this remains an innovation that will require a great deal of on-the-ground testing. Under UISAs, firms and employers are required to deposit a fraction of workers’ earnings into a special savings account,” Vodopivec explains. “Upon separation and regardless of the reason for separation, workers are then entitled to draw upon their savings.”

On the positive side, it is expected that by internalizing the costs of unemployment benefits, the system avoids the “moral hazard” inherent in the traditional unemployment benefit schemes – workers who choose to stay unemployed in order to collect benefits. Given the weak monitoring capacity of the Philippines, this is a very important advantage, according to Vodopivec. He also argues that the administrative capacity for introducing such a system does not stand out as prohibitive. Pension systems, for example, require similar information systems.

Another important consideration is the potential savings in litigation costs. Because workers can access the savings accounts even when they leave a job voluntarily, the system could cut down on the court costs and long delays that often accompany disputes about severance pay which generally are only available to workers who have involuntarily lost their job. Finally, workers would monitor their own individual accounts, effectively avoiding the problem of employers who do not make their contributions under traditional schemes.

Vodopivec is not blind to the UISA systems’ most important shortcoming – the fact that it does not pool risk among individuals the way an insurance scheme would. This is especially a problem for young workers or labor force entrants who are not able to accumulate enough savings at the time of separation from work to tide the worker and his household over during the period of unemployment. To mitigate the absence of risk pooling, UISAs can be designed so that the government lends money – within certain limits – to the accounts where the balance falls to zero. At retirement, positive balances can be added to individual’s retirement income and negative balances forgiven. It is also conceivable that such savings accounts could be extended to non-regular workers and workers engaged in the informal sector, but that would require government incentives for those workers to join the program. Finally, precautions should be taken to prevent politically motivated investment of accumulated funds, Vodopivec warns.

### The Informal Sector

One option for informal sector workers - but not limited to them - is the enhanced use of public works programs. These programs usually have multiple objectives, although the functions of income support and the construction of infrastructure - such as building or repairing new schools, hospitals, and roads - are usually emphasized.

Whereas traditional construction firms may spend less than 10 percent of the total project budget on labor, a well-designed public works program can adopt labor-intensive methods in order to provide more people with jobs and save money on heavy machinery. "For example, for a subset of labor-based public construction programs of nearly 10 billion pesos or around US\$200 million in the year 2000, the Philippines Department of Public Works and Highways estimated it would be able to hire 45,000 workers, three times more than if standard technology was used," Vodopivec says.

Using more workers and less equipment is only one of the design issues confronting policymakers implementing public works. Vodopivec explains, "the programs need to be made self-targeting based on low wages, and to the extent possible, they should be broken into small contracts to provide entry-points for small contractors that have not sunk too many costs in machine-intensive construction technologies."

It is equally important to promote demand-driven mechanisms for the allocation of public works. This can be achieved even among the poor communities by tapping the local routines of collective action or *bayanihan*. There are numerous examples of *bayanihan* to mobilize labor for the common good, such as maintaining collective amenities like local roads and irrigation ditches, bringing in the harvest before the coming of the rains and, in the case of coastal villages, hauling in the catch from the sea.

### Preventing Future Disinvestments

Providing some means of income support to the unemployed is a critical step in managing risk, as outlined in the World Bank's Social Protection Strategy Paper. Programs must provide support to unemployed individuals facing hardship before their struggle to make ends meet forces choices that impair their long-term earnings and human development potential. Well-targeted public works projects and individual savings accounts may have the potential to do this for Filipino workers.

It is just such a dilemma that Capiro considers as he sits on the street corner in Manila. His own father was a poor farmer and was unable to send him to college. He now worries that his own sons may fall victim to the same trap.

Adopting the right mix of programs that is feasible, sustainable, and adequate to help unemployed workers such as Capiro is a great challenge but one that is critical for the future of his country. ▲

▼ Fruit seller on a street in Manila.





# A Realistic Approach to Active Labor Market Programs

by Amit Dar

## What policymakers should know before acting on behalf of disadvantaged workers

Active Labor Market Programs (ALMPs) – it sounds right. What policymaker does not want to be “active” in her policies? But are these programs that include a wide range of activities such as training, job creation, and job search assistance any good? Do they actually increase the employability and income of workers?

Evaluations of the economic impact of ALMPs are, at best, mixed, with many programs assessed to have little or no impact on the employability or earnings of participants (see table). On the other hand, ALMPs can serve important social objectives such as integrating marginalized groups into the labor market and promoting social cohesion. Recent World Bank studies evaluating the impact of active labor programs recommends considering the following issues carefully before designing and implementing active labor market programs.

### Priority Setting

ALMPs can have various policy objectives, including reducing unemployment in cyclical downturns, correcting structural imbalances, improving labor market function, and assisting disadvantaged groups of workers. In designing an overall strategy, it is important to identify which of these are the priority objectives because the objectives should determine the program choices and program design. Regardless of the specific objectives, one immediate priority should be to develop a strong employment service, the first link in the ALMP chain.

## The Roles of the Public and Private Sectors

The role of the public and private sector is a key consideration in developing an overall strategy and in designing and implementing programs. At one time among OECD countries, the public sector developed and delivered virtually all ALMPs, but governments have increasingly reconsidered the respective roles of the public and private (and non-profit) sectors. In many countries, possibilities have opened up for the other sectors to play important roles, at least in the delivery of services. This can lead to more diverse, innovative, and cost-efficient services and to programs that are more closely oriented to labor demand. However, even where the scope for private sector involvement is considerable, governments should retain the central role. They must be responsible for the overall system, ensuring that it remains focused on public priorities. They must also address distributional issues (e.g. adequate services for all types of workers) and provide critical public goods, that is, products or services benefiting the community as a whole. Governments must also be the catalyst for harnessing private sector involvement and other aspects of active labor market policy.

## Promoting Partnerships and Dialogue

The identification of priorities for ALMPs will benefit from ongoing dialogue between government, business, labor, and other relevant organizations (e.g. service providers). When this dialogue is conducted effectively, policymakers can maintain a close connection with the needs of the labor market and can maximize support for ALMPs. The dialogue needs to be carried out both at the level where priorities are set (e.g. nationally) and where programs are delivered (e.g. locally). Governments typically lead this dialogue.

## “Infrastructure” for the Labor Market

Critical infrastructure services include labor market information; a viable network of employment service offices; and certification and accreditation systems. Such services, inevitably the responsibility of governments, provide links between the labor market, service deliverers, workers, and employers. In countries where the development of active labor market programs is at an early stage, these services should be the first priority. Such infrastructure also is essential for future policy formation.

### Coordination within Government

In many countries, ALMPs are complicated by the fact that many government agencies are involved and coordination among them is insufficient. There are two problems associated with this coordination issue. First, multiple departments often are responsible for various aspects of active labor market programming and mechanisms are not in place to ensure that they are working together in an efficient manner, often leading to a duplication of effort. Second, priority setting and programming of ALMPs are often not coordinated with overall economic planning. Both of these problems need to be addressed through intra-government coordination to ensure the relevance and efficiency of active labor market programming.

### Policy and Administrative/Operational Capacity

Designing and implementing ALMPs requires considerable administrative capacity within government. In many ways, this is a more complicated area than “passive” income support programming. Capacity requirements differ significantly by program. For example, public works can be relatively straight forward to design and implement. As a consequence, they are often the major active labor market interventions in many developing countries. On the other hand, employment services require a lot: a network of facilities with extensive geographic coverage; the resources (technological and know-how) to generate and disseminate accurate and timely labor market information; skilled counselors; and reliable connections with the employer and educational communities. Training programs also require labor market information plus training and occupational standards, monitoring and evaluation capabilities, and the capacity to deliver good programs. Governments must recognize that capacity building is a slow, but essential process.

### Financing ALMPs

The starting question here concerns the balance of public and private financing. Clearly, the rationale for public spending is strong: market failures exist with respect to human capital investments and there is a public good element to ALMPs. However, there are also private gains afforded to employers and employees as a result of training and other interventions. Governments need to think about how this can be reflected in financing of ALMPs. They should consider the applicability of innovative financing arrangements (e.g. income-contingent loans) that address market imperfections, but reflect the private-return aspect of ALMPs. In terms of public financing, the essential choice for policymakers is to draw from general revenues or to finance ALMPs through earmarked funds based on employer and perhaps employee contributions. There are important considerations attached to each relating to fungibility, responsibility for labor programs, funding integrity, and incentives for formal employment creation.

### Monitoring and Evaluation

Monitoring and evaluation deserves special emphasis. In spite of the large public expenditures on ALMPs in OECD countries, rigorous evaluations of these programs have been relatively uncommon. In an effort to improve the targeting and efficiency of social programs, sound impact evaluation techniques should be used to evaluate active labor market programs. A good evaluation compares labor market outcomes for individuals who have gone through a particular program with those of a control group. A good evaluation also utilizes data on program costs to attempt to answer questions such as: What are the impact estimates of the program on the individual? Are the impacts large enough to yield net social gains? Is this the best outcome that could have been achieved for the money spent?

There are clearly many considerations involved in developing a strong active labor market policy. Nevertheless, over the long run, building ALMP capacity will be important as formal labor markets grow and as a skilled workforce becomes more important. Policymakers should not be discouraged from adopting ALMPs despite their disappointing performance in the aggregate. Well-designed programs can improve employment opportunities for some workers, particularly women and youth. The challenge is to learn from existing experiences and innovations and to direct future programming along these lines. ▲

*This article draws upon the following studies: (a) Active Labor Market Programs: A Review of the Evidence from Evaluations (by Amit Dar and Zafiris Tzannatos); (b) Active Labor Market Programs: Policy Issues for East Asia (by Gordon Betcherman, Amit Dar, Amy Luinstra and Makoto Ogawa). Both these studies are part of the Social Protection Discussion Paper Series and are available at: <http://www.worldbank.org/labormarkets>.*

## Overview of ALMP Evaluation Results

Program	Appear to Help	Comments
Job-search assistance/ Employment Services	Adult unemployed generally when economic conditions are improving; women may benefit more.	Relatively more cost-effective than other labor market interventions (e.g. training) – mainly due to the lower cost. Youth usually do not benefit. Difficulty lies in deciding who needs help in order to minimize deadweight loss.
Training of long-term unemployed	Women and other disadvantaged groups.	No more effective than job search assistance in increasing re-employment probabilities and post-intervention earnings. 2-4 times more costly.
Retraining in the case of mass layoffs	Little positive impact – mainly when the economy is doing better.	No more effective than job-search assistance and significantly more expensive. Rate of return on these programs usually negative.
Training for youth	No significant impact.	Employment/earnings prospects not improved as a result of going through training. Taking costs into account, the real rate of return of these programs is negative.
Employment/Wage subsidies	Long-term unemployed in providing an entry into the labor force.	High deadweight and substitution effects. Impact analysis shows treatment group does not do well as compared to control. Sometimes used by firms as a permanent subsidy program.
Public works programs	Severely disadvantaged groups in providing temporary employment and a safety net.	Long-term employment prospects not helped: program participants are less likely to be employed in a normal job and earn less than do individuals in the control group. Not cost-effective if objective is to get people into gainful employment.
Micro-enterprise Development Programs	Relatively older groups; the more educated.	Very low take-up rate among unemployed. Significant failure rate of small businesses. High deadweight and displacement effects. High costs – cost-benefit analysis rarely conducted, but sometime show cost to UI budget higher than for control group

# A New Vision of Policy after the Crisis: *EU and Japanese Government Support World Bank and ILO Research on East Asian Labor Markets*

**G**rowing unemployment, precipitous deterioration of wages, burgeoning informal sectors, and immediate strain on existing social assistance programs – there is no question that the 1997 financial crisis sharpened the focus of policymakers in East Asia. Long relying on economic growth to provide social protection, government officials now confronted the urgent need to assist workers directly. They did so through various means: scaling up or developing new public works programs; establishing microcredit schemes; offering retraining opportunities; and expanding job search assistance.

These programs, often hastily implemented, met with varying degrees of success. The need to evaluate programs and examine options for effective long term labor market policy with “new eyes” was apparent. In this context, the World Bank embarked on a collaboration with the International Labour Organization (ILO) to study the impact of the crisis on the labor markets, policy responses of the governments, and the lessons emerging from this experience.

by Amy Luinstra

Two major research projects materialized from this effort, both substantially funded by the Asia-Europe Meeting (ASEM) trust fund of the European Union. The first was a collaborative effort with the ILO, the Japanese Ministry of Health, Labour, and Welfare (JMHLW), and the Japan Institute of Labour to examine the regional impacts of the crisis and their policy implications. This project included national assessments in each of the five “crisis” countries (Korea, Malaysia, Indonesia, Thailand, and the Philippines) and a series of international policy papers. This work was discussed at a meeting in Tokyo in October, 1999. The success of the Tokyo event created demand in the region for further and more applied examination of employment programs. This took place at a follow-up workshop in Manila hosted by the Philippines Department of Labor in March 2001.

The Tokyo and Manila workshops were attended by representatives of trade unions, employers’ organizations, and government labor ministries from each of the five crisis countries and Japan, as well as resource persons from academia and international organizations. Intense discussion yielded consensus on the main components of a strong labor policy framework. Such a framework should include: active labor market programs, human resource development, a social safety net for workers, and appropriate labor laws and standards. Striking the right balance among these components requires close attention to the labor market situation and unique institutions in each country. The final conference papers from Tokyo have now been jointly published by the World Bank and the ILO. (Betcherman and Islam, ed., 2000, *East Asian Labor Markets and the Economic Crisis: Policies, Responses, & Lessons*). Papers presented at the Manila workshop are currently undergoing revision and will be published later this summer.



▲ Kunihiro Saito, President of Japan Institute of Labour.

The second project, led by the Korea Labor Institute and the World Bank, brought together a number of the region's foremost experts and international researchers to assess the labor market reforms in Korea following the crisis. As a leader in the region, the Korean experience with labor market reform has held great interest for countries in East Asia. In May 2000, a comprehensive set of background papers on this subject was discussed in Seoul at a workshop attended by a tripartite delegation from Korea, participants from other governments in the region, think tanks, academic institutions, and international organizations. The book from the Seoul conference was jointly published by the Korea Labor Institute and the World Bank (Par, Park, Betcherman, and Dar, *Labor Market Reforms in Korea: Policy Options for the Future*, available at <http://www.kli.re.kr>.)

The East Asian crisis likely has changed the way policy-makers view the role of labor market policies and programs in their countries. "New eyes" focus now on new possibilities for developing a skilled workforce, easing the transition between jobs, supporting unemployed and informal sector workers, and crafting labor market regulation to support both job creation and worker protection.

It took more than one set of eyes to envision these possibilities. This exciting progress in thinking about labor market policy in East Asia required collaboration among many institutions and individuals. Many thanks to the EU, ILO, Korea Labor Institute, Japan Institute of Labour, JMHLW, Labor Ministries, trade unions, and employer's associations of the five crisis countries and all others involved in making these projects a success! These key players are discussing future cross-country tripartite workshops to further labor policy formation and implementation in the region.

To order the book from the Tokyo conference, *East Asian Labor Markets and the Economic Crisis: Policies, Responses, & Lessons*, visit a World Bank Info Shop or order online at <http://www.worldbank.org/publications>. ▲

“The voyage of  
**discovery** is  
not in seeking  
new landscapes,  
but in having  
new eyes.”

*Marcel Proust*



# Employment Services @ Your Fingertips

*by Knut Leibold*

Information and Communication Technology (ICT) is playing an increasingly important role in the delivery of Public Employment Service (PES). In many countries, labor market information is being collected, stored, processed and disseminated with the help of automated systems. Such automation results in better operational performance of PES providers and improved quality of their program delivery.

Many OECD countries have already explored the potential of ICT for electronic PES delivery. They have moved public employment services online providing information as well as self-service transactions, e.g. job matching services through the Internet. Some developing and middle-income countries such as the Philippines and Poland are following suit. In Poland, for example, the Automation of Labor and Social Welfare Offices (ALSO) project included the automation of some 450 local labor offices throughout the country. As a result, the processes of job matching, vocational training, and unemployment insurance claim filing are now supported by ICT.

ICT offers potential not only for automating administrative and operational processes, but transforming the processes and organizational structures of PES providers. This allows PES providers to offer services on a one-stop basis. Instead of having to contact different departments for registration, job matching, career counseling, and benefit claim filing, job seekers can now be provided all the information at one place through an integrated ICT system. Besides increased operational performance and improved quality of service delivery, the customer-centered, one-stop approach results in higher level of customer satisfaction and improved reputation of the labor office.

In Turkey, the Automation of Local Labor Offices Project (ALLOP) is a good example of integrated PES delivery. ALLOP includes an integrated ICT platform through which one employee is the contact partner for all requests of a job-seeker, including labor market information, career counselling services and unemployment benefits. The integrated system is uniform in all 117 local labor offices which are linked through a wide area network. Thus, labor mobility is supported by providing the possibility to match jobs with job-seekers throughout Turkey in real time. In addition, the ICT system improves the process of collecting, processing, and distributing statistical labor market data which can be consolidated and delivered to policymakers through electronic channels.

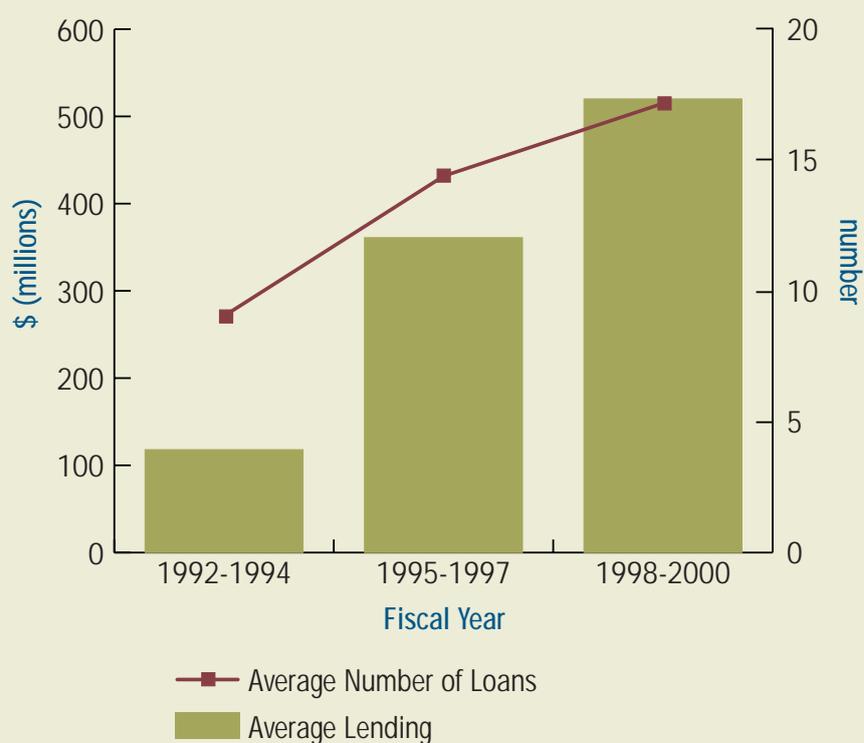
Are developing countries poised to take advantage of these technological advances? Initial indications seem to be positive. While internet penetration rates in many of these countries are low, PES providers are adopting alternative innovative delivery approaches. Mobile service centers, i.e. vans with a satellite dish and computer technology, are being used in countries like Brazil to reach out to rural areas. Radio browsing is another method where broadcast stations use the Internet to deliver information in local language through community radio channels (e.g. Sri Lanka). Policymakers in some developing countries are also thinking about using call centers or self-service kiosk systems in public places, such as shopping centers, libraries, telecenters, and schools to deliver these services.

# World Bank Labor Markets Lending

Lending for labor markets is an integral part of lending in the social protection sector. Figuring the total amount of such lending, however, is difficult. First, financing for labor market components often occurs in other sectors – rural (e.g. support for labor intensive public works), mining (e.g. labor redundancy support) and finance (e.g. micro-enterprise development support). Second, only a portion of a loan may be used on labor related activities and it is often hard to identify these amounts. Nonetheless, it is possible to derive rough estimates for labor market lending.

The graph below highlights the growing importance of labor markets in Bank operations – both in terms of financing as well as number of loans with significant labor market components. Between 1992-94, on average, the Bank lent US\$118 million annually for labor market related components with nine projects on average having significant labor market components annually. By the end of the decade (1998-2000), these numbers had risen to \$520 million and 17 respectively. ▲

Lending for Labor Markets (FY92-00)





Labor Core Course Participants

“We wanted to design  
a course that would  
**provide** participants  
a solid grounding in the  
key issues that arise in  
the labor market.”

# Cutting to the Core of the Issues

Success of New World Bank Labor Market Policies Course builds on knowledge sharing.

## Question:

How do you ensure that a group of 60 people from 25 developing and developed countries spend two weeks at the Bank and come out feeling that they've learned something worthwhile?

## Answer:

Put them through the Labor Core Course, of course!!

The World Bank's pilot *Labor Market Policies* training course (also referred to as the Labor Core Course) was held from April 23 to May 4, 2001. This course was jointly organized by the Social Protection (SP) Team, the World Bank Institute (WBI) and the Development Economics Group (DEC). "We wanted to design a course that would provide participants a solid grounding in the key issues that arise in the labor market. Our goal was to provide participants with cutting edge knowledge, good practices, and analytical tools on labor policies and programs to enable them to design appropriate labor policies and interventions aimed at poverty reduction and economic growth," says Michelle Riboud, manager of WBI's Human Development Division.

Planning for this course started last fall. The co-coordinators of the course, Gordon Betcherman (SP) and Hong Tan (WBI) organized a series of brainstorming meetings with labor market experts across the Bank to develop an agenda that would meet the needs of a diverse group of participants. Based on these consultations, it emerged that the course should focus on four crucial areas of policy concern in the labor market – unemployment and under-employment, labor misallocation, low levels of skills development, and inadequate and exclusionary social protection. Four modules were developed to focus on these issues. These included:

- **Active and Passive Labor Market Policies** – policies to assist the unemployed, through retraining, job search/matching, and direct employment creation, or through income support and unemployment benefit schemes.
- **Labor Retrenchment Policies** – policies to deal with labor adjustment issues associated with privatization, restructuring of state-owned enterprises and downsizing.

- **Skills Development for Competitiveness** – market for training and skills, its consequences for earnings and productivity, and alternative policies for financing and delivering training to formal and informal labor markets.
- **Emerging Labor Market Topics** – social protection for the informal sector and vulnerable groups, labor market regulation and core labor standards, the role of labor unions, child labor and discrimination.

The course emphasized the design and execution of government policies to address key labor issues and the role for non-government interventions. Case studies were used to expose participants to policy instruments that different countries have used as well as to put what they had learned into practice.

Realizing that in-depth analysis of all topics would not be possible, the organizers assembled a comprehensive binder of reading materials which would allow interested participants to delve deeper into the topic of their choice.

The resource people assembled for the course included leading experts on labor market issues from the World Bank as well as academia. The International Labour Organization (ILO) provided its leading experts to act as resource persons on various issues covered in the course.

The course attracted over 60 participants representing close to 25 countries from all over the world, with a wide spectrum of organizations and expertise – senior policymakers, technical staff of government agencies, academic researchers, trade unions, and staff from the World Bank and both bilateral and multilateral donor agencies.



▲ Hong Tan, one of the course organizers and Nazoria Baharudin, participant from the Malaysian Ministry of Human Resources.

The course led off with a provocative keynote address by Richard Freeman of Harvard University which set the tone for the remainder of the course. The main theme of this talk was *diversity*. Professor Freeman argued that the diversity of institutions and market settings is crucial to successful labor market policies. He cautioned that while market economies need basic economic freedoms, there is no blueprint or template of institutional structure or policy package that will fit all countries. Freeman stated that while it is very useful to learn from other countries' good practices, each country will need to develop labor policies and interventions based on their specific macro, social and labor market conditions. This message resonated well with participants and was reinforced in the discussions on the four sets of modules over the following two weeks.

Right from the beginning, participants demonstrated a keen interest in the issues. All sessions were peppered by thoughtful and incisive questions and comments by the participants. "We had hoped that these two weeks would provide participants with ample opportunities to interact professionally – not only with the resource persons – but also with each other and learn from other countries experiences in designing labor policies and programs," says Tan. "I am delighted to say that this is exactly what happened. The collegial atmosphere, high level of interaction and tone of debate ensured that the sessions were lively and benefited all involved."

Participants were told to organize themselves into groups, pick a topic of interest, and make a presentation on that topic on the last day, applying what they had learned during the course and based on their own expertise and knowledge. Participants broke up into four groups and chose the following topics – interventions for enhancing productivity and social protection for the informal sector; a case study of the informal sector using Peru as an example; effectiveness of training levies; a case study of minimum wages using South Africa as an example.

"These presentations were excellent. I was delighted that participants from such diverse backgrounds came together to discuss these issues and put up such excellent material, and that too in such a short period of time. What was also very satisfying to the organizers was that these presentations demonstrated that participants had taken away something useful from the course," says Betcherman.

Participants were also appreciative of the quality of the course, as evidenced from the feedback received from evaluations. Most participants felt that the course was of great interest and relevance, with high quality presentations and discussions and excellent logistical arrangements. While some felt that they would have wanted to go into some topics in more depth, most agreed that the course covered a large breadth of issues in a very stimulating manner and hoped to apply what they had

learned during the course in their own countries. Participants also felt that the course had provided them with an invaluable opportunity to network with professionals from all over the world who dealt with labor market issues on a daily basis.

The organizers expressed satisfaction with the outcome of this pilot course. Furthermore, according to Tan, "a very valuable externality from the course was that the interaction proved to be very beneficial – not only to participants but to Bank staff as well. Bank staff learned from the participants country experiences and expertise and we will attempt to apply what we have learned from participants in providing advice to countries."

WBI, SP and DEC are keen to develop this collaboration further and offer labor market courses in the future. The organizers agreed that they had learned valuable lessons from this pilot course which they would take into account when offering such courses in the future. "It is clear that there is a great demand for labor markets training provided by the World Bank, and we will strive to enhance the quality of the course to serve our clients better," says Tan. Adds Betcherman, "in terms of content, issues such as those relating to the informal sector will have to be given more prominence in the future. In terms of delivery, we need to work more closely with other partners in course design and delivery. We also need to create more time to tap participants skills and weave their knowledge into the learning experience. There could be more time allocated to participant-led sessions and these might be integrated thematically into the program. Adapting our material to distance learning and to regional courses is an obvious next step."

What will these three groups be up to next? Stay tuned at: <http://www.worldbank.org/labormarkets> and <http://www.worldbank.org/wbi/labormarkets>. ▲



# Meet the World Bank's Labor Markets Team

The Labor Markets Team consists of specialists working in the Social Protection Unit of the Human Development Network. Staff have wide-ranging experience in all regions. The Labor Markets Team identifies key issues for client countries and provides staff with up-to-date and accessible information on labor market interventions. The Team's strength is its capacity to bring together, evaluate, and disseminate empirical, cross-country experience and best practices.

With its strong relationships with the International Labour Organization (ILO), trade unions and employer organizations and other external partners, the Labor Markets Team can guide staff in building collaborative partnerships. The Team also works closely with labor market experts throughout the Bank and actively participates in a cross-network thematic group to share research and ideas on newly emerging themes in labor markets.

The work of the Labor Markets Team supports World Bank staff and client countries through the following activities:

- Research and Analysis
- Training Courses and Seminars
- Operational Support
- Quality Assurance
- Developing Collaborative Partnerships

## Areas of expertise of the Labor Markets Team

Priority areas for research and operational support are determined by the needs of client countries. The Labor Markets Team has expertise in the following areas:

- **Active Labor Market Programs** – program design and evaluation techniques for employment services, training, and job creation/maintenance schemes.
- **Vocational Education and Training** – reform and program design to maximize the effectiveness and efficiency of vocational education and training systems.
- **Income Support for the Unemployed** – appropriate policy choices to meet the needs and fit the circumstances of client countries.
- **Industrial Relations** – technical support on engaging trade unions and employer organizations in social dialogue in order to maximize participation and effectiveness in economic and labor market policymaking.
- **Informal Labor Markets** – development of sound social protection policies for the vulnerable workers of the informal market.



(left to right) Amit Dar, Makoto Ogawa, Sudharshan Canagarajah, Gordon Betcherman, Knut Leipold, Amy Luinstra, Milan Vodopivec

- **Labor Standards** – technical assistance in labor market regulation including labor codes and employment standards.
- **Other areas** – the Labor Markets Team also addresses other issues including the special concerns of vulnerable groups such as women, children, and youth and the use of information technology in program delivery.



<http://www.worldbank.org/labormarkets>

# *S***P***e***c***t***r***u***m**'s Resource Guide

## Labor Market Team Publications:

### *East Asian Labor Markets and the Economic Crisis: Impacts, Responses & Lessons*

This joint publication of the World Bank and International Labour Organization is available for purchase on the web at: <http://www.worldbank.org/publications>.

### *Labor Market Reforms in Korea: Policy Options for the Future*

This joint publication of the World Bank and Korea Labor Institute is available on the web at: <http://www.kli.re.kr>.

## 2000/2001 Social Protection Discussion Papers related to Labor Markets:

Labor Markets in Transition Economies: Recent Developments and Future Challenges  
Social Protection Discussion Paper No. 0111; Publication Date: 04/01

Programmes Actifs Pour Le Marche Du Travail: Un Aperçu General Des Evidences Resultant Des Evaluations  
Social Protection Discussion Paper No. 0105; Publication Date: 01/01

Long-term Consequences of an Innovative Redundancy-retraining Project: The Austrian Steel Foundation  
Social Protection Discussion Paper No. 0103; Publication Date: 01/01

Worker Reallocation During Estonia's Transition to Market: How Efficient and How Equitable?  
Social Protection Discussion Paper No. 0018; Publication Date: 07/00

Ratcheting Labor Standards: Regulation for Continuous Improvement in the Global Workplace  
Social Protection Discussion Paper No. 0011; Publication Date: 05/00

Active Labor Market Programs: Policy Issues for East Asia  
Social Protection Discussion Paper No. 0005; Publication Date: 01/00

Please note that all Social Protection Discussion Papers are available on the web at <http://www.worldbank.org/sp>. For additional labor markets-related publications, please visit the World Bank Labor Markets website at <http://www.worldbank.org/labormarkets>.

Questions and requests for free copies of publications concerning the World Bank's work in Labor Markets and other Social Protection issues may be directed to:

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