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# **Employment Policy Papers**

## **Flexibility and security in labour markets of developing countries**

**In search of decent work for all**

Maria Sabrina De Gobbi

**Employment Policy Department, ILO, Geneva**

2007/6

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## **Preface**

The present paper explores and challenges the application of the concept of “flexicurity” in developing countries. The notion of “flexicurity” has been conceived and used to address labour market issues and policies in the advanced and transition economies. Applying it to developing countries, in particular to low income countries, requires a different stance owing largely to the relative weights and nature of formal and informal labour markets in these countries and the institutional and capacity gaps.

The paper attempts to provide considerations on some of these modifications and contends that labour markets in developing countries would require different policy and institutional approaches to security and flexibility because of the predominant agrarian and informal nature of their economies. In surplus-labour countries, optimal security is clearly associated with the attainment of full and productive employment of the work force. It is also necessary to explore alternative mechanisms to provide security to the work force.

Flexibility and security are described and analysed here across all dimensions of decent work. Economic issues are addressed together with legal and institutional ones, in an attempt to suggest that a labour market policy must be closely linked to an overall employment policy approach towards the achievement of productive and freely-chosen employment for all - both formal and informal workers and employers - in full respect of international labour standards. The conceptual framework described here has already been applied in two ILO studies.<sup>1</sup>

The views expressed are the author’s own and do not necessarily reflect those of the ILO. Working papers are a means of inviting discussion and debate on new and exploratory assumptions.

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<sup>1</sup> De Gobbi, Maria Sabrina. 2006. *Labour market flexibility and employment and income security in Ethiopia: Alternative considerations*. Employment Strategy Paper 2006/1, ILO (Geneva). Twerefou, Daniel Kwagena, Ebo-Turkson, Festus, Kwadwo, Adow Osei 2007. *Labour market flexibility, employment and income insecurity in Ghana: A report*. Employment Policy Paper 2007/1, ILO (Geneva)

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## Contents

Preface .....	ii
Acknowledgements .....	iii
Introduction .....	1
<b>1. Why debate flexibility and security in developing countries .....</b>	<b>2</b>
1.1. Objective and scope .....	2
1.2. Decent work through flexibility and security .....	3
1.3. Flexibility and security in pursuit of the Millennium Development Goals .....	5
1.4. Flexicurity in developing countries: Perceptions and determining factors .....	6
1.4.1. Methodological factors .....	7
1.4.2. Action-oriented factors .....	8
<b>2. Labour market flexibility in developing countries .....</b>	<b>8</b>
2.1. Flexibility in the labour market .....	8
2.1.1. A definition of flexibility .....	8
2.1.2. Some considerations on the labour market pertinent to flexibility .....	9
2.1.3. Labour mobility versus flexibility .....	10
2.1.4. Flexible jobs .....	11
2.1.5. Labour flexibility versus capital flexibility .....	13
2.2. Flexibility in the informal economy .....	13
2.3. Flexibility in agriculture .....	14
2.4. Flexibility in the formal sector .....	17
<b>3. Labour market security in developing countries .....</b>	<b>20</b>
3.1. Security in the labour market .....	20
3.2. Security in the informal economy .....	22
3.3. Security in agriculture .....	23
3.4. Security in the formal sector .....	24
3.5. Security through labour inspection .....	29
<b>4. Towards a decent balance between labour market flexibility and employment and income security in developing countries .....</b>	<b>31</b>
4.1. Beyond the distinction between formal and informal .....	31
4.2. International labour standards setting decent levels of flexibility and security .....	32
4.3. Social dialogue .....	33
4.4. Risk management mechanisms .....	35
4.4.1. Savings .....	36
4.4.2. Credit .....	38
4.4.3. Mutual insurance .....	39
4.4.4. Public works .....	39
4.4.5. Training .....	40
4.5. Employment services .....	41

4.6. Employment and poverty alleviation programmes .....	42
4.7. Extending social security schemes to informal operators .....	44
<b>5. Conclusion and emerging issues .....</b>	<b>46</b>
5.1. Strengthening State institutions.....	46
5.2. Improving knowledge on the informal economy .....	47
5.3. Investigating the need for capital flexibility as complementary to labour flexibility .....	47
5.4. Increasing security for women.....	47
<b>References .....</b>	<b>49</b>
<b>ANNEX 1 Some statistical data on developing countries .....</b>	<b>53</b>
<b>ANNEX 2 Examples of poorly performing active labour market policies in developing countries.....</b>	<b>56</b>
<b>ANNEX 3 C158 Termination of Employment Convention, 1982, Convention concerning Termination of Employment the Initiative of the Employer.....</b>	<b>57</b>
 <b>List of tables, figures and boxes</b>	
Table 2.1. Principal labour laws introducing flexibility in some developing countries .....	18
Table 3.1. Some developing countries with unemployment insurance schemes.....	27
Table 3.2. Labour inspectors in some developing countries .....	30
Table 4.1. Social dialogue in the formal sector in two developing countries.....	33
Table 4.2. Land tenure security policies and measures in some Ethiopian regional states (2005).....	37
Table 4.3. Data on social security benefits from 1994-1995 to 2001-2002 .....	45
Figure 2.1. Percentage distribution of paid employees by term of employment in rural Ethiopia, 1999 .....	16
Box 2.1. The “enganche system” in Bolivia, Paraguay and Peru .....	12
Box 2.2. Farm work groups or “labour sharing organizations” in Ethiopia .....	16
Box 3.1. Crop-sharing arrangements in Ghana.....	24
Box 3.2. Integrated labour inspection in Vietnam .....	31
Box 4.1. Integrating informal workers in a trade union: The case of Union Démocratique des Travailleurs du Sénégal (UDTS).....	34
Box 4.2. The Self-Employed Women’s Association (SEWA) in India .....	35
Box 4.3. Community-based land tenure reform in Mozambique .....	37
Box 4.4. Employment and poverty alleviation programmes by NGOs in Ghana.....	43
Box 4.5. The Social Fund for Development (SFD) in Egypt.....	43
Box 4.6. Alternative ways to provide social security to informal workers.....	44

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# FLEXIBILITY AND SECURITY IN LABOUR MARKETS OF DEVELOPING COUNTRIES

## IN SEARCH OF DECENT WORK FOR ALL

### Introduction

The present paper is a conceptual one and should be principally considered as such. It tries to put forward somewhat alternative ideas which may contribute to stimulating or further deepening the international debate on employment policies and poverty reduction related issues in developing countries.

Globalization implies intense competitiveness. Several approaches have been introduced to enhance such competitiveness, one of them dealing with labour market regulation and its degree of flexibility. The counter arguments to this approach bargain for greater security for workers. This debate has evolved into the so-called "flexicurity" approach to labour markets.

Such a debate is pertinent and relevant particularly in OECD and transition economies. However, many developing countries have also recently started to examine their own labour codes and regulatory frameworks since employers allege increasing costs for labour (for instance, high wages). Restructuring enterprises in a fast-paced globalization requires workers' mobility and/or dismissal, which leads to the issue of numerical flexibility. Curiously, though, numerical flexibility usually refers to those workers who are formally employed and who represent only about 10 per cent of the total labour force in developing countries. Yet, if one were to truly pursue the promotion of *decent work for all*, one would have to find out ways to ensure good quality jobs extending the coverage of international labour standards to all workers, both formal and informal.

This paper attempts to provide insights on the extent of flexibility and security for the work force in developing countries, both in the formal sector and in the vast informal economy. Additional insights are provided on the functioning of the labour markets in industrialising countries, and selected examples are given on how some degree of protection and income security are being designed in the informal economy.

Empirical evidence is used to support different statements and opinions, and to provide a broad picture of labour market characteristics and trends in developing regions, but it should not be viewed as exhaustive. First of all, the category of developing countries includes a very large number of States with sometimes extremely different economic, geographical, social, institutional, legal, cultural and historical characteristics and general conclusions applicable to all of them are rather difficult to formulate. Although an attempt has been made to at least differentiate middle income economies from low income ones, at times even that distinction is not very helpful. Specific country situations are often proposed as examples, although once more as a representation of perhaps only a few of the industrialising economies under discussion.

Needless to say, that to further validate the ideas expressed in this paper, much more research in developing countries would be required. However, hopefully, this and further research will allow greater attention to be paid to the formulation of a labour market policy framework promoting decent work for all.



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# 1. Why debate flexibility and security in developing countries

## 1.1. Objective and scope

The purpose of this paper is to explain why and how a discussion on labour market flexibility and employment and income security can be useful and meaningfully applied to developing countries.<sup>2</sup> Far too often, notions which are applied to industrialized countries and which are based on the characteristics of those economies are used for developing countries as well without any adaptation. The formulation and adoption in poor countries of recommendations and labour market policies centred on such notions and definitions may lead - and have often led - to effects which do not meet initial expectations. Since flexicurity is an employment strategy approach, its application in developing countries based on the concept known for industrialized economies may result in the adoption of measures which are not really beneficial to national employment. If, instead, labour market flexibility and employment and income security are taken into account based on the actual specific socio-economic features of poor countries, it may be possible to obtain positive perceptions in the pursuit of decent work.

The notion of "flexicurity" originally stands for labour market flexibility and employment security with an implicit inclusion of "income security". It has been conceived for advanced economies which are predominantly formal and where the services and industry sectors prevail. "Flexicurity" was initially the subject of a lively academic debate in Western Europe. The term was first used when a specific law, the "Flexibility and Security Act" was passed in the Netherlands. This law has been in force since 1 January 1999 and provides the possibility for workers to have permanent labour contracts with a temporary work agency while being posted for a limited duration on multiple assignments with different employers. The notion of "flexicurity", as a good balance between flexibility in the labour market and a reasonable level of employment security for workers, has then been extended to countries which are moving from planned economies to market-based ones and whose labour markets are somehow more similar to those of advanced economies than the labour markets of developing countries. "Flexicurity" as conceived thus far in Western Europe refers to formal economies where national legislation regulating the labour market is normally used and applied and where social dialogue is well established. In economies like those of poor countries which are largely informal and where the labour force is often mainly employed in agriculture and subsistence activities, factors other than legislation and collective bargaining are to be taken into account in order for labour supply to easily adjust to the needs of labour demand in conditions of security for the labour force.

For a better understanding of the present paper, a distinction between low income and middle income countries ought to be made. Most observations and findings presented in the current discussion are valid in general for both types of economies. The distinction is useful to point out that some middle income economies are not necessarily characterized by predominant agriculture and subsistence activities, although they often present a rather large informal economy. In addition, it is important to clarify that the "flexicurity" approach adopted for advanced and transition economies can meaningfully be applied to some middle income countries as well, especially upper middle income ones.

In the UN system there is no official definition which could be used to identify low and middle income countries. The World Bank refers to gross national income (GNI) per capita as a criterion to classify economies into low, lower-middle and upper-middle income countries. This definition will be adopted in the current discussion although not strictly.<sup>3</sup>

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<sup>2</sup> In the present paper, the expressions "developing country/economy", "industrializing country/economy" and "poor country/economy" will be used interchangeably as synonyms.

<sup>3</sup> According to this definition, in low income countries the GNI per capita is \$825 or less; in lower middle income countries it is \$826-3,255; in upper middle income countries it is \$3,256-10,065; and in high income countries it is \$10,066 or more.

<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20420458~menuPK:64133156~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>

For a full list of countries classified according to the grouping specified above, see

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## 1.2. Decent work through flexibility and security

The approach to flexibility and security described in this paper is the pursuit of decent work and its four strategic objectives (standards and fundamental principles and rights at work, employment, social protection, and social dialogue) at one and the same time. It builds on the reinforcing value of the four components of decent work and sets as its foundation their interactions for the achievement of a good balance between labour market flexibility and employment and income security.

Social protection is particularly important in the present discussion. There are trade-offs and complementarities between labour market flexibility and employment and income security. High labour market flexibility usually entails low security for workers. While in advanced economies flexibility is supposed to facilitate the creation of more jobs and economic growth and is therefore sought, in developing countries the labour market is in some sense already quite flexible. This latter statement will become clearer while considering chapter 2 of this paper where the definition and characteristics of flexibility as meant here will be analyzed. In industrializing economies, more decent jobs can be created and a stable income can be secured to more poor people by increasing the level of security. Better health and better working conditions improve productivity and make it possible to move from survival strategies meeting basic needs to more long-term business planning. As will be explained later in more detail, the level of labour market insecurity can be lowered through social protection, risk management mechanisms, labour market policies and different coherent, coordinated and well-conceived employment and poverty reduction programmes.

In industrialized countries, since the seventies, serious attempts have been made to increase flexibility and lower the level of labour market security through deregulation or sometimes reregulation. Security has been mainly identified in legal and social protection for workers. The adoption of measures towards the same objective has been suggested and often applied also to poor countries. In developing economies, though, the situation is very different and such legal interventions may not provide an effective platform. In industrializing countries, employment and income security in general is very weak due to the predominant informal nature of economic activities and to the large size of agricultural labour which provide irregular incomes. Security levels therefore need to be increased, not necessarily through simply changes in the national legal framework.

In these economies, a first step towards a higher level of security can be the correct observation of international labour standards and fundamental principles and rights at work. Existing national labour laws are certainly to be taken into account in relation to flexibility and security, but it should always be borne in mind that their application is usually very weak and that they cover only a small minority of formal workers. This is not the case for international labour norms. 'The ILO Declaration on Fundamental Principles and Rights at Work makes no distinction between formal and informal economies. The campaign to promote the Declaration is expected to provide guidance for governments to extend its provisions to all workers.'<sup>4</sup> In particular, 'the fundamental requirement should be to ensure compliance with basic human rights concerning freedom of association, freedom from forced labour and child labour and freedom from discrimination'.<sup>5</sup> International labour standards contained in ILO conventions and recommendations are also meant to be applied to both formal and informal workers, although they admit in some cases the exclusion of specific categories of employees from their coverage. 'Some standards, such as those dealing with homeworkers, migrant and rural workers, and indigenous and tribal peoples, actually deal specifically with areas of the informal economy. The extension of freedom of association, social protection, occupational safety and health, vocational training, and other measures required by international labour standards have proved to be effective strategies in reducing poverty and bringing workers into the formal economy.'<sup>6</sup>

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<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>

<sup>4</sup> GB.277/ESP/1/2, ILO Governing Body, 277th Session, Geneva, March 2000, p. 10.

<sup>5</sup> Director-General's report to the ILC, 1991, cited in GB.277/ESP/1/1, ILO Governing Body, 277th Session, Geneva, March 2000, p. 5.

<sup>6</sup> ILO. 2005d. *Rules of the game: A brief introduction to international labour standards* (Geneva), p. 5.

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In poor countries, very often workers are not aware of their own rights and do not exercise them. They are often not organized and do not benefit from any union's assistance. This additional aspect further stresses the need to provide protection to workers through alternative, not necessarily legal means. Some economic-oriented measures, for instance, could enhance security levels for all workers, formal and informal regardless of their being unionized.

The present discussion on flexibility and security would contribute to the observation of those rights and principles contained in several ILO conventions and recommendations. Some of them are:

C11, 1921, Convention concerning the Right of Association (Agriculture);  
C81, 1947, Convention on Labour Inspection (in Industry and Commerce);  
C84, 1947, Convention concerning the Right of Association (Non-Metropolitan Territories);  
C87, 1948, Convention concerning Freedom of Association and Protection of the Right to Organize;  
C88, 1948, Convention on Employment Service;  
C98, 1949, Convention concerning the Right to Organize and Collective Bargaining;  
C102, 1952, Convention concerning Social Security (Minimum Standards);  
C122, 1964, Convention concerning Employment Policy;  
C129, 1969, Convention concerning Labour Inspection (Agriculture);  
C135, 1971, Convention concerning Workers' Representatives;  
C141, 1975, Convention concerning Rural Workers' Organizations;  
C142, 1975, Convention concerning Human Resources Development;  
C144, 1976, Convention concerning Tripartite Consultation on International Labour Standards;  
C155, 1981, Convention concerning Occupational Safety and Health;  
C158, 1982, Convention concerning Termination of Employment at the Initiative of the Employer;  
C159, 1983, Convention concerning Vocational Rehabilitation and Employment (Disabled Persons);  
C168, 1988, Convention concerning Employment Promotion and Protection against Unemployment;  
C177, 1996, Convention on Homeworkers;  
C181, 1997, Convention on Private Employment Agencies;  
R67, 1944, Recommendation on Income Security;  
R189, 1998, Recommendation on Job Creation in Small and Medium-Sized Enterprises;  
R193, 2002, Recommendation on the Promotion of Co-operatives;  
R195, 2004, Recommendation on Human Resources Development: Education, Training and Lifelong Learning;  
R197, 2006, Recommendation on the Employment Relationship.

It sometimes happens that in a developing country, an appropriate legal framework in line with international labour standards is in place, but that because of unfavourable economic conditions prevailing in the country, fundamental principals and rights cannot be exercised in their substance, remain empty boxes and are hence violated. Through economic measures, such as risk management mechanisms, labour market policies and employment programmes, it would be possible to favour the establishment of a conducive economic and social environment contributing to the substantive and effective application of international labour standards. Economic interventions in this respect would contribute to the application of international labour standards to both formal and informal workers. For example, despite the efficiency of the existing legal machinery in a given country, the right to work is more likely to be enjoyed if employment programmes (training, employment services, etc.) are implemented and made accessible to both formal and informal workers.

The respect and application of existing labour law could be improved also by strengthening labour administration and inspection systems. Higher levels of protection could hence be provided to workers in general and to informal employees in particular, especially in those national systems where coverage of informal workers is provided.

The right balance between labour market flexibility and employment and income security or the correct trade-offs between flexibility and security is to be determined at a country level by national stakeholders. Social dialogue plays a fundamental role in this regard. In developing countries, workers and employers sometimes do not have a sufficiently strong voice and collective bargaining covers only small parts of the economy. In such cases, it is important to take into account the efforts workers' and employers' organizations make in order to overcome their weaknesses. In addition, other existing forms of organization and dialogue on terms and conditions of employment especially in the agricultural sector and in the informal economy are to be sought and considered. Customs and

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practices as well as traditional forms of association are of particular interest in this regard (see section 4.3 for more details).

After considering the implications of the four components of decent work in the present discussion on flexibility and security in developing countries, let us now explore the six dimensions of decent work (opportunities for work, work in conditions of freedom, productive work, equity in work, security at work, and dignity at work).<sup>7</sup> The current discussion touches upon all of them. In particular, policies aimed at achieving a good balance between flexibility and security in the labour market focus on opportunities for work and security at work. These two dimensions are very important both to secure employment and income, and to allow quick adjustments of labour supply to the needs of labour demand. Opportunities for work include all forms of economic activities, from self-employment and unpaid family work to waged employment in both formal and informal sectors. Security at work is associated with measures against the risk of loss of work and livelihood or income. As will become clear later on in the following sections, a good balance between flexibility and security in developing countries requires the strengthening of some core elements of the ILO Global Employment Agenda. In particular, it builds directly on core elements 7 (Active labour market policies for employment, security in change, equity, and poverty reduction), 8 (Social protection as a productive factor) and 10 (Productive employment for poverty reduction and development). The approach discussed in this paper encourages countries to develop employment policies targeting those three elements and pursuing the creation of decent jobs, the promotion of income security and the reduction of poverty.

### **1.3. Flexibility and security in the pursuit of the Millennium Development Goals**

The approach described in this paper also contributes to the achievement of two millennium development goals (MDGs). The Millennium Development Goals are of the utmost importance in any development policy in poor countries and therefore ought to be taken into account in employment policies as well. They address at once peace, security, development, human rights and fundamental freedoms. In particular, flexibility and security relate to Goal 1 Eradicate extreme poverty & hunger, and Goal 3 Promote gender equality and empower women. It is reported that '[...] in sub-Saharan Africa, growing numbers of people have failed to find productive employment opportunities, agriculture has stagnated, and HIV/AIDS has taken a brutal toll on people in their most productive years.'<sup>8</sup> It seems that 'Growing populations and poor agricultural productivity have been the main reasons for food shortages [...]' 'Most of the world's hungry live in rural areas and depend on the consumption and sale of natural products for both their income and their food. Hunger tends to be concentrated among the landless or among farmers whose plots are too small to provide for their needs.'<sup>9</sup> The conceptual framework presented in the current paper takes into account the particular working and living conditions of persons employed in agriculture and residing in rural areas. Moreover, it considers food and income security as fundamental for the eradication of extreme poverty and hunger. 'Hunger and poverty are closely related. While the lack of sufficient income to purchase food is clearly a major actor causing household food insecurity, hunger itself contributes to poverty by lowering labour productivity, reducing resistance to disease and depressing educational achievements.'<sup>10</sup> Moreover, 'It is judged that three-quarters of the reduction in poverty will be derived from farm improvement (intensification, diversification and increases in operated area).'<sup>11</sup>

As for MDG 3, women dominate in agricultural and informal employment. 'While women produce more than 50 per cent of food worldwide, they also perform the overwhelming majority of the work in food processing in developing countries. Food processing contributes to food security through

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<sup>7</sup> See Anker, Richard; Chernyshev, Igor; Egger, Philippe; Mehran, Farhad; Ritter, Joseph. 2003. *Measuring decent work with statistical indicators*. In *International Labour Review*, Vol 142, No. 2 2003.

<sup>8</sup> United Nations. 2005. *The Millennium Development Goals Report*. (New York), p. 7.

<sup>9</sup> Ibid, p. 8.

<sup>10</sup> Hall (principal editor), Dixon, Gulliver with Gibbon; 2001. *Farming systems and Poverty: Improving farmers' livelihoods in a changing world*. FAO and the World Bank (Washington D.C.), p. 13.

<sup>11</sup> Ibid, p. 312.

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reducing food losses, contributing to diversity of diet and supplying important vitamins and minerals.<sup>12</sup> A phenomenon found in many regions and countries today is the trend towards the so-called "feminization" of agriculture, or the growing dominance of women in agricultural production and the concomitant decrease of men in the sector.<sup>13</sup> The 2005 UN report reveals that 'Some progress has been made in all regions, but women in Southern Asia, Western Asia and Northern Africa still hold only about 20 per cent of paying jobs in sectors outside of agriculture.'<sup>14</sup> In addition, 'Women are less likely than men to hold paid and regular jobs and more often work in the informal economy, which provides little financial security and no social benefits.'<sup>15</sup>

#### **1.4. Flexicurity in developing countries: Perceptions and determining factors**

In industrialized countries, the labour market is characterized by a high share of waged employment and it is believed that rigidities linked to waged employment guarantees hinder flexibility. The idea of flexible labour markets has gained importance as a remedy against rising unemployment. It entails ease of labour market entries and exits to facilitate quick changes in the allocation of labour. The focus is on lowering hiring and firing costs by increasing the flexibility of the labour market mainly through easier conditions for the termination of the employment relationship and through the introduction of flexible (for a limited duration) forms of employment. However, a direct consequence of this has often been a considerable reduction in workers' protection meant essentially as legal protection and social benefits. The "flexicurity" approach in Europe addresses both the need for labour market flexibility and that for workers' employment security.

Two definitions can be helpful in an attempt to identify the determining factors of flexicurity in advanced economies.

'Flexicurity can be defined as a distinct policy and strategy used by industrial relations actors to enhance the flexibility of labour markets, work organization and employment relations, while improving security of work and protection of workers and, in particular, to weak groups in and outside the firm or labour market.'<sup>16</sup>

'Flexicurity is a policy strategy that attempts, synchronically and in a deliberate way to enhance the flexibility of the labour markets and the labour relation on the one hand and to enhance security-employment security and social security - notably for weaker group in and outside the labour market, on the other hand'.<sup>17</sup>

Although slightly different, these definitions present some common elements. Firstly, flexicurity is a "policy and strategy", which entails the existence of State institutions and policy makers for its design and implementation. Secondly, "employment relations" are mentioned in both cases bringing in two core elements of flexicurity. On the one hand, the expression used has a legal meaning, in that it highlights the relevance of terms and conditions of employment and of the employment relationship in general; on the other, it has a social connotation because it refers to bargaining and negotiations between employees and employers. The former definition gives more emphasis to the social aspect of employment relations, by referring to social dialogue and the social partners with the expression "industrial relations actors". Thirdly, both definitions mention "work and social security" with an implicit but clear reference to waged employment. For our further discussion, it may be worth noting that no explicit mention of "income security" appears, although social security covers unemployment benefits which can be seen as an income security measure. Fourthly and lastly,

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<sup>12</sup> FAO. 1998. *Rural women and food security: Current situation and perspectives*. (Rome), p. 13.

<sup>13</sup> FAO. 1998. Mention of such an increasing trend can be found also in Lund, Francie; Srinivas, Smita. 2000. *Learning from experience: A gendered approach to social protection for workers in the informal economy*. ILO STEP and WIEGO (Geneva).

<sup>14</sup> United Nations, 2005, p. 15.

<sup>15</sup> Ibid, p. 16.

<sup>16</sup> European Union. 2002. *European Union Report of the high level group*. 1/2002, p. 18.

<sup>17</sup> Wilthagen, Ton; Rogowski, Ralf. 2002. "Legal regulation of transitional labour markets" in G. Schmid and B. Grazier (eds.), *The dynamics of full employment: Social integration through transitional labour markets*. Cheltenham, Edward Elgar, pp 233-273.

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vulnerable groups including the unemployed seem to be viewed as a category of people particularly in need of security and protection.

In developing countries, especially in low income economies, the labour market is characterized by large proportions of unpaid family work and self-employment and by a low share of waged employment. Since regulation and collective bargaining do not affect much employment with similar features, the natural consequence is that labour markets tend to be rather flexible and unregulated with workers' protection often being neglected. Hence, the notion of "flexicurity" needs to be adapted from the one used for advanced economies.

In other words, the labour markets in poor countries present opposite characteristics compared to those of industrialized economies. A largely prevailing informal economy, a predominating agricultural sector employing most of the labour force, self-subsistence activities, low unemployment and high underemployment, and a very small State budget are among the principal features of poor economies. In particular, the large size of the informal economy and of agricultural labour determines a high level of flexibility through the provision of occasional work and irregular incomes, which is not compensated by measures targeting workers' protection.

The correct balance between flexibility and security is obtained through the interaction of several factors which have a different weight in advanced and poor economies and which may have an impact in only one of the two typologies of economies. Following is a list of such factors which can be divided into two groups: methodological and action-oriented. The former category includes legal and institutional factors, whereas the latter comprises measures aimed at strengthening either flexibility or security or both at the same time.

#### **1.4.1. Methodological factors**

**1. An appropriate legal framework** - A legal system allowing a quick adjustment of labour supply to the needs of labour demand is particularly important in industrialized economies which are mainly formal and characterized by waged employment. In developing countries, particularly in low income ones, it applies only to a small part of the economy, namely to those workers who are formally employed. Table I in annex 1 provides an overview of the proportion of informal employment in different regions of the world. The data presented indicate that Sub-Saharan Africa, where poverty is particularly severe, has the highest proportion of informal employment, amounting to over 70 per cent of total employment in 2000. In North Africa and Latin America, where economies are more advanced, the size of informal employment tends to be smaller, reaching about 50 per cent of total employment in the same year.

**2. Sound social dialogue** - Although this factor is essential as a methodology in all countries regardless of their level of economic development, it is usually available and rather effective in industrialized countries and often weak and ineffective in poor economies. More details are provided in section 4.3.

**3. Well-functioning labour market institutions** - Labour market institutions are crucial for setting a good balance between flexibility and security. They are very likely to function well in advanced economies, but tend to be weak, inefficient and often uncoordinated in developing countries, especially in low income economies. In many countries emphasis has been placed on decentralization and, at the same time, local government institutions have experienced budgetary cuts in the structural adjustment process. This has led to fewer staff and lower service delivery capacity and hence to a weakening of State institutions.<sup>18</sup> Besides specific ministries, employment services and other institutions, a strong and effective supervisory system is particularly important to assure the observation of protection norms; such a system usually performs very poorly in industrializing countries as will be discussed in section 3.5.

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<sup>18</sup> Hall (principal editor), Dixon, Gulliver with Gibbon; 2001.

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## 1.4.2. Action-oriented factors

**4. Effective labour market policies**<sup>19</sup> - Used to mitigate the effects of adjustment of labour supply to labour demand, they are common in industrialized countries, particularly in Europe, and are rather weak or missing in poor countries especially because of the small State budget available to finance them. Boxes I and II in annex 2 provide illustrations of labour market programmes implemented by a middle income country like Egypt and by a low income one like Ghana. In both cases effectiveness is questionable. In the case of the Youth Employment Programme in Egypt, results achieved are clearly not in line with expectations. In the case of Ghana, although four Presidential Special Initiatives have been announced, information on the actual implementation of programmes is available for only two of them.

**5. Risk management mechanisms** - These measures can prove effective in poor countries to increase the level of security of workers in moments of income loss and in situations where the State is too poor and weak to provide labour market policies. They include savings, credit, both for consumption and emergency needs, and for productive activities, mutual insurance, training, and public works to provide an income in moments of slack season. In advanced economies, they are not included in the conceptual framework of "flexicurity". Public works and training are considered as active labour market policies, but their organization and purpose tend to differ from those presented in this paper for the underemployed in poor economies. Risk management mechanisms will be discussed in detail in section 4.4 and its sub-sections.

**6. Well-designed and coordinated employment and poverty alleviation programmes** - They are very important labour market measures in developing countries. Such interventions are usually funded by international donors and NGOs, especially in low income economies. They may provide labour with the desired skills and adaptability and facilitate the match between labour demand and labour supply. They are usually not well coordinated and are subject to externally-influenced policies rather than to coherent national ones. They are not included in the "flexicurity" conceptual framework for industrialized economies. More information on this factor of flexibility and security will be provided in section 4.6.

**7. Social security** - Social security systems in industrialized economies usually provide decent levels of security for workers. They are characterized by a large coverage and decent benefits. In developing countries, such systems often exist but do not provide a security level for workers comparable to that of employees in advanced economies. In low income countries, only few social security schemes have been established; they cover small proportions of formal workers and provide meagre benefits. More details are provided in sections 3.4 and 4.7.

It may be useful at this point to define labour market flexibility, on the one hand, and employment and income security, on the other, in developing countries.

## 2. Labour market flexibility in developing countries

### 2.1. Flexibility in the labour market

#### 2.1.1. A definition of flexibility

In the present paper, an economic rather than a legal definition of "flexibility" is adopted, although reference to legal definitions will be made while dealing with flexicurity in the formal

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<sup>19</sup> Here meant as both active to improve employability and assist in re-employment of workers and passive to compensate workers' income losses.

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economy.<sup>20</sup> Labour market flexibility is here to be meant as "numerical".<sup>21,22</sup> It normally indicates the move from inactivity to labour market participation and vice versa, and from unemployment to employment and vice versa. It also includes the move from one job to another.

This definition usually refers to the labour markets of advanced economies, whose way of functioning is rather precisely known and on which statistical data collected according to very well defined indicators are available. For industrializing countries, reliable statistical data are almost totally missing, and even when they are available, they do not necessarily help. In poor economies, the use of the same indicators designed for industrialized countries does not entirely and always correctly reflect the actual situation of the labour market. In particular, the large share of the informal economy makes it difficult to obtain precise information. In addition, national definitions often differ from internationally recognized ones. For example, in Ethiopia unemployment includes those who are not working, are available to work, but does not include the third element of the international definition concerning being actively looking for a job. Moreover, in this as well as in other poor countries, the labour force includes persons who are 10 years and above, because children do contribute to the national economy and it would not be realistic to exclude their contribution.<sup>23</sup> Let us recall that the internationally accepted definition of the labour force considers persons aged 15 to 64. More research is needed to better understand the situation and functioning of labour markets in developing countries if sound policies are to be designed on the basis of correct information and indicators capturing all relevant aspects of employment.<sup>24</sup>

The lack of precise and sufficient statistical data on the labour markets of developing countries as well as their specific characteristics do not allow a strict application of the notion of numerical flexibility presented above. In the present discussion, it will therefore be broadly meant as the ease of entries to and exits from the labour market and shifts from one job to another.

### **2.1.2. Some considerations on the labour market pertinent to flexibility**

It is sometimes believed that labour markets are rudimentary in poor countries. It is nevertheless possible to state the contrary<sup>25</sup>, if different models are taken into account. Especially because of their prevailing informal nature, labour markets in poor economies follow different rules and are characterized by different types of institutions or regulating entities (self-help groups, social safety nets, etc.) which are worth being studied more in depth if sound employment policies are to be formulated. As a sociologist puts it 'The sphere of work in the countries of Asia, Africa and Latin America shows a pervasive conflict of norms and values today. New regulatory rules, broadly similar

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<sup>20</sup> For a conceptualization of flexibility in legal terms according to ILO legal instruments, see the chapter by María-Luz Vega-Ruiz, "Flexibilización y las normas internacionales en el Perú", in ILO. 2000b. *Estudios sobre la flexibilidad en el Perú*. Oficina de Area y Equipo Multidisciplinario para los Países Andinos (Lima).

<sup>21</sup> According to some (Auer), it could be interesting to explore relations and trade-offs between numerical and functional flexibility, especially where numerical flexibility is high, and functional flexibility allowing job changes involving different skills is low, like in the informal economy where there is a general lack of training. Functional flexibility 'concerns changes in tasks, working conditions and work assignments while the employment relationship is maintained' (Auer, 2005). Unfortunately, the limited scope of this paper does not leave much room for a similar type of analysis. In addition, functional flexibility refers to mobility inside large enterprises which are rather rare in poor countries. Rather than functional flexibility, in the present paper labour mobility will be discussed because its definition allows an easy application of it in developing economies.

<sup>22</sup> Different types of labour market flexibility are described in Standing, Guy. 1999. *Global labour flexibility: Seeking distributive justice*. (London, New York), Ch. 4.

<sup>23</sup> Joint report of mission to Addis Ababa, 5-10 December 2005, by Marva Corley, Maria Sabrina De Gobbi and Muhammed Muqtada, ILO Employment Strategy Department.

<sup>24</sup> Many more considerations on "labour force participation", "employment" and "unemployment", their definitions and validity in developing countries could easily be made, but would go beyond the scope of this paper. In addition, it would be important to know more about the rules governing the informal labour market.

<sup>25</sup> Standing, 1999, p. 30.



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to those established in the advanced industrial societies, come into conflict with age-old values, attitudes and habits of mind that differ from one country to another.<sup>26</sup>

It may be worth considering some currently used definitions of the labour market in order to identify at least one which could somehow be applied both to advanced and to poor economies. According to the ILO Thesaurus, the labour market is 'a system consisting of employers as buyers and workers as sellers, the purpose of which is to match job vacancies with job applicants and to set wages.' The central role of matches between vacancies and applicants as well as of wages in this definition precludes its application to developing economies which are characterized by unpaid family work and self-employment. Another definition which deserves close consideration and which better suits the present discussion on labour markets in developing countries is one provided by Standing. According to this author, the labour market is 'the institutional framework by which jobs are allocated, exploitation is achieved or combated, and controls and resistance take shape'.<sup>27</sup> This definition is interesting especially in its first part, where the labour market is defined as 'the institutional framework by which jobs are allocated'. This short definition avoids any explicit reference to employers and employees and leaves room for the self-employed and for unpaid family work. A new, more appropriate definition of the labour market applicable to low income countries and including the characteristics of the informal economy, would require a much longer and deeper discussion which goes beyond the scope of this paper.

### 2.1.3. Labour mobility versus flexibility

A concept which ought to be mentioned and which shall not be confused with "labour market flexibility" is that of "labour mobility". A definition of the former has already been provided above. The latter refers to 'changes in the location of workers both across physical space (geographic mobility) and across a set of jobs (occupational mobility). [...] Occupational mobility can be lateral (within a broad class of jobs similar in socioeconomic status) or vertical (from one job to a better or worse job).'<sup>28</sup> Despite the clear linkages between the two notions, flexibility is here to be meant as inclusive of labour mobility. Unlike in labour mobility, in labour market flexibility industrial relations and the regulatory framework are considered as core determining factors. In developing countries, especially low income economies, although usually a rather considerable proportion of the population migrates within the country, resulting in rather high geographic mobility, the type of labour involved in those movements is characterized by low levels of skills both when it is agricultural labour in the case of rural-rural migration, and when it is labour in informal jobs as often happens in rural-urban movements. There seems to be lateral occupational mobility, whereas vertical mobility tends to be low. Poor skills and almost non-existing skills upgrade mechanisms are among the principal determinants of low vertical occupational mobility in poor countries.

A good example of low, both geographic and occupational, mobility combined with high flexibility is that of 'a home-based worker rolling cigarettes or stitching garments in India or the Philippines'<sup>29</sup> who does not experience mobility. 'The interests of women who have to stay at home coincide with the interests of firms which choose flexible employment contracts.'<sup>30</sup>

An important obstacle to labour mobility is information asymmetries, due to the limited access to labour market information. As will be shown in section 4.5, employment services have a very weak impact in facilitating the dissemination of data on labour, and alternative mechanisms to channel relevant information, such as bulletins, newspaper advertisements, etc, are not commonly available.

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<sup>26</sup> Béteille, André. 2002. *Work practices and norms: A comparative and historical perspective*. International Institute for Labour Studies, Discussion paper No. 142, ILO (Geneva), p. 6.

<sup>27</sup> Standing, 1999, p. 30.

<sup>28</sup> Jason Long (Colby College) & Joseph Ferrie (Northwestern University), Oxford Encyclopaedia of Economic History.

<http://66.249.93.104/search?q=cache:CCKZkkivPpQJ:faculty.econ.northwestern.edu/faculty/ferrie/papers/Labour%2520Mobility.pdf+what+is+labour+mobility&hl=fr>

<sup>29</sup> Lund, Srinivas, 2000, p. 4.

<sup>30</sup> Ibid.

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#### 2.1.4. Flexible jobs

In industrialized countries, the debate on employment flexibility has focused on the termination of the employment relationship and on different types of labour contracts, such as fixed-term contracts, temporary agency work, part-time, etc. A similar discussion on the legal aspects of flexibility can be meaningfully applied also to middle income countries with a not too large proportion of informal employment and a non-agrarian economy. As for low income countries, all that may be said in this respect concerns only a few formal non-agricultural workers. However, some sections of the present paper will deal also with this specific legal dimension of flexicurity.

Particularly interesting is the description of six forms of flexible employment that Standing identifies in developing countries regardless of what is established by national labour legislation.<sup>31</sup> They provide useful theoretical examples of labour in developing countries highlighting the prevailing flexible character of jobs.

- (a) Migratory labourers - they often move seasonally to do harvest labour in one place, construction labour in another, petty services in another, and so on.
- (b) Labour circulants - they differ from migratory labourers in that they have a fixed point of residence, are likely to do different types of work when away than when at 'home', and may have more income security since they or their immediate family may combine small-scale peasant-type farming with seasonal or longer-term wage labour.
- (c) Labour contract workers - their distinctive characteristic is that they are dependent on 'middlemen' or 'agents', who hire out workers to employers, often in labour gangs. There is often a bondage relation between sub-contractors and workers who are deployed whenever and wherever needed in an extreme form of flexibility.
- (d) Outworkers - they consist of those on standby for daily wage labour or piece work. They cover contract and casual labour.
- (e) Sub-contractors - often, these are really indirect workers, concealed as such to avoid coverage by regulations or social security contributions, or to make an undertaking look smaller so as to fall beneath some regulatory threshold.
- (f) Employed labour reserves - to compensate for uncertain or fluctuating demand, absenteeism, sickness among workers or labour turnover, many firms in industrializing economies have operated with a labour reserve, retained on or around the premises but only paid when required to fill in for other workers. Perhaps paid a small retainer, they usually have to be available at almost any time.<sup>32</sup>

Although the different typologies listed above are based on details that are often hard to apply to specific jobs due to the often blurred distinctive features of each single case, they provide a good picture of what flexible forms of employment may be in poor countries. It is reported that "circular migrants" were common in Jakarta in the 1980s.<sup>33</sup> Another case for which a few specific examples are easily identifiable is that of "labour contract workers" described under (c) above. This form of labour is found for instance in the "enganche system" in some Latin American countries as described in box 2.1. A similar type of bonded labour exists in other countries as well, such as Bangladesh, India, Nepal and Pakistan where entire families become bonded to a middleman or directly to an employer. In this model, if the worker leaves before repaying his/her debt, the middleman is supposed to cover the losses so that the risk for the employer is lower. The middleman is indispensable in the case of

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<sup>31</sup> ILO Recommendation 197 of 2006 addresses some of those types of flexible jobs, such as false subcontractors and gang labour. See also ILC, 2006b.

<sup>32</sup> Standing, 1999, p. 103.

<sup>33</sup> Sethuraman S. V.; 1987. "The implications of promoting employment through the urban informal sector for the urban environment". in Ghai, 1987. *Economic growth and structural change and labour absorption in Africa, 1960-1985*. Discussion paper I, UNRISD.

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seasonal migrant labour. When local workers are available, the employer can recruit them directly without the services of a middleman.<sup>34</sup>

**Box 2.1. The "enganche system" in Bolivia, Paraguay and Peru**

The lack of employment opportunities and of credit providers in some rural areas of Bolivia, Paraguay and Peru makes poor people ask for money to potential future employers, so that their loans can be repaid with their labour or with the provision of goods. This relation may lead to bonded labour because employers value the services of these workers and/or the goods they provide at their discretion. In Peru, in some traditional indigenous communities loans are repaid through the provision of wood whose value is considerably underestimated by employers. In some cases, illegal gangs of wood operators force indigenous families to work for them. In Bolivia, some 20,000 farmers per year are reported to receive goods for which they have to pay by moving with their families to sugar plantations. Once in those plantations, they have no choice but to purchase goods in local shops owned by their employers and hence become further indebted.

Source:

[http://72.14.207.104/search?q=cache:X2hJHpVQVqYJ:www.oit.org.pe/portal/documentos/alianza\\_global\\_contra\\_trabajo\\_for\\_zoso\\_mp\\_peru\\_bolivia\\_paraguay.pdf+enganche+Peru+trabajo&hl=fr&gl=ch&ct=clnk&cd=1](http://72.14.207.104/search?q=cache:X2hJHpVQVqYJ:www.oit.org.pe/portal/documentos/alianza_global_contra_trabajo_for_zoso_mp_peru_bolivia_paraguay.pdf+enganche+Peru+trabajo&hl=fr&gl=ch&ct=clnk&cd=1)

Standing also highlights 'the growth in the number of workers in dual or multiple labour statuses, at any one time or in some alternating sequence'. He adds that 'more workers become part-peasant, part-wage labourer, or part-time 'own account' producer and part-time estate worker or miner, or whatever'.<sup>35</sup> This aspect of employment in poor countries strengthens the need for a redefinition of some labour market indicators in low income economies, such as employment, unemployment and underemployment.

Although highly flexible, the labour markets in poor countries also present some rigidities: 'caste barriers, feudal and 'patronage' relations of production, religious dictates, and so on'.<sup>36</sup> Such factors are considered "rigidities" if the well-known standard model of labour market is taken as reference. Otherwise, they are traditional norms and values ruling work life in the informal economy and outside the regulatory control of the State.<sup>37</sup>

The different types of jobs listed above do not, however, take into account the distinction between formal and informal employment and between types of jobs in specific economic sectors. Considering employment as a whole, regardless of whether it is formal or informal may be seen as a positive approach, in that it does not assign to informal workers any negative connotation. Moreover, the distinction between formal and informal is becoming increasingly blurred, with the identification of highly remunerative, productive informal businesses on the one hand, and the lowering of social protection standards for formal employees on the other. Nonetheless, because of the original notion of flexicurity adopted in essentially formal economies, in the present paper the distinction between formal and informal employment will be taken into account. In addition, because of the very peculiar features of agricultural labour and the large share of the labour force employed in it in developing countries, employment by sector will also be considered in this paper with a special focus on agriculture.

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<sup>34</sup> Information obtained from the ILO Social Finance Programme. For more specific information on the case of Pakistan where middlemen are called "thekeedars", see Gazdar, Haris. 2004. *Labour markets and poverty in Pakistan: Institutional arrangements and policy*. Collective for Social Science Research, ILO (Islamabad).

<sup>35</sup> Standing, 1999, p. 103.

<sup>36</sup> Ibid.

<sup>37</sup> Bêteille, 2002.

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### 2.1.5. Labour flexibility versus capital flexibility

Before moving to a more detailed discussion on flexibility, one observation ought to be made. Far too often much emphasis is given to labour flexibility with the subsequent marginalization or total exclusion of capital flexibility. The scope of this paper only covers labour flexibility, but it is extremely important to bear in mind that unless capital can quickly adjust to production variations, flexible labour will never result in fully-fledged flexibility. For example, it does not make much sense to state that labour legislation in a given country is stringent because it allows an enterprise to have up to 50 per cent of its labour force temporarily employed, if anyway an entrepreneur does not have the possibility to properly adjust his/her capital to such a labour variation. This issue becomes particularly relevant in the manufacturing sub-sector where the share of capital is a quite important factor in the production.

## 2.2. Flexibility in the informal economy

It is generally recognized that informal work was introduced in international language and literature in the early 1970s, although some believe its potential for the satisfaction of the basic needs of the poor was mentioned, at least indirectly, already in the 1940s.<sup>38</sup> Informal employment did exist before the 1970s, but 'was either discouraged or ignored'.<sup>39</sup> The 1972 Kenya report of the ILO World Employment Programme is the document that describes informal employment for the first time, although the expression "informal sector" had already been used in 1971 by Keith Hart, a British economist. The informal sector is presented in positive terms and praised for its efficiency, innovativeness and dynamism. This is in rather sharp contrast to the "miserabilist" attitude which is now so prevalent towards the sector.<sup>40</sup>

The Kenya report lists seven characteristics of informal employment, the first one being "ease of entry". One can naturally add "ease of exit" as another feature of the informal economy, since small and micro-enterprises which dominate the informal economy are particularly vulnerable and subject to bankruptcy, retrenchment, and seasonal inactivity.<sup>41</sup>

Although definitions of informal employment vary from country to country, in 2002 the ILO International Labour Conference considered that the informal economy includes 'all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements'.<sup>42</sup>

Employment relationships in the informal economy are usually entered into orally. Furthermore, legal norms are rarely applied to them. A survey on informal workers conducted in Ghana in 2005 reveals that only 20 per cent of informal employees are recruited with a written contract against 92 per cent in the formal sector.<sup>43</sup> The relative ease with which parties enter into an employment relationship in the informal economy and terminate it makes labour extremely flexible and adaptable to any situation.

Shifts from an economic activity to another and multiple-job holding are very common in the informal economy and are often linked to seasonal work in agriculture. Workers therefore move from temporary, short-term informal jobs in agriculture to informal jobs with a similar duration in other industries. Secondary informal jobs are frequent, particularly as self-employment, also combined with

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<sup>38</sup> Document of the second UN International Development Strategy, cited in Louis Emmerij, "*Basic Needs and Employment-oriented Strategies Reconsidered*" in Deutsche stiftung für Internationale Entwicklung. 1987. Scientific Positions Challenging Rural and Urban Poverty in Developing Countries, 22-26 June 1987.

Giessen/Schloss Rauischholzhausen, Selected readings, Volume I, The Challenge of Urban Poverty, Bonn.

<sup>39</sup> Bangasser, Paul E. 2000. *The ILO and the informal sector: an institutional history*. Employment Sector, Working Paper 9, ILO (Geneva), p. 10.

<sup>40</sup> Ibid.

<sup>41</sup> Lipton, M.M; 1987. "*Poverty and Unemployment*", in Deutsche stiftung für Internationale Entwicklung.

<sup>42</sup> ILC. 2002a. Resolution concerning decent work and the informal economy. 90th session, ILO (Geneva).

<sup>43</sup> Ebo-Turkson, Festus; Kwabena Twerefou, Daniel; Osei Kwadwo, Adow. 2007. *Labour market flexibility, employment and income insecurity in Ghana: A report*. Employment Policy Department, working paper 2007/1, ILO (Geneva).

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public sector work.<sup>44</sup> Despite their heterogeneity and diverse nature, informal sector activities are generally extremely unstable, both as regards their nature and the location. Instability of these activities is a result of the ease of entry and exit and the short-lived nature of these activities.<sup>45</sup> Already at this point, it is possible to conclude that the main conditions of labour market flexibility are met in the informal economy.

The informal economy has been considerably expanding after the introduction of structural adjustment and stabilization programmes in developing countries. The weakening of State intervention in the labour market and more in general of its institutional support have led households especially from low and middle income groups both in urban and in rural areas to diversify income activities through different types of informal jobs in order to protect their living standards.<sup>46</sup> In recent years, the decentralization of production and subcontracting have further contributed to an increase of informal employment. Official statistics indicate that the share of the informal economy in the non-agricultural workforce ranges from 55 per cent in Latin America to 45-85 per cent in different parts of Asia to nearly 80 per cent in Africa.<sup>47</sup> In Ghana, for example, the size of public administration has been considerably reduced since the mid 1980's when stabilization and structural adjustment programmes were introduced. Retrenchment and redeployment exercises have led to a remarkable increase of the informal economy. Informal employment reached about 85 per cent of total national employment in 2003 with a large share of the labour force operating as self-employed. Privatization has led to a significant reduction in employment, especially in large and medium-scale enterprises. Furthermore, liberalization seems to have determined a number of constraints for SMEs which are a major employment generator in the country.<sup>48</sup>

Tables II and III in annex 1 present data on the size of informal employment in some developing countries. In general, the share of informal employment tends to be higher in poorer countries. In some low income economies, such as Ghana and Mali, the size of informal employment reached over 80 per cent of total employment in 2003<sup>49</sup> and 2004 respectively. It can also be observed that the highest concentration of informal employment is to be found in self-employment, regardless of the level of national economic development.

In the developing world, 60 per cent or more of women are informally employed outside of agriculture. Some data on women working in the informal economy are provided in tables I and IV in annex 1.

### 2.3. Flexibility in agriculture

As table V in annex 1 shows, a large majority of the world's labour force (about 43 per cent of the total world's labour force and three quarters of the working poor) is currently employed in agriculture, with the highest concentration in developing countries. The highest rates are found in East Asia, South-East Asia, South Asia and Sub-Saharan Africa with the latter two regions recording proportions of persons employed in this sector amounting to over 60 per cent.

With an urbanization rate of 75 per cent, Latin America is the wealthiest of the developing regions and the least dependent on agriculture. Nevertheless, it ought to be mentioned that in this region serious equity problems exist both in the distribution of land and resources which are under the control of a few wealthy people in proportions higher than in other regions, and in a strong urban bias with a considerable discrepancy in poverty levels between urban and rural areas where the latter are in

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<sup>44</sup> van der Geest, Willem and van der Hoeven, Rolph. 1999. *Adjustment, Employment & Missing Institutions in Africa: The Experience in Eastern and Southern Africa*. ILO (Geneva). 2002. Decent Work and the Informal Economy: Abstracts of working papers. Employment Sector, Geneva.

<sup>45</sup> Joshi, Gopal. 1997. *Urban Informal Sector in Metro Manila: A Problem or Solution?* South-East Asia and the Pacific, Multidisciplinary Advisory Team, ILO (Manila), p. 39.

<sup>46</sup> Ghai, Dharam (ed.). 2000. *Renewing Social and Economic Progress in Africa: Essays in Memory of Philip Ndegwa*. UNRISD (New York).

<sup>47</sup> ILO. 2002a. *Decent Work and the Informal Economy: Abstracts of working papers*. (Geneva).

<sup>48</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>49</sup> See reference made in the previous paragraph.

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a disadvantaged situation.<sup>50</sup> These aspects have contributed to the creation of high levels of insecurity especially in rural areas.

Agriculture is vulnerable both to the negative consequences of natural events, such as droughts and floods, and to those arising from socio-economic sources like fluctuations in international agricultural commodity prices which can impoverish millions of small producers.<sup>51</sup> Agricultural activities are often informal and some characteristics of agricultural employment are therefore the same as in the informal economy. Only a few developing countries include agriculture in their estimates of informal employment, and when that is the case, the rate of informal work reaches levels as high as 90 per cent of total employment.<sup>52</sup>

Like in informal employment, agriculture subsistence activities are predominant. Data from the various publications of the Ghana Statistical Services indicate that close to 80 per cent of the total labour force in the country are self-employed. Most of them work in agriculture. The majority of private informal employees can be found in the agriculture and service sectors largely because of the ease of entry and the relatively low investment requirements needed compared to the industrial sector.<sup>53</sup>

It is common for small farm households to derive a significant part of their income from off-farm activities. This share of income can be as high as 40 per cent or even more.<sup>54</sup> There are supposedly two categories of agricultural labourers: peasants who do not own or cannot use enough land to grow food to meet their families' needs; and landless agricultural labourers and other non-agricultural groups who rely on employment opportunities in the countryside. Secondary jobs are common not only for the latter group, but also among those smallholders who must complement their income through other forms of employment.<sup>55</sup> Cattle-care is an activity which often absorbs the time available in the agricultural slack season. Casual workers and day-labourers are typical especially in seasons when agriculture requires labour and when employers do not have sufficient family labour. These temporary activities are a large but unstable part of demand for labour and concern women more than men.<sup>56</sup>

'Women are the majority of the world's agricultural producers, playing important roles in fisheries and forestry as well as in farming.'<sup>57</sup> In most developing countries (and in many developed), the work of domestic workers and female workers in the agricultural sector is largely unregulated; is invisible, payment is low or non-existent, or may be in kind.<sup>58</sup> Table VI in annex 1 provides rates of women employed in agriculture in developing regions of the world. It can be noted that proportions are particularly high and reach over 60 per cent in East Asia, South Asia and Sub-Saharan Africa.

Table VII in annex 1 presents data on the proportions of women employed in agriculture in some developing countries. Evidence indicates that women are employed in agriculture in larger proportions than men especially in low income economies. Unfortunately, recent official data on employment by sector are available only for a few developing countries and it could therefore be that women represent the larger share of employment in agriculture, also in economies which are not necessarily low income ones.

Figure 2.1 on paid employees by term of employment in rural Ethiopia provides a clear illustration of the high incidence of temporary jobs in agrarian societies in general and for women in particular. It can be observed that whereas on average about 10 per cent of paid workers are permanently employed, women's share is only 5.5 per cent as against 11.8 per cent for men. Female workers represent the larger proportion of those who work in the most precarious jobs and represent 88.2 per cent of casual workers as opposed to about 74 per cent for men. However, casual work is the

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<sup>50</sup> Hall (principal editor), Dixon, Gulliver with Gibbon; 2001.

<sup>51</sup> Barraclough, Solon L. 2000. *Meanings of sustainable agriculture: Some issues for the South*. South perspectives papers series, South Centre, UNRISD (Geneva).

<sup>52</sup> ILO, 2002d.

<sup>53</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>54</sup> Hall (principal editor), Dixon, Gulliver with Gibbon; 2001.

<sup>55</sup> Cassen R. and Associates, 1987. "Does Aid Work? The Nature of Poverty". in Deutsche stiftung für Internationale Entwicklung. 1987.

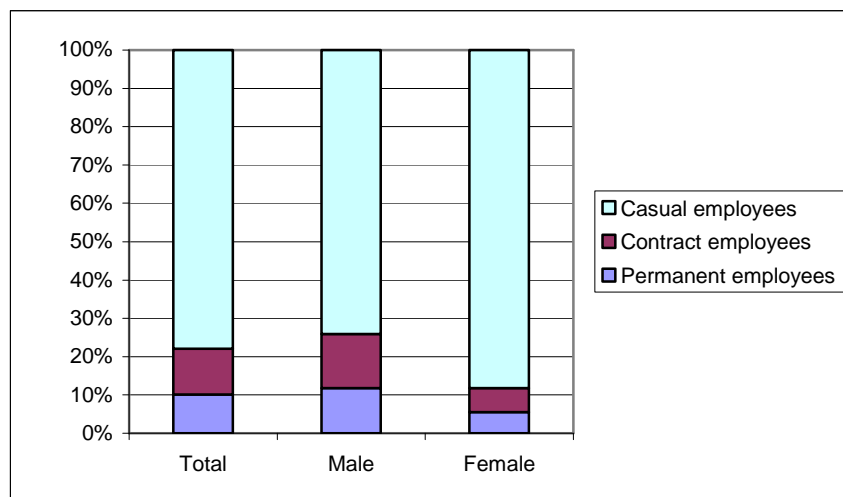
<sup>56</sup> Lipton, M., 1987; in Deutsche stiftung für Internationale Entwicklung.

<sup>57</sup> FAO, 1998, forward.

<sup>58</sup> Lund, Srinivas, 2000, p. 35.

most common form of employment for both sexes reaching the remarkably high average rate of about 78 per cent. High proportions of casual work, particularly for women, are reportedly common also in other low income countries and developing regions, especially in South Asia.<sup>59</sup>

**Figure 2.1. Percentage distribution of paid employees by term of employment in rural Ethiopia, 1999**



Source: Computed by Tassew Woldehanna, Fantu Guta, Tadele Ferede (2005), from CSA data.

An interesting example of flexible labour in agriculture from a positive perspective is that of Debos in rural Ethiopia as presented in Box 2.2. In contrast, in other countries like Pakistan social norms and non-official institutions, such as caste, kinship group and family are crucial factors determining employment and income options for individuals especially in rural areas and in agriculture. Those social norms and institutions generate rigidities in the labour market even if the national legal system does not necessarily hinder flexibility. Certain types of contractual arrangements are open only to some people and not others. Individuals within similar contractual arrangements, moreover, experience different effective conditions of contract depending on their social backgrounds. The kammi landless castes of Punjab, for example, are rarely, if ever, offered tenancy contracts, though they might be employed as regular farm servants or casual harvest labourers.<sup>60</sup> Findings from India also indicate the existence of a nexus between occupational division of activities and social origin based on caste.<sup>61</sup> It can therefore be concluded that in general some social norms and non-official institutions somehow enhance the security level of the very poor, whereas others, such as caste hierarchy considerably lower the range of employment and income opportunities for specific groups of individuals, thus placing them in conditions of extreme insecurity.

**Box 2.2. Farm work groups or “labour sharing organizations” in Ethiopia**

Debos are agricultural work groups in rural Ethiopia based on labour exchange. The labour of a number of people from a certain area is offered to assist one or more individuals in tasks such as building a house, cultivating a large piece of land, harvesting crops, clearing forests for ploughing, etc. This type of labour organization is very flexible and can easily and quickly adjust to the needs of agriculture. Group members pay for the labour they receive with their own personal labour, thus avoiding the payment of wages. Group members in a given community have a social obligation to comply with the request for their labour whenever it arises. Non-compliance entails ostracization in the community.

Source: De Gobbi, 2006a.

Waged employment in agriculture accounts for a rather small share of total employment in this sector, especially in Africa and Asia. For instance, in a specific case study on Uganda, the share of

<sup>59</sup> Lipton, 1987.

<sup>60</sup> Gazdar, 2004, p. 24.

<sup>61</sup> GB.289/LILS/3/2004/01/0108/1, ILO Governing Body, 289th session, Geneva, January 2004.

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wage employment in agriculture reached 10 per cent.<sup>62</sup> It is usually only a couple of farmers in a village who can hire workers in periods of high labour demand; most farmers can meet the needs of fluctuating demand by using family labour. In Latin America, the situation is quite different not only because of the relatively small size of the agricultural sector compared to other regions of the world, but also because Latin America is the region with the highest concentration of land ownership. Lack of access to land and forms of land tenure have determined the marginalization of inhabitants of rural areas and severe rural poverty compared to urban centres.<sup>63</sup> In 1999 71 per cent of agricultural households were landless or nearly landless in Latin America, with 1 per cent of landowners in Brazil controlling 44 per cent of national productive farmland.<sup>64</sup>

Hired workers are the most vulnerable in moments of famine and droughts, because on the one hand they are landless, and on the other when labour demand lowers, farmers can meet their labour needs employing only family members. This is what happens for example in some rural villages in India.<sup>65</sup> In Latin America, where waged employment in agriculture is more common in large plantations of coffee, bananas, etc., the level of vulnerability and employment and income insecurity of workers is quite high. Workers in this temporary work very often do not have formal or legal contracts with their employers. As a result, they endure low salaries, irregular working hours, non-compliance with labour laws and the consequent lack of social protection.<sup>66</sup>

A case study on Uganda indicates that 'farmers prefer to hire labour from within the vicinity where they can collect information on reliability and performance. They also prefer to extend flexible short-term piece-work contracts where the wage rate can be more easily estimated.'<sup>67</sup> Temporary employment seems to be the best option also for workers, since they prefer to take advantage of 'opportunities to earn money income from cash crops or/and the marketable surplus of food crops.'<sup>68</sup> The same study reveals that self-employment and smallholder agriculture constitute 80 per cent of total rural employment.<sup>69</sup>

It can be concluded that the labour market in the agricultural sector is characterized by a high level of flexibility, with ease of entry and exit. Because of seasonal fluctuations linked to the weather which are typical in agriculture and of variations in *international agricultural commodity prices*, workers are subject to a higher risk of exit from the labour market than in other sectors. Like in informal employment, shifts from one job to another and multiple job holding are very common mainly to secure an income through the diversification of productive activities.

## 2.4. Flexibility in the formal sector

Formal labour markets in developing countries have often been described as rigid because of over-regulation. The lack of flexibility has been identified as the principal (if not exclusive) cause for the expansion of the informal economy in those countries. This paper tries to show that the current situation of the labour markets in poor economies is determined by many more factors than just labour law. Social norms, the cultural environment, as well as other external elements such as rules on trade and investment, play a major role in shaping dynamics between labour demand and supply. In addition, it is to be noted that the introduction of stabilization and structural adjustment programmes has led to the adoption of labour market reforms as well as new more flexible labour laws in several developing countries in the 1990s and early 2000s. For example, during the 1990s in Ecuador measures aimed at increasing labour flexibility were included in the labour code. Amongst such measures are 'the replacement of labour contracts for an indefinite duration with fixed-term contracts

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<sup>62</sup> van der Geest, van der Hoeven; 1999.

<sup>63</sup> FAO, 1998.

<sup>64</sup> ILO. 1999. *Trade unions and the informal sector: Towards a comprehensive strategy Preface*. Bureau for Workers' Activities, background paper for the symposium 18 to 22 October 1999 (Geneva).

<sup>65</sup> Lipton, 1987; in Deutsche stiftung für Internationale Entwicklung.

<sup>66</sup> FAO, 1998, p. 99.

<sup>67</sup> van der Geest, van der Hoeven; 1999, p. 72.

<sup>68</sup> Ibid, p. 73.

<sup>69</sup> Ibid.



and the use of temporary, part-time, seasonal and hourly contracts in hiring'.<sup>70</sup> In addition, 'restrictions on the right to strike, collective bargaining and the organization of workers' were introduced.<sup>71</sup> Table 2.1 provides some examples of countries where new labour legislation has been passed. Although the objective of introducing flexibility may not always be stated in the laws listed below, that seems to have been the desired outcome. It is to be noted that besides the national acts referred to in table 2.1, in some of the listed countries other legal reforms with similar objectives have been adopted in time.<sup>72</sup>

**Table 2.1. Principal labour laws introducing flexibility in some developing countries**

Country	Argentina	Egypt	Ethiopia	Ghana	Kenya	Peru
Year/s of adoption	1991, 1995	2003	1993, 2003	2003	1994	1995

Source: Different ILO internal sources.

Three types of regulation affect the level of labour market flexibility: (i) existing types of labour contracts and labour legislation on hiring and firing; (ii) collective bargaining; and (iii) regulation on starting a business.<sup>73</sup> As per regulation for business start-up and business operations, it is commonly agreed that, in order to facilitate employment creation through enterprise development, registration requirements and administrative and operation costs should in general not be too burdensome and time consuming. Efforts are yet to be made in developing countries in this regard, which indicates the presence of some rigidity. The present section will focus on the two other types of regulation mentioned above.

Three main types of labour contracts are usually available in developing countries: contracts for an unlimited duration, fixed-term contracts, and contracts for a specific task. In industrialized countries, temporary labour contracts are seen as an exception to a permanent employment relationship and are therefore subject to several conditions, such as the presence of a justifying or technical cause, the written form, limits to the maximum duration or a maximum number of temporary contracts concluded in a sequence. The violation of any of those conditions often leads to the automatic transformation of a temporary employment relationship into one for an indefinite period. In poor countries, similar conditions are not always established and contracts for a limited duration can be repeatedly concluded with no restriction. In Kenya, casual work for long periods has always been used by private employers to avoid the costs involved in dismissing permanent employees.<sup>74</sup> In addition, even when conditional provisions exist in the labour legislation of developing countries, ineffective labour inspection systems and weak unions which do not adequately protect workers make their application very difficult. This implies that even when there are restrictions to the conclusion of fixed-term contracts, they are not respected and their violation is not sanctioned.

In industrializing economies, the employment relationship for an indefinite period is typical in the public sector. However, structural adjustment and stabilization programmes have imposed the downsizing of public sector employment in several countries, thus considerably reducing the number of those who can enjoy the level of security that a labour contract for an unlimited duration entails (see section 3.4 for more details). The formal private sector is often a very weak presence in poor economies and the share of employment it comprises is rather small. In private employment, fixed-term contracts are often used. It may occur that employees are recruited for an indefinite period, but then, it may happen that special mechanisms to circumvent legal rules are sought and used. In Egypt, for instance, private sector employees may be requested to sign a resignation letter at the moment of

<sup>70</sup> Chen, Vanek, Lund, Heintz with Jhabvala, Bonner; 2005, p. 20.

<sup>71</sup> Ibid.

<sup>72</sup> More detailed and precise information can be obtained consulting the NATLEX/ILOLEX.

<sup>73</sup> On the regulatory framework for SMEs, see The University of Melbourne. 2005 (draft). *Labour and labour-related laws in micro and small enterprises: Innovative regulatory approaches*. ILO InFocus Programme on Boosting Employment through Enterprise Development (Geneva).

<sup>74</sup> van der Geest, Willem and van der Hoeven, Rolph. 1999.

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recruitment, which the employer can use at his/her will to dismiss permanent workers without bearing the related and otherwise necessary firing costs.<sup>75</sup>

If, on the one hand, in developing countries costs to dismiss an employee recruited for an indefinite period in general tend to be high, on the other, it should be noted that unemployment insurance schemes are available only in a few middle income countries and in no low income economy (see section 3.4). As can be observed in annex 3, article 12 of ILO Convention 158 on Termination of Employment provides for the alternative or combined availability of severance allowance and unemployment or other social security benefits for a dismissed worker, and it should be reminded that in general, social security systems in poor countries are very weak and with limited coverage.

To assess the level of flexibility of a legal system it is important to analyse not only the hiring and firing costs of permanent employees, but also existing conditions for the recruitment of temporary workers, which allows employers to hire employees for short periods of time without taking the risk of having exceeding labour force in moments of economic downturns. The case of Pakistan is particularly interesting. Temporary employment is reported to have reached about 36 per cent of total formal employment in manufacturing in 2006, with 14 per cent of the total labour force employed in this sub-sector. Some believe that this figure proves the low level of flexibility of Pakistani labour legislation.<sup>76</sup> Besides the fact that assessing the flexibility of a national labour market on the basis of such a small share of the labour force can be deemed somehow inadequate, one should be reminded that temporary work is generally admitted in all legal systems together with employment for an indefinite duration. The fact that the former is usually considered as an exception compared to the latter does not imply that one typology should be seen as separate from the other. In other words, the level of flexibility of a national labour market in legal terms is to be estimated globally, including all types of admitted labour contracts. It may well be, as already mentioned, that hiring and firing costs in a given country are higher than in other countries, but this should not be seen as the only one element characterising the level of labour market flexibility. Moreover, a high proportion of temporary work is likely to indicate that regulation could be improved so as to avoid the abuse of employment for a limited duration which leads to disguised employment and often almost missing social security protection for workers. The introduction and respect of an "equal treatment" close for all employees regardless of the duration of their employment relationship may be a viable option to guarantee to all workers the same standards of social protection.

Part-time work, apprenticeship contracts and probationary contracts may also be found in some developing countries. Other innovative types of labour contracts which have been introduced in industrialized economies to increase labour market flexibility, such as temporary agency contracts, are normally not found in the legislation of poor countries. Few exceptions are recorded, like in the cases of Niger, a low income country, and Peru<sup>77</sup> and Thailand,<sup>78</sup> two lower middle income economies. Such work arrangements require the establishment of new institutions (temporary work agencies) whose functioning finds obstacles in the limited administrative capacity of developing countries. In Argentina, an upper middle income economy, temporary agency work does exist, but temporary agency contracts were only 2 per cent of total wage employment in 1998, when such type of work arrangement was at its peak.<sup>79</sup> In China, although increasing, workers employed through temporary agencies (labour dispatching agencies) were 2.3 per cent of total employed persons in 2004.<sup>80</sup>

As for collective bargaining, in poor economies it is often not used as much as in industrialized countries. As will be discussed in section 4.3, in some cases, like in Ethiopia, workers' and employers' organizations are so weak that their weight is practically negligible. In Pakistan, formal

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<sup>75</sup> De Gobbi, Maria Sabrina; Nesporova, Alena; 2005. *Towards a new balance between labour market flexibility and employment security for Egypt*. Employment Strategy Papers 2005/10, ILO (Geneva).

<sup>76</sup> World Bank. 2006 (draft). *Pakistan labour market study: Regulation, job creation, and skills formation*. World Bank (Washington D.C.).

<sup>77</sup> ILC, 2006b. *The Employment Relationship*, Report V(1), 295th session, ILO, Geneva.

<sup>78</sup> Chen, Vanek, Lund, Heintz with Jhabvala, Bonner; 2005.

<sup>79</sup> Berg, Janine; Christoph Ernst and Peter Auer. 2006. *Meeting the employment challenge: Argentina, Brazil and Mexico in the global economy*. (Boulder, CO). Ch. 6.

<sup>80</sup> Institute for Labour Studies, MOLSS, P.R.C., December 2004 (draft). *Study on labour market flexibility and employment security for China*.

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employment is about 18 per cent of total employment and only about 3 per cent of formal workers are organized into unions.<sup>81</sup> In other countries, like in Egypt, even if workers' and employers' organizations exist and comprise a relatively large number of workers and employers, they are not effective because they lack technical capacity and negotiation skills. In addition, in some countries, workers' and employers' associations are not really independent and are so closely connected with the government that they do not properly represent their members. This is why it does not really make sense (as it has happened<sup>82</sup>) to assess the level of rigidity of the labour markets of developing countries only on the basis of numbers of unionized workers.

Social dialogue is the result of a historical evolution which has taken several decades to develop in Europe. The unionist movement in France, for instance, started back in the XIX century. In contrast, in some developing countries, slavery was formally abolished just a few decades ago and workers cannot be expected to be as well organized and strong as in industrialized economies. In Ethiopia, for instance, slavery was formally abolished only in 1942. Moreover, in those countries where historically a "cult of workers" has been established like in China, employers have a hard time to get organized as a powerful social force. Additionally, unions are linked to wage employment which is present in rather low percentages in some developing countries, especially in the low income ones where self-employment and unpaid family work prevail. This may partly account for the not even one per cent (of the labour force) union membership in a low income country like Ethiopia. Last but not least, structural adjustment programmes have led to a drastic decline of union membership. In Argentina, union density decreased from more than 60 per cent in 1975, to 36 per cent ten years later, and further down to 24 per cent in 2002.<sup>83</sup> In Chile, unions lost two-thirds of their membership during the process of structural adjustment.<sup>84</sup> In Mexico, union density dropped by about 30 percentage points in ten years.<sup>85</sup>

It is to a certain extent true that formal labour markets in developing countries present some restrictions which may hinder flexibility. Entry into formal employment is not easy and may require some time, which induces individuals, especially the poor, to enter the informal economy instead. The difficulty and time that obtaining a formal job involve is not necessarily linked to legislation on hiring, firing and labour contracts, but rather in the weak private sector, the lack of skills of the labour supply matching the needs of the labour demand, weak and inefficient employment services, and the existence of social norms and informal institutions creating rigidities. Exit from formal employment is rather easy, particularly after the adoption of structural adjustment and stabilization programmes and the retrenchment of many public sector employees. Shifts from a job to another in the formal sector are not very common because of the few employment opportunities that the formal sector offers. What is rather frequent in developing countries is double job holding, with one job being a secure, low paid public sector position, and the other being one in the informal economy.

### **3. Labour market security in developing countries**

#### **3.1. Security in the labour market**

Two different definitions of employment and income security will be adopted in this paper. The former refers to four main forms of security which will make it possible to review the security situation in poor countries in a quick and systematic manner as presented in the following sections of this chapter.<sup>86</sup> The latter is a broader and more dynamic definition based on the notion of "protected mobility", according to which security depends not only on employment security as stable jobs, but

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<sup>81</sup> Gazdar, 2004.

<sup>82</sup> See for example Agénor, Pierre Richard; Nabli, Mustapha K.; Jensen, Henning Tarp. 2004. *Labor market reforms. growth and unemployment in labor-export countries in the Middle East and North Africa*. World Bank.

<sup>83</sup> Berg, Ernst and Auer; 2006, Ch. 7.

<sup>84</sup> Muqtada, 2001.

<sup>85</sup> Berg, Ernst and Auer; 2006, Ch. 7.

<sup>86</sup> Standing proposes a taxonomy which comprises seven forms of security. The sometimes difficult application of such taxonomy in labour markets of developing countries made us opt for four main forms of security which do not fully coincide with Standing's typology.

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also on the social security system in which jobs are embedded. This definition includes both protection against employment and income losses, and protected transition to new employment and alternative forms of income through employment services, other active labour market programmes and income support as unemployment benefits.<sup>87</sup> The notion of "protected mobility" will be used and applied in chapter 4 to the extent in which it can be applied to developing countries. As discussed in sub-section 1.4.2, labour market policies require the availability of resources for their funding as well as of solid State labour market institutions for their implementation and both elements are often weak or missing in poor economies. Risk management mechanisms include additional tools which can have a similar function as labour market policies in that they mitigate the effects of sudden earnings losses and facilitate shifts from job to job. In other words, the present discussion on flexicurity and security considers both labour market policies which may or may not be available in industrializing countries, and other tools, such as savings, credit and mutual insurance which have the same ultimate objective of enhancing security.

The four forms of security which will be used to review the situation of labour markets of developing countries in this chapter and in the next are:

- Employment security - protection against arbitrary dismissal, regulations on hiring and firing, imposition of costs on employers, protection against accidents and illness at work through safety and health regulations;
- Skills and training security - opportunities to learn new skills through apprenticeship, employment training and re-training, etc;
- Representation security - protection and promotion of collective interests through independent workers' organizations and employers' associations, with the right to strike, etc.
- Income security - any household income, also in the form of food or other in-kind goods, which meets basic needs and permits the survival of the very poor. Income may derive both from productive activity and from employment or poverty alleviation programmes. Food security is particularly important in rural areas where it is strongly related to increased productivity in agriculture through the intensification and diversification of production, the expansion of farm size, and the development of off-farm income activity.<sup>88</sup>

It may be useful to link the notion of income security to that of "social income" as described by Standing. In this author's view, a person's social income has up to six sources, some of which may be non-existent in specific cases.<sup>89</sup> The risk management mechanisms presented in section 4.4 of this paper build on different sources of social income. In particular, savings, credit and social insurance refer to social income sources such as self-production, community benefits meant as the support provided by the family, kin or local community, and private income benefits as the value gained through investment including private social protection. Training and public works refer particularly to income received from work, State benefits and much less to benefits provided by the enterprise in the case of training. While the former three risk management mechanisms are equally valid for all developing countries and are particularly important for low-income ones, training and public works building on State benefits are more common in middle income economies. As a matter of fact, and as already observed in other parts of the present paper, State benefits are not common in very poor countries.

Last but not least, it should be noted that in general, security in its different forms has a positive impact on enhancing productivity levels. For industrialized countries, statistical analysis shows that there is a strong correlation between social expenditure per capita of the population and

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<sup>87</sup> This definition is used by Auer, Cazes and Nesporova. In particular, see Auer, Peter. 2005. *Protected mobility for employment and decent work: Labour market security in a globalized world*. Employment Strategy Papers 2005/1, Employment Analysis and Research Unit, Employment Strategy Department, ILO (Geneva).

<sup>88</sup> Detailed information on food security and agriculture through a worldwide analysis region by region is contained in Hall (principal editor), Dixon, Gulliver with Gibbon; 2001.

<sup>89</sup> The six social income sources are self-production, income received from work, community benefits, benefits provided by the enterprise, State benefits and private income investment. See Standing, Guy. 2006 (forthcoming). *Labour re-commodification in the new transformation*. ILO Institute (Geneva).

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labour productivity measured as GDP per hour worked. The same correlation seems to hold true also for other countries, although it is weaker. In particular, health expenditure has been found to have the most direct impact on maintaining workers' productivity.<sup>90</sup> This is why in poor countries where productivity levels are low, efforts aimed at enhancing the national social security system should be encouraged.

### 3.2. Security in the informal economy

The very high level of flexibility that this part of the economy presents is coupled with an extremely low level of security. Low incomes,<sup>91</sup> insecure employment (outside the realm of controls and obligations leading to lack of legal protection), unstable employment (of short duration) make both employment and income security quite uncertain. Informal labour markets are governed by varied atypical voluntary employment agreements which are mostly not documented. This is why the courts have difficulties in addressing matters that arise out of informal labour relations. In Ghana, a country whose economy is mainly informal, at best they may apply equitable measures such as specific performance or make orders for quantum meruit.<sup>92</sup> Moreover, in many countries the compensation available is limited not by the type of contract, but rather by the type of court where the claim is lodged. Litigants may therefore encounter difficulties depending on the claim and the court they have to deal with. For instance, magistrates courts in common law jurisdictions can usually deal with financial claims up to a certain limit, while High Courts cannot order reinstatement.

A further illustration of the low income security enjoyed by informal workers is given by findings from a survey conducted in Ghana in 2005. The survey reveals that about 97 per cent of the respondents are paid in cash. In kind remuneration occurs mainly in the informal economy and consists of the goods and services produced or delivered in the activity in which the employee is engaged.<sup>93</sup>

Working conditions of informal workers are very poor. Informal workers lack access to national social security schemes. In addition, 'because their incomes are low and irregular, informal sector operators have difficulty dealing with unexpected or large expenses that may result from calamities such as flood or fire and from weddings, funerals, maternity or illness which requires hospitalization'<sup>94</sup>. For formal workers, awareness raising on working conditions is often introduced through trade unions. Although there is increasing evidence indicating that informal workers get organized, they usually tend to operate individually. This makes it difficult to sensitize them on issues related to health and safety at work. A survey on informal workers conducted in Ghana indicates that about 50 per cent of workers in the informal economy have various forms of unions in their workplaces, but the majority of them are not affiliated to any union or organization. Reasons given for not affiliating themselves to any parent union include the small size of the union, ignorance, belief that unions do not champion their course, bureaucratic procedures, fear of losing autonomy currently enjoyed, and lack of knowledge and confidence in such unions. In addition, the majority of informal operators (83 per cent) are not members of any group (not formal as a union) functioning as a forum for discussion and to a certain extent for bargaining.<sup>95</sup>

The main difficulty with organizing informal workers is that they are very mobile and operate principally outside buildings where they could otherwise meet. In addition, they tend to find time only for day-to-day income-generating activities and do not believe that getting organized would improve their situation. As for informal employers, they lack the resources for setting up organizations and

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<sup>90</sup> GB.294/ESP/4, ILO Governing Body, 294th session, Geneva, November 2005.

<sup>91</sup> Some informal activities are rather profitable and incomes are sometimes higher than those of many formal jobs.

<sup>92</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>93</sup> Ibid.

<sup>94</sup> Alexandra, Overy; Dominic Paul, Piamonte; 1995. "Improving Working Conditions in the Informal Sector". in ILO. *New challenges and opportunities for the informal sector: a Seminar on the Informal Sector in Metro Manila 28-29 November 1995 : background papers*. South-East Asia and the Pacific Multidisciplinary Advisory Team, ILO (Manila), p. 70.

<sup>95</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

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participating in meetings and other activities. Most of them lack the necessary infrastructure and facilities (office, administrative support staff, other management personnel to replace them during meetings).<sup>96</sup> For informal operators, therefore, even the level of representation security is very low.

Informal employment usually consists of subsistence activities which require low skills that can be used in a large range of low productivity jobs. Access to apprenticeship and training is difficult, which leads to a low degree of skills and training security. The already mentioned 1972 ILO Kenya report includes "skills acquired outside the formal school system" as one of the seven characteristics of informal work. It is reported that informal workers, especially in Africa, often migrate to urban centres to have access to training and hence improve their skills.<sup>97</sup>

### 3.3. Security in agriculture

In many industrialized countries, agricultural labour is regulated through collective agreements, which help build a balance between labour market flexibility and employment security. In developing countries, workers and employers are not very well organized; in addition, most people employed in agriculture are self-employed and operate in subsistence, often informal activities, while waged workers with proper employers are few. In Central America, where employment in agriculture reached 40 per cent of total national employment in Guatemala and almost 35 per cent in Honduras and Nicaragua in 2002, only 6 per cent of agricultural workers have reportedly access to a trade union.<sup>98</sup> Representation security is therefore rather weak. "The situation of workers in the agricultural sector has always been difficult, since in many countries freedom of association rights in that sector are heavily restricted or are even non-existent, often because of the inordinate political influence of land-owning elites. Added to this, the economic restructuring and structural adjustment programmes in the last decades have worsened the economic and social lot of the rural poor since they have transformed the productive system by bringing changes in the labour market. Forms of contracting out of the formal sector and deregulation of wages and labour conditions are common in rural areas."<sup>99</sup>

In Ghana, the General Agricultural Workers Union (GAWU) estimates that only about 8 per cent of agricultural labour is formal, mostly in commercial agricultural farms. Some of the collective bargaining agreements in the formal agricultural sector contain the basic provisions established by law and provide for other benefits such as health, vehicles, housing, a provident fund and end of service benefits. Such benefits are totally missing in the informal economy where the majority of agricultural workers can be found.<sup>100</sup>

Worldwide, including in poor countries, it sometimes happens that national legislation regulates labour relationships in agriculture. Fixed-term contracts and contracts for a specific task are normally used. When labour in agriculture has its own regulation, the protection granted is less than for other sectors.<sup>101</sup> In other cases, especially in very poor countries, employment relationships in agriculture are regulated through customary law and practice. Customs and practices may be applied as a formally recognized source of law, especially in common-law based systems. In other cases, it often happens that the high degree of informal employment in agriculture makes it so that customs and practices are applied simply as informal rules outside the national legal system which may encounter difficulties in enforcing its rules.<sup>102</sup> An illustration of such a situation is provided in box 3.1.

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<sup>96</sup> Goldman, Tanya. 2004. *Organizing in the Informal Economy: A Case Study of the Building Industry in South Africa*. Series on Representation and Organization Building, SEED Working paper No. 38, ILO (Geneva).

<sup>97</sup> Sethuraman S. V.; 1987.

<sup>98</sup> Trejos Solézano, Juan Diego; Del Cid, Miguel. 2003. *Decent Work and the informal economy in Central America*. Working Paper No. 7, Policy Integration Department, ILO (Geneva).

<sup>99</sup> ILO, 1999, p. 35.

<sup>100</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>101</sup> Daza, José Luis. 2005. *Informal Economy, Undeclared Work and Labour Administration*. Social Dialogue, Labour Law and Labour Administration Department, Working Paper No. 9, ILO (Geneva).

<sup>102</sup> ILO Convention No.141 concerning Rural Workers' Organizations covers the employment relationship in agriculture even if national laws do not. Article 2 paragraph 1 provides that 'For the purposes of this Convention, the term rural workers means any person engaged in agriculture, handicrafts or a related occupation in a rural area, whether as a wage earner or, subject to the provisions of paragraph 2 of this Article, as a self-employed person such as a tenant, sharecropper or small owner-occupier.'

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**Box 3.1. Crop-sharing arrangements in Ghana**

Customary labour practices and their related norms permit employees and employers to negotiate terms of contracts, but without the conclusion of any proper employment contract. Under this arrangement a landlord gives his lands to a tenant farmer who agrees to share the crops with the landlord on the basis of an agreed sharing formula. The dominant type of sharecropping is one which appears in two forms: the “abusa” and the “abunu” systems. The tenant farms on a new land and gives the landlord as rent either one-third of the yield in the former type, or an equal share in the latter form. Usually the agreement holds in so far as the two parties are prepared to hold on to that agreement. Since contract in these areas is by word of mouth, termination of the contract is easy and is made by either party without notice. When problems arise, rarely do they settle them in court.

Source: Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo. 2007.

In general, in industrializing economies employment security may be there in theory, but in practice, if the weather conditions are not favourable, no legal protection matters and both employment and income security are lost. This is unfortunately often the case in poor countries which suffer from famine and droughts. Income security is particularly at risk for the self-employed who are engaged in subsistence activities. Lack of access to land, agricultural inputs, e.g. water, technology and sometimes animals, further increases the level of income insecurity. 'Small farmers produce much of the developing world's food. Yet they are generally much poorer than the rest of the population in these countries, and are less food secure than even the urban poor. Furthermore, although the majority of the world's population will live in urban areas by 2030, farming populations will not be much smaller than they are today. For the foreseeable future, therefore, dealing with poverty and hunger in much of the world means confronting the problems that small farmers and their families face in their daily struggle for survival.'<sup>103</sup>

The development of sustainable agriculture could create more employment. Sustainable agriculture increases demand for labour and spreads labour better through the year. More labour of a more permanent nature should provide higher income security. In those cases where sustainable agriculture leads to higher productivity levels, wages should also increase, thus further enhancing income security.<sup>104</sup> Sadly, though, in most poor countries agriculture maintains a subsistence nature and is characterized by low productivity.

Employment security in agriculture is very low, also because formal social security schemes often do not reach workers in this sector. In addition, working conditions are extremely poor and awareness raising on health and safety is hard to achieve, mainly because of the lack of organizations through which messages on improving working conditions could be channelled. Obstacles in reaching agricultural workers depend also on difficult communication and poor infrastructure in rural areas.

Agricultural labour typically involves low skills and the possibility of shifting from agricultural labour to any income-generating informal activity. Access to training is very difficult, especially because of the low population density in rural areas and the poor infrastructure which make organizing training quite complicated. Skills and training security is hence missing.

### 3.4. Security in the formal sector

In several developing countries, such as Cambodia, China, Egypt<sup>105</sup>, Ethiopia, Laos, Mongolia and Vietnam, the State used to guarantee full employment mainly through the artificial creation of jobs in the public sector (both in the government and in State-owned enterprises). The introduction of a market-based economy, privatization and structural adjustment programmes have put an end to such a form of employment security. As discussed in section 2.4 and indicated in table 2.1, labour market reforms have often led to the adoption of new labour laws in the 1990s and early 2000s which have

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<sup>103</sup> Hall (principal editor), Dixon, Gulliver with Gibbon; 2001, preface.

<sup>104</sup> Shepherd, Andrew. 1998. *Sustainable rural development*. (London and New York).

<sup>105</sup> In Egypt, employment used to be guaranteed to young university graduates. A legacy of such an employment guarantee scheme is that even nowadays youth expect the State to provide them jobs in the public sector (De Gobbi, Nesporova, 2005).

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made rules on employment flexible and which have considerably lowered previously existing security standards.

In Kenya, a labour law passed in 1994 eliminated the high firing costs which employers had to bear for dismissing redundant workers. Until then, private employers maintained casual workers for long periods to circumvent existing legislation, thus greatly contributing to employment insecurity. Nonetheless, it is believed that the legal reform has most probably further aggravated employment insecurity in the country.<sup>106</sup>

In Ghana, the 2003 labour law provides for the conclusion of employment contracts in writing only when they cover a period of six months or more. This legal norm coupled with the low social protection coverage provided in general to formal workers in this country make the difference between formal and informal employment almost meaningless in the case of short-term jobs. Since the employment contracts of casual and temporary employees are not in writing, they are difficult to enforce because it is hard to identify any reference point. Further evidence of the poor quality of temporary work in Ghana is given by the already mentioned survey conducted in this country in 2005. It indicates that of the 14 per cent of the respondents who were casual or temporary employees, about 47 per cent reported being paid less than what permanent employees of the same level and qualifications receive. In addition, 40 per cent asserted not being paid their full wage during public holidays.<sup>107</sup> Likewise, data from the labour force survey in South Africa indicate that many formal workers are employed in jobs with working conditions similar to those of informal employment. They do not have a written contract, they are employed in temporary, casual or seasonal work, and are not entitled to paid leave.<sup>108</sup>

In Chile and Thailand, two successful developing economies where growth and job creation have occurred at the same time, income inequality has increased and the quality of employment has worsened. Informal jobs and formal temporary and casual work have considerably risen. Factors which have determined increasing levels of insecurity in these countries include weak social institutions with a lack of adequate social protection and safety nets, poorly performing or missing redistributive mechanisms, and weak trade unions as already discussed in section 2.4.<sup>109</sup>

Subcontracting and outsourcing have become typical forms of labour organization in several developing countries like Bangladesh where the manufacturing sub-sector has been expanding. Such forms of labour organization in which women are largely employed entail poor working conditions and an almost absolute lack of social protection.<sup>110</sup> In Thailand subcontracting arrangements are widespread and the contractors are often small enterprises offering inadequate working conditions and no social benefits. In Venezuela, subcontracting now occurs even in the public sector.<sup>111</sup>

Where temporary work agencies have been introduced, the level of employment security offered is much lower than for formal employees. In Thailand, workers who apply for temporary agency work receive legal minimum wage and are paid overtime. Nevertheless, they are denied a range of benefits which are normally granted to formal employees, such as annual wage increase, survivor benefits, living cost and food allowances. Moreover, agency workers are prohibited from joining a union. Finally, although agency workers pay contributions to the Thai social insurance fund, these are sometimes not forwarded to the Social Security Office, resulting in denial of benefits without recourse through the labour court, which in any event is both expensive and time consuming.<sup>112</sup>

ILO Convention 102 of 1952 concerning Social Security 'lays down the minimum standard for the level of social security benefits and the conditions under which they are granted. It covers the nine principal branches of social security, namely medical care, sickness, unemployment, old age, employment injury, family, maternity, invalidity and survivors' benefits.'<sup>113</sup> Formal social security coverage is very limited in poor countries and it is considerably smaller in low income economies as

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<sup>106</sup> van der Geest, Willem and van der Hoeven, Rolph. 1999.

<sup>107</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>108</sup> Devey, Richard; Skinner, Caroline; Valodia, Imraan; 2006. *Second best? Trends and linkages in the informal economy in South Africa*. Working paper No. 06-102, Development Policy Research Unit (South Africa).

<sup>109</sup> Muqtada, 2001.

<sup>110</sup> Ibid.

<sup>111</sup> ILC. 2003. *The scope of the employment relationship, Report V*. 291st session, ILO, Geneva.

<sup>112</sup> Chen, Vanek, Lund, Heintz with Jhabvala, Bonner; 2005 p. 68.

<sup>113</sup> ILO, 2005d, p. 32.



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compared to middle income ones. It is estimated that in Sub-Saharan Africa and South Asia formal protection is provided only to 5-10 per cent of the working population, with this small percentage following a decreasing trend.<sup>114</sup> In middle income countries, formal social security coverage is higher and reaches between 20 per cent and 60 per cent. Only in some rather successful Asian countries, such as China, the Republic of Korea and Taiwan, and in some Latin American ones, such as Chile and Costa Rica, is there universal health insurance coverage, whereas in most low income countries governments cannot provide free health care services and hence there is greater demand for community arrangements to finance and organize health insurance (see sub-section 4.4.3).<sup>115</sup>

When the costs for social security are supposed to be born largely by employers, public sector employees are certainly covered, but they are often just a small proportion of the labour force. Public sector employment has been drastically reduced with structural adjustment programmes in a number of developing countries as already discussed in section 2.4.

In Ethiopia, a low income economy, a maximum of about 2.9 per cent of the working population is covered by the national social security system. In fact, besides government staff, the employees of public enterprises which are fully or partially owned by the State, or where the Government's capital share is 50 per cent or above, are equally entitled to the benefits of the pension scheme, but only if the service is rendered upon a government order.<sup>116</sup> In Ghana, a survey indicates that only 19.2 per cent and 17.8 per cent of respondents aged 60 and above are entitled to a pension in Urban Ashanti and Urban Accra respectively.<sup>117</sup> The coverage of social security has sharply declined in several industrializing countries as a consequence of structural adjustment. In Argentina, an upper middle income country, it dropped from 62 per cent of all workers in 1990 to 48 per cent in 2003, and in Brazil, a lower middle income economy, from 74 per cent to 69 per cent in the same years.<sup>118</sup>

When social security is expected to be largely provided by employers, in the formal private sector benefits may vary considerably from enterprise to enterprise and at times may simply not be available. Social security rules are not always respected and working conditions are often rather poor. Both in Ethiopia and in Ghana, for instance, employers are encouraged to set up provident funds for their employees, but the proportion of employees benefiting from such schemes is rather low. In Ethiopia, it is estimated that not more than 10 per cent of private formal employees benefit from social security schemes.<sup>119</sup> In Ghana, the already mentioned 2005 survey reveals that about 39.3 per cent of the respondents who are formally employed affirmed that their employers have put in place measures aimed at enhancing employment and social security. If interviewees who are employed in the informal economy are also taken into account, the rate decreases to 28 per cent. The same survey indicates that areas where employers have been active are the payment of medical refund and the provision of credit to their employees. About 62.5 per cent of the respondents do receive partial or full medical refund. While 70 per cent and 72 per cent of those in urban areas and in the formal sector receive partial or full medical refund respectively, the corresponding figures for rural areas and the informal economy are 56 per cent and 54 per cent respectively.<sup>120</sup> These findings show that in some developing countries, especially in low income ones, the difference in treatment between formal and informal employment is not very meaningful and that in any case, formal employment is far from coinciding with decent work.<sup>121</sup>

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<sup>114</sup> van Ginneken, Wouter. 1999. "Social security for the informal sector: A new challenge for the developing countries" in *International Social Security Review* - Special Issue, Vol. 52 1999 No. 1.

<sup>115</sup> van Ginneken, Wouter. 2003. "Extending social security: Policies for developing countries" in *International Labour Review*, Vol. 3, p. 277.

<sup>116</sup> Tassew, Woldehanna; Fantu, Guta; Tadele, Ferede. 2005.

<sup>117</sup> Apt and Amankrah, 2004, cited in Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>118</sup> Berg, Ernst and Auer. 2006. Ch. 2.

<sup>119</sup> De Gobbi, Maria Sabrina. 2006a. *Labour market flexibility and employment and income security in Ethiopia: Alternative considerations*. Employment Strategy Papers 2006/1, ILO (Geneva).

<sup>120</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>121</sup> Different levels of social security are enjoyed also by formal workers in advanced economies, depending on the type of formal job. Precarious workers usually benefit from lower social security coverage. See Rodgers G. and J. (eds.), 1989. *The growth of atypical employment in Western Europe: Precarious jobs in labour market regulation*. International Institute of Labour Studies, Free University of Brussels and the International Labour Organization, p. 4.

In Egypt, workers may benefit from pensions and compensations thanks to contributions paid up by both employers and workers throughout the entire period of service. Egypt is a lower middle income country and compared to low income economies like Ethiopia and Ghana, the coverage of its social insurance system is broader. However, the percentage of workers covered by social insurance decreased from 96.3 per cent of the formally employed population in 1994-1995 to 93.5 per cent in 2002-2003. The annual amount received per person has constantly increased, but several people benefiting from pensions of the type under consideration still live below the poverty line.<sup>122</sup> Beneficiaries of old pension schemes have declined also in other countries. In Argentina, formal workers having the right to a pension decreased from 87 per cent of total formal employees in 1992 to 79 per cent in 2001.<sup>123</sup>

It appears clear at this point that both in low income countries and in middle income ones social security benefits are often unavailable to large proportions of the population. In addition, when they are available, they do not provide an adequate income. Once more, a second job in the informal economy is often the solution.

Another measure which has lowered employment security in some countries after the adoption of structural adjustment programmes is the introduction of early retirement schemes. This is the case of Egypt and Kenya, where many still relatively young retrenched workers were pushed to look for an informal job to round up their monthly income. In Kenya, the minimum age to be eligible for early retirement in the public sector was 40 years.<sup>124</sup>

While examining national unemployment insurance schemes, once more the difference between low income and middle income countries clearly emerges. Table 3.1 provides a list of developing countries which have set up unemployment insurance schemes. No low income country appears in the list, although it is to be noted that when unemployment insurance legislation was enacted in Algeria, Iran, South Africa and Uruguay, the national per capita GDP was relatively low, between 2,413 and 3,941 US dollars per year.<sup>125</sup> However, it seems that 'unemployment insurance is mainly relevant for middle income developing countries where a large part of the labour force works in urban areas and in the formal economy'.<sup>126</sup>

**Table 3.1. Some developing countries with unemployment insurance schemes**

Type of economy*	Lower income	Upper income
Country	Algeria Brazil China Ecuador Egypt Iran	Argentina Chile South Africa Uruguay

Source: Berg, 2006 (forthcoming);

\* World Bank classification according to 2004 GNI per capita.

Unemployment benefits are not available in Ethiopia and Ghana, two low income countries. Algeria, Argentina, Brazil and Egypt are three middle income countries where unemployment insurance schemes have been established. In Algeria, unemployment insurance has been introduced after the adoption of a structural adjustment programme in 1994. Only workers dismissed for economic reasons due to restructuring who are employed for an indefinite period and who have contributed to the national social security system for at least three years are entitled to receiving benefits. The Algerian system is quite generous, in that it provides unemployment benefits for a period of one to three years and for an amount which regressively varies from 100 per cent to 50 per cent of the salary received. Coverage is rather limited and reached 8 per cent to 10 per cent of the unemployed

<sup>122</sup> De Gobbi, Nesporova. 2005.

<sup>123</sup> Berg, Ernst and Auer. 2006. Ch. 2.

<sup>124</sup> van der Geest, Willem and van der Hoeven, Rolph. 1999.

<sup>125</sup> Berg, Janine. 2006 (forthcoming). *The origins of unemployment insurance: Lessons for developing countries*. ILO (Geneva).

<sup>126</sup> van Ginneken, 2003, p. 282.

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in 2002-2003.<sup>127</sup> In Egypt there exists a scheme providing benefits corresponding to 60 per cent of the last salary received by the dismissed worker. These benefits are granted for a maximum period of 28 weeks from dismissal. They are financed through a contribution of employers equal to 2 per cent of their workers' wages, and through the revenues made from the investment of such contributions. In Egypt, social security is provided also to former workers through a specific type of financial support. The number of beneficiaries declined to less than one half - from 5,065 in 1994-1995 to 2,415 in 2001-2002. The total annual financial allocation per person rose in time, but the benefits provided are not sufficient to cover living costs.<sup>128</sup> In Argentina, the coverage of the existing unemployment insurance scheme is quite limited, with only 8 per cent of the unemployed receiving benefits in 2002. In Brazil, the coverage of unemployment insurance is broader, with 60 per cent of the unemployed salaried workers having coverage. In this country, unemployment benefits cannot be lower than the national minimum wage.<sup>129</sup> In middle income countries more social security instruments are available compared to low income ones, but their effectiveness is questionable.

In some industrializing economies, where the State budget is very limited, in the private sector some costs, particularly those related to social protection and social security, are transferred to employers, which, on the one hand, constitutes a form of employment security, but which, on the other, somehow hinders the growth of the formal private sector. In Ethiopia, for example, the national legislation makes it mandatory for employers to finance all necessary adaptations to make a job accessible to disabled workers. Such costs are perceived as a burden by employers and constitute a factor discouraging the recruitment of persons with disabilities.<sup>130</sup>

In public sector employment, demotivation and low productivity are rather common. Training staff both in the public and in the private formal sectors is not really usual, although training is provided more in the formal sector than in the informal economy. National training programmes are often run by public institutions with little funding and obsolete facilities and equipment. In Egypt, although politically some emphasis has been given to training in the past few years, adequate resources to face the training challenges of the current national labour market have not been allocated.<sup>131</sup> In Ghana, the government has launched the Skills, Training and Employment Placement (STEP) programme to offer vocational training to young unemployed persons who registered in 2001-2002. Some graduates from this programme have been employed in the informal economy.<sup>132</sup> Considerable efforts on training have been made in Latin America, especially for youth with the organization of programmes where often partnerships between public and private institutions have been established for the successful implementation of training activities.<sup>133</sup>

In general, in developing countries, although the level of security in the formal sector is higher than in the informal economy, even in formal employment the degree of security has been decreasing during the past few decades. There are different levels of security depending on whether one refers to the public or private sector. Public sector jobs remain the best option, because of the social security benefits they provide. At the same time, though, wages in public sector employment are often low and an additional source of income is necessary. Furthermore, the number of public sector employees has considerably diminished during the past few years, thus worsening security levels.

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<sup>127</sup> Barbier, Jean-Paul. 2006. L'intermédiation sur le marché du travail dans les pays du Maghreb: Etude comparative entre l'Algérie, le Maroc et la Tunisie. EMP/ANALYSIS, EMP/STRAT, ILO (Geneva).

<sup>128</sup> De Gobbi, Nesporova, 2005.

<sup>129</sup> Berg, Ernst and Auer. 2006. Ch. 2 and 6.

<sup>130</sup> De Gobbi, 2006a.

<sup>131</sup> De Gobbi, Maria Sabrina. 2005. "Taqium mekawenine men al bernameg al qawmi attashghil al shabab" (Evaluation of two components of the national Youth Employment Programme); in Ibrahim Awad (ed.), *Nahwa siyassa littashghil fi Misr* (Towards an employment policy for Egypt); Alhay'a almisriya al'ama lilkitab (Egyptian General Book Organization) and ILO (Cairo).

<sup>132</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>133</sup> For more detailed information on labour market policies including training programmes in Argentina, Brazil and Mexico, see Berg, Ernst and Auer. 2006, Ch. 6.

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### 3.5. Security through labour inspection

The level of security at work in industrializing economies could be improved through efficient labour inspection services. According to ILO Convention 81, labour inspectors shall perform three basic tasks: ensuring compliance with national labour legislation, advising employers and workers on the most effective means of achieving that aim, and drawing the authorities' attention to abuses or shortcomings not covered by national legislation.<sup>134</sup> Unfortunately, though, these labour market institutions often have a negative legacy, are very poorly equipped and are largely ineffective. In many developing countries, labour inspection was established 'initially to help the smooth running of colonial economies and their demands on cheap and disciplined labour.'<sup>135</sup> Labour inspection services are under the responsibility of the national Ministry of Labour. 'In many countries, the Ministry of Labour's share of the national budget is still less than 1 per cent, in not a few it is less than 0.1 per cent - the average in English-speaking Africa is around 0.25 per cent - and labour inspection services receive only a fraction of this amount. In consequence, their status is often unacceptably low. They are grossly understaffed, under-equipped, under-trained and under-paid.'<sup>136</sup> When good governance is missing and governments assign low status to labour inspection, labour inspectors cannot be expected to guarantee their independence and integrity.<sup>137</sup>

The ILO technical services responsible for labour inspection consider that the number of labour inspectors in relation to workers should be 1/10,000 for industrialized economies, 1/15,000 for rapidly industrializing economies, 1/20,000 for transition economies and 1/40,000 for the least developed countries, though for the whole economically active population. Table 3.2 provides precise figures on the number of labour inspectors in some developing countries. It is clear that even for those countries which do not fall under the category of the least developed ones, the least demanding ratio (1/40,000) is not always applied.<sup>138</sup> As a matter of fact, of the eight countries listed in table 3.2 below, only China, Honduras, Malaysia and Mongolia have at least one labour inspector per 40,000 economically active persons. Should China and Malaysia be considered as rapidly industrializing economies and hence require one labour inspector per 15,000 workers, even in those two countries the existing number of labour inspectors in 2004 would not be adequate. It is to be noted that in China, the labour inspection system was established only in 1993.<sup>139</sup>

Particularly interesting is the case of Mexico, a federal state, where overall federal labour inspectors decreased from more than 500 in 2000 to 273 in 2004 due to budget constraints and an early retirement programme introduced in 1998. Personnel cuts have been unevenly distributed throughout the country and some highly industrialized States are now heavily understaffed. There are differences also in the effectiveness of State inspection agencies; some States have very effective agencies, whereas others do not have any agency at all and these seem to be the least industrialized States.<sup>140</sup>

Two other middle income Latin American countries, Argentina and Brazil, present much better practices. In Argentina there was reportedly one labour inspector per 14,000 workers in 2000. Figures for Brazil indicate that in 2002 the ratio of labour inspectors to workers was similar to that of Argentina with over 2000 labour inspectors operating throughout the country.<sup>141</sup> This number reportedly rose to about 3,000 in 2005.<sup>142</sup> Despite the relatively good number of labour inspectors compared to other developing countries, the effectiveness of labour inspection is questionable.

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<sup>134</sup> Baker, Jim; in ILO. 2006. *The global challenges of labour inspection*. Bureau for Workers' Activities, Labour Education 2005/3-4, no. 140-141 (Geneva). For a more thorough description of the different functions of labour inspection, see Albracht, Gerd. 2005. *Ten steps for strengthening labour inspection*. SafeWork, ILO (Geneva).

<sup>135</sup> ILO Safety and Health at Work, speech delivered at The Hague in 2001.

<sup>136</sup> Ibid.

<sup>137</sup> Baker, Jim; in ILO, 2006.

<sup>138</sup> <http://www.ilo.org/public/french/standards/reim/ilc/ilc95/pdf/rep-iii-1b.pdf>

<sup>139</sup> Institute for Labour Studies, 2004.

<sup>140</sup> Piore, Michael J.; Skinner, David W. 2004. *Rethinking Mexico's labour standards in a global economy*. Department of Economics, MIT, U.S.A.

<sup>141</sup> Berg, Ernst and Auer. 2006, Ch. 6.

<sup>142</sup> Moure, Maria de Lourdes; in ILO, 2006.

**Table 3.2. Labour inspectors in some developing countries**

Country	Year	Type of economy *	Number of labour inspectors	Total labour force 15+ (000)	Econ. active population covered per labour inspector
Cameroon	2004	low income	58	6,092.48 <sup>a</sup>	105 043
China	2004	lower/middle income	43 000	766 515.6 <sup>a</sup>	17,826
Ethiopia	2003	low income	44 b	32 621.88	74 ,406
Honduras	2003	lower/middle income	115	2 722.06	23 670
Malaysia	2003	upper/middle income	279	10 421.79	37 354
Mexico	2004	upper/middle income	273 <sup>c</sup>	42 236.80 <sup>a</sup>	154 714
Mongolia	2004	low income	73	1 187.78 <sup>a</sup>	16,271
Philippines	2004	lower/middle income	208	34 623.73 <sup>a</sup>	166 460

Sources: ILC, 2006a; ILO (KILM), 2005a;

\* World Bank classification according to 2004 GNI per capita.

a. Labour force in 2003 (latest available data).

b. In 2006 labour inspectors in Ethiopia have increased by one unit reaching the total number of 45.<sup>143</sup>

c. Piore, Skinner; 2004.

If the ratio of one labour inspector per 40,000 economically active persons were to be applied, in a threshold industrializing country like Nigeria, in 2001 there should have been more than 4,000 inspectors, whereas at that time there were only around 500. The present situation is very likely to have remained substantially unchanged. Likewise, in Nepal, which in 2001 had some 5 million workers, there should have been a minimum of 125 labour inspectors, but there were altogether 15 factory inspectors, 'none of which have transport, working phones, copies of the legislation, inspection forms, etc [...]'.<sup>144</sup>

Labour inspection in developing countries encounters several obstacles also due to widespread informal employment particularly in domestic work, homework, rural labour, and SMEs. The checks of labour inspectors in domestic work and homework are limited, because in family work no business registration is required, and inspection services usually do not have the right to enter private homes to make checks.<sup>145</sup>

As for rural labour, agricultural work is mainly seasonal and temporary and registration and documentation are normally missing. In addition, the national labour administration is often incapable of informing, assisting and inspecting agricultural enterprises.<sup>146</sup> However, progress has been made in several developing countries, such as Guatemala, Honduras, Kenya, Mauritius, Nigeria and Uruguay, where labour inspectors have been vested with extensive powers to inspect the living conditions of agricultural workers and their families. For instance, in Guatemala and Honduras, labour inspectors can verify whether work done by an under-age or female family member to help an agricultural worker is considered as establishing a contractual employment relationship.<sup>147</sup>

Inspecting SMEs involves a number of difficult tasks. Firstly, labour inspectors must identify the heads of enterprises, then they have to establish and prove the nature of labour contracts or labour

<sup>143</sup> ILO Addis Ababa Office.

<sup>144</sup> ILO Safety and Health at Work, speech delivered at The Hague in 2001. Although data reported on Nigeria and Nepal refer to 2000 and 2001, the national situations described are unfortunately still a quite truthful reflection of the present reality.

<sup>145</sup> Daza, José Luís; in ILO, 2006.

<sup>146</sup> Ibid.

<sup>147</sup> ILC. 2006a. *General survey of the reports concerning the labour inspection, Report III* (part 1b), 295th Session, ILO, Geneva.

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relations. Lastly, they must check on working conditions and employer compliance with requirements such as the minimum wage. These multiple tasks require human and financial resources as well as coordination levels which few developing countries can afford.<sup>148</sup>

It is nonetheless to be noted that some countries are seriously trying to improve labour inspection services, even with respect to informal employment. For example, in Argentina in the over 90,000 enterprises inspected in 2005, 29 per cent of workers were found to be unregistered.<sup>149</sup> In Brazil, in 2004 708,957 informal workers were formally employed as waged employees (24 per cent in agriculture and cattle farming, and 21 per cent in industry).<sup>150</sup>

Moreover, in some African countries, such as Uganda, Kenya, Tanzania, Nigeria, Lesotho and Ethiopia, labour law reviews are taking place, addressing some key aspects of labour inspection.<sup>151</sup> Another example of national efforts geared towards better labour inspection is illustrated in the following box describing the recent experience of the Socialist Republic of Vietnam.

**Box 3.2. Integrated labour inspection in Vietnam**

With the technical assistance of the ILO, the Vietnamese Labour Code was revised, enabling labour inspectors to verify hygiene, safety and working conditions in one single visit. Together with the adoption of such an integrated inspection approach, new labour inspectors were recruited in order to increase the effectiveness of national labour inspection. Comprehensive training for inspectors, enabling them to integrate different areas of inspection, was introduced and an occupational safety and health training centre has been set up.

Source: ILC. 2006a.

## **4. Towards a decent balance between labour market flexibility and employment and income security in developing countries**

### **4.1. Beyond the distinction between formal and informal**

Before starting the real discussion on the tools that poor countries have at their disposal to reach a decent balance between flexibility and security and on the methodology they shall adopt, a few remarks are due on some key priorities for all workers and all employers both formal and informal. The first ILO debate on the informal sector was concluded with the adoption of three priority areas for action at the 251st Governing Body Session of November 1991.<sup>152</sup> Those priority areas, which were further elaborated during the more recent ILO debate on the informal economy of 2002, are:

- (a) improving the productivity of informal sector activities,
- (b) providing basic social protection to informal sector producers and workers, and
- (c) promoting and strengthening the organization and collective action of informal sector producers and workers.

The following sections will present a series of tools and measures focusing on those three priority areas which have undoubtedly remained valid in time. They will nonetheless be considered not only for informal operators, but for formal ones as well. As described in sections 2.4 and 3.4, some formal employment arrangements do not really provide much more security and protection than informal ones. Hence, being formally employed does not necessarily coincide with having a decent job. Approaches and measures aimed at improving employment terms and conditions in general towards the achievement of decent work are to be sought both for formal and for informal workers.

Contrary to the theory of labour market segmentation according to which separate segments in a given labour market coexist, the present paper is based on the idea of a one and only national labour market where linkages between the formal and the informal sectors are clearly recognized.<sup>153</sup> Informal

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<sup>148</sup> Daza, José Lu s; in ILO, 2006.

<sup>149</sup> Ibid.

<sup>150</sup> Moure, Maria de Lourdes; in ILO, 2006.

<sup>151</sup> Nyambari, Sanny T.; in ILO, 2006.

<sup>152</sup> GB.251/17/22.

<sup>153</sup> A similar position is expressed also in Lund, Srinivas, 2000, p.13, and in Chen, Vanek, Lund, Heintz with Jhabvala, Bonner; 2005 p. 44.

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operators are often linked to the formal economy through supply or customer networks. For example, work on informal clothing manufacturing in a residential area in Durban (South Africa) shows that manufacturers source their inputs in the formal economy and the garments are often sold in formal retail stores.<sup>154</sup> Furthermore, large numbers of workers regularly move between the formal and the informal economy with part of the formal economy being increasingly informalized.<sup>155</sup> A World Bank study based on a survey conducted in the Greater Johannesburg metropolitan area reveals that 80 per cent of the surveyed informal enterprises depended on formal firms for inputs, 36 per cent sold directly to formal firms, and over 50 per cent competed with them.<sup>156</sup>

An example where an integrated policy approach addressing the needs of both the formal and the informal sectors at the same time on a local level has been adopted is that of the province of KwaZulu-Natal in South Africa. In this province, support to informal economic activities consists of measures taking into account the specific characteristics of those activities.<sup>157</sup>

The case of the Shanghai local government in China is another example of a pro-active policy approach towards informal operators. It is particularly interesting also for the implementation of the three priorities listed above for informal workers. Informal employment is considered as a positive remedy against the incapacity of the government to provide an income to retrenched workers from State-owned enterprises. It allows the government to lower both unemployment and expenditure on social security at the same time. Informal employment is therefore supported through the extension of basic social insurance (including pension, medical insurance, accident and risk insurance), training opportunities (one training course for free per year), preferential tax policies exempting informal operators from local taxes and non-statutory social insurance contribution payments for three years, entitlement to contribute to risk insurance, assistance with obtaining credit, and the creation of a voluntary network of experts to assist informal operators. Two factors have determined the success of the experience of the Shanghai local government: the outstanding performance of the local economy, and the strong political will of the Shanghai municipal leadership to address the issue of re-employment with innovative means.<sup>158</sup>

What follows is a continuation and more detailed analysis of how flexibility and security can be dealt with in developing countries. Risk management mechanisms and tools and approaches adapted to informal operators are clearly new elements which do not appear in the notion of labour market flexibility and employment security used for industrialized and transition countries. However, it ought to be stressed that such tools are accessible also to individuals who are active in the formal economy and that they allow both formal and informal operators to be treated equally.

## **4.2. International labour standards setting decent levels of flexibility and security**

After showing that the labour markets of poor economies are generally characterized by a high level of flexibility and little security, it is now time to consider how it can be possible to achieve a decent balance between labour market flexibility and employment and income security in those countries. This section and the next will deal with the method, while the following ones will describe some tools which can be used to increase the security level.

As will be discussed in section 4.3, social dialogue and, more in general, dialogue among and between both formal and informal institutions is the means to be adopted for the establishment of a decent balance between labour market flexibility and employment and income security. However, it is

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<sup>154</sup> Ince (2003) cited in Devey, Richard; Skinner, Caroline; Valodia, Imraan; 2006. *Second best? Trends and linkages in the informal economy in South Africa*. Working paper 06-102, Development Policy Research Unit (South Africa).

<sup>155</sup> Devey, Skinner, Valodia; 2006.

<sup>156</sup> V. Chandra, L. Moorthy, B. Rajaratnam and K. Schaefer, Report No 2: *Evidence from the small, medium and micro enterprise survey*. Discussion paper 15 (June 2001), The World Bank Southern Africa Department: Informal discussion papers on aspects of the economy of South Africa; cited in ILO, 2002D.

<sup>157</sup> Devey, Skinner, Valodia; 2006.

<sup>158</sup> Howell, Jude. 2002. *Good practice study in Shanghai on employment services for the informal economy*. ILO, Series on the Informal Economy, 2002/6.

of the utmost importance to take into account international labour standards and the levels of flexibility and security they set. Such levels shall always be guaranteed in any country and both for formal and informal workers and employers.

Sections 3.4 and 3.5 make explicit reference to international standards on security. Particularly relevant for a debate on flexibility is ILO Convention No. 158 of 1982 on Termination of Employment at the Initiative of the Employer (see annex 3). Regretfully, it is to be observed that despite the soft limitations to dismissing a worker contained in that Convention, in many countries, especially developing ones, even those requirements are not respected and policy makers are sometimes invited to undertake legal reforms which are not exactly in line with some of the main principles provided for in that ILO instrument.

**4.3. Social dialogue**

General consensus on any decision concerning economic and social policies is crucial. Social dialogue as one of the four components of decent work is essential to that purpose and hence also to set the right balance between flexibility and security in the labour market of a given country in full respect of international labour standards. It is therefore the methodology that is to be adopted.

There is no universally agreed definition of the term social dialogue. The ILO has adopted a broad definition reflecting the wide range of practices and traditions that are found in different countries. This working definition defines social dialogue as all types of negotiation, consultation or simply exchange of information between representatives of governments, employers and workers, on issues of common interest relating to economic and social policy.<sup>159</sup>

As shown in previous sections of this paper, in developing countries workers and employers are not always well organized and do not necessarily manage to express their views effectively. In addition, informal sector operators are difficult to organize. Three issues related to social dialogue will be briefly presented in this section: (i) social dialogue in the formal sector; (ii) formal workers and employers partnering with informal operators; and (iii) associations of informal operators.

Social dialogue in the formal sector should always be the methodology to be used while adopting decisions concerning a decent balance between flexibility and security. As the following table shows, in developing countries social dialogue in the formal sector can be rather weak and ineffective. The case of Egypt, a lower middle income economy, illustrates a situation where social dialogue has led to poor results despite a rather significant union's membership, whereas that of Ethiopia, a low income country, depicts a scenario where social dialogue is weak due to low membership rates in workers' and employers' organizations.

**Table 4.1. Social dialogue in the formal sector in two developing countries**

<b>Egypt: Ineffective representation</b>	<b>Ethiopia: Weak social partners</b>
Because of the centralized economy of Egypt in the past, the Government and employers are very closely connected. The Government has traditionally been the principal employer in the country and the high number of public enterprises has led to the development of a large group of employers who do not represent the private sector. About 25 per cent of the labour force is unionized, but if unions could increase the effectiveness of their representation of workers and improve the articulation of their views, needs and interests, a higher degree of employment security would be achieved.	The social partners in Ethiopia are weak in terms both of membership and in experience. The membership of the Confederation of Ethiopian Trade Unions does not even reach 1 per cent of the total labour force in the country. A large majority of the Ethiopian population is employed in agriculture often in unpaid jobs or in self-employment where unionization is essentially non-existent. The current membership of the Ethiopian Employers Federation is composed of 64 enterprises and four associations. Workers employed in EEF's member enterprises are about 100,000 in total.

Sources: De Gobbi and Nesporova, 2005. De Gobbi, 2006a.

<sup>159</sup> Sivananthiran, A.; Venkata Ratnam, C. S. (Eds.). 2003. *Best practices in social dialogue*. ILO Subregional Office for South Asia, New Delhi, Indian Industrial Relations Association (IIRA), (New Delhi), p. 25.



Where workers' and employers' organizations are weak in terms of membership, they must attract new members through effective actions of good quality aimed at concretely improving the employment situation and the conditions of the labour market. In developing countries, where the share of employment in agriculture is usually large, the social partners should be particularly active in trying to expand membership in agriculture; as mentioned in section 3.3, people employed in that sector are extremely vulnerable and in need of protection.

Evidence shows that in several cases, the social partners have managed to either include informal operators among their members or forge alliances with associations of informal workers and employers. In Ethiopia, the Confederation of Ethiopian Trade Unions makes efforts to reach those informal sector employees who work in poor conditions as, for example, in the recently emerging floriculture sub-sector where the Confederation of Ethiopian Trade Unions is acting rapidly.<sup>160</sup> In Ghana, the Trade Union Congress is making efforts to unionize informal employees. The TUC in its medium-term policies for 2004-2008 has recognized the importance of organizing workers and has also acknowledged the difficulty involved in organizing the informal economy. Hence, it has developed strategies to deal with the situation. Currently, almost all the 17 national unions have desk officers responsible for the informal economy. The Timber and Woodworkers Workers Union, Public Service Workers Union, Local Government Union and the Construction and Building Materials Workers Union have already started to organize informal workers. In addition, in Ghana, some existing informal workers' associations, such as the Makola Market Traders Association, Association of the Physically Challenged and the Madina Shoe Sellers Association are making efforts to join the TUC as associate members.<sup>161</sup> In this country, employers' organizations have also forged alliances with associations of informal self-employed operators.

In Kenya, informal sector associations can become affiliate members of employers' organizations. Other examples can be found in Benin, South Africa, Argentina and Colombia.<sup>162</sup> Box 4.1 provides details on Senegal where informal workers have been integrated in the Democratic Union of Workers of Senegal (UDTS).

'Informal sector associations are not based on an industry but are more loose, heterogeneous collections of trades, not relating to a particular employer, so they are difficult to integrate into the established trade union movement.'<sup>163</sup>

**Box 4.1. Integrating informal workers in a trade union: The case of Union Démocratique des Travailleurs du Sénégal (UDTS)**

Since 1998, informal workers are represented within UDTS through an autonomous federation, the Informal and Rural Workers' Federation (FETRI). FETRI comprises some 3,500 informal workers, most of whom are women. Among other activities, it provides domestic services and basic education to its members. Trade union support to the informal economy consists of services such as information, education and awareness-raising on family planning and union issues, training (literacy and economic management), services aimed at facilitating access to credit, land, etc.

Source: ILO, Bureau for Workers' Activities, 1999.

'Both the Conference Committee on the Application of ILO Conventions and Recommendations and the Committee of Experts have on numerous occasions reminded countries of the obligation under the Employment Policy Convention, 1964 (No. 122) of consulting representatives in the informal sector on employment policy matters. Clearly, the initiation of such a dialogue between the authorities and representatives of the informal sector is instrumental to the gradual extension of social protection to the informal sector.'<sup>164</sup> Dialogue with representatives of the informal economy is

<sup>160</sup> De Gobbi, 2006a.

<sup>161</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>162</sup> Ndarnage, G.; Bee, F.K.; Kazoora, C. 2004. *SYNDICOOP Poverty alleviation for unprotected informal economy workers through trade union - Cooperative joint action: Studies on the SYNDICOOP strategy for organizing workers in the informal economy. Country reports Rwanda, Tanzania and Uganda*. ACTRAV (Bureau for Workers' Activities) COOP (Cooperative Branch), ILO (Geneva).

<sup>163</sup> Birchall, Johnston. 2001. *Organizing workers in the informal sector: A strategy for trade union-cooperative action*. Coop Working Paper 01-1, Cooperative Branch, ILO (Geneva), p. 23.

<sup>164</sup> ILO, 2002a, p. 10.

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fundamental also to decide on measures concerning the achievement of the right trade-offs between flexibility and security in the labour market. This may occur through unions and employers' organizations establishing links with informal operators, but also by directly considering organizations of informal workers and employers.

'Although it is seen as "unorganized" from the outside, the informal sector has its own rules, where ethnic, family and kinship ties are more important than working class solidarity.'<sup>165</sup> A few cases of successful informal organizations exist. One of them, the Self-Employed Women's Association (SEWA) in India is an example of an informal workers' organization which has been involved in national consultations in the past few years.<sup>166</sup>

**Box 4.2. The Self-Employed Women's Association (SEWA) in India**

In India, about 94 per cent of female employment is in the informal economy. Founded in 1972, SEWA is a trade union grouping poor self-employed women and informal operators which has reached the membership of over 700,000. SEWA's main goal is to provide to its members work security, income security, food security and social security. It protects its members against risks, such as unemployment, poverty, natural disasters and sickness by offering a variety of insurance packages. SEWA's insurance programme functions as a cooperative. Over 90,000 persons were insured by the labour union in 2002.

Source:[http://www.adb.org/Documents/Periodicals/ADB\\_Review/2002/vol34\\_4/women\\_workers\\_ind.asp](http://www.adb.org/Documents/Periodicals/ADB_Review/2002/vol34_4/women_workers_ind.asp)  
<http://www.sewa.org/aboutus/index.asp>

To achieve successful consultation for the establishment of a good balance between flexibility and security in the labour market, it is indispensable to have both the social partners and other civil society groups - including those in the informal economy and in the agricultural sector - participate in dialogue. Where institutions are weak, especially, but not only, the social partners, capacity building is of the utmost importance and should be fostered.

One last but very important element which should be taken into account is collective bargaining. If informal operators and representatives of civil society are involved in social dialogue together with the social partners, collective bargaining can lead to agreements which would be applicable to all workers and employers, both formal and informal. Such agreements would assure some employment security and social protection to all. In addition, collective agreements would lead to the application of some international labour standards to those workers and employers in the informal economy who would otherwise be excluded from their coverage. For example, the Zimbabwe Textile Workers' Union has negotiated for contract workers to become regular employees after renewing their contract more than three times over 12 months or after serving a contractor for 12 months.<sup>167</sup> Another approach to extend the application of some international labour standards to informal operators is to help them establish their own agreements.<sup>168</sup>

#### 4.4. Risk management mechanisms

This section will provide a brief description of some "tools" which can be used or improved in poor countries to increase labour market security. They are called "risk management mechanisms" because they allow poor people to better cope with the risk of income loss. They increase income security and employment security to a certain extent and, at the same time, create employment and help diversify economic activities in rural areas. These tools are savings, credit, mutual insurance, public works and training.<sup>169</sup> As for savings, credit and mutual insurance, it is important to highlight

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<sup>165</sup> ILO, 1999, p. 59.

<sup>166</sup> On SEWA, see for instance ILO. 2001b. *Women organizing for social protection: The Self-employed Women's Association's Integrated Insurance Scheme*. STEP Programme, Social Protection Sector, ILO (Geneva). SEWA, *Extending maternity protection to women in the informal economy: The case of SEWA, India*. ILO STEP, CONDIT and SEWA, 2002.

<sup>167</sup> ILC. 2002b. *Decent work and the informal economy, Report VI*. 90th Session, Geneva, p. 83.

<sup>168</sup> Ibid.

<sup>169</sup> Some of these measures - in particular credit, public works and training - may also be considered as active labour market policies as envisaged in ILO Convention No.122 when programmes are organized by the government and/or by the social partners.

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that even in circumstances of misery, poor households undertake a host of strategies to reduce their vulnerability and to manage their risk of dying, getting ill, not having enough income, etc. An important element is financial planning: the household identifies expenses that will occur for sure (school fees, rent, religious ceremonies), and saves up for them. Then, relying on emergency loans, insurance and savings, the household can cope with unforeseen or emergency expenses. Unfortunately, too often, that planning does not occur and the poor have to borrow resources both for expected and for unexpected expenses. This process can lead to a downward poverty spiral.<sup>170</sup> Risk management mechanisms are hence indispensable poverty alleviation tools.

#### 4.4.1. Savings

Savings is a key factor for the development of any economy as from savings may derive productive investment. Savings is also the principal remedy against income losses and sudden shocks and should therefore be a well-established practice for the poor.

Through savings it is possible to reduce poverty by allowing the poor to supply the overall costs of investment.<sup>171</sup> In general the poor are found to be very good savers, especially in rural areas where sudden income losses due to unfavourable weather conditions are frequent.<sup>172</sup> For instance, in West Africa, in most savings-based microfinance institutions, at least six times as many people make deposits as take out loans at any point in time.<sup>173</sup>

People may save in cash or in kind. In rural areas savings in kind is more common, especially in the form of cattle. Savings also take place through the ownership of assets like land or houses. 'In the case of the poor in developing countries, we see that for them to save and to invest are parts of one action. For instance, in the case of building their own houses and roads, no money is put in the bank, but free time is directly invested in the building of houses and roads.'<sup>174</sup> National legislation, local customs and practices on land tenure play a determining role in assuring that land be used to enhance security. Secure land tenure is fundamental to improve agricultural productivity. 'Without secure land rights, farmers have little or no access to credit or the benefits of membership in rural organizations which are often conduits of agricultural inputs and services. Moreover, with no stake in the land or assurance of access to it, farmers have few incentives to engage in sustainable agricultural practices or to consider the long-term environmental impact of the exploitation of the land.'<sup>175</sup>

In some developing countries, land belongs to the State and cannot be privately owned. Individual farmers or local communities are usually granted possessory rights over a plot of land as a means of survival. As table 4.1 and box 4.3 show, though, some countries have tried to adopt measures aimed at overcoming the limits deriving from such a system to the full development of the potential which land offers as a risk management mechanism and security provider. Thanks to the measures described below, land can be used by private individuals in a commercial way so as to improve agricultural production, generate employment and provide more adequate incomes. Unfortunately, no information is available on how the impossibility of using land as collateral for credit can be overcome when land belongs to the State. It should however be stressed that State ownership of land does not prevent rural development. China, for instance, managed to absorb its rapidly growing rural labour force through an increasingly intensive pattern of crop cultivation and the provision of some kind of access to land but never proper private ownership.<sup>176</sup>

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<sup>170</sup> ILO Social Finance Unit. See also Lund, Srinivas, 2000.

<sup>171</sup> Shepherd, 1998.

<sup>172</sup> Paul Streeten in his study "*Growth, Redistribution and Basic Human Needs*" states that 'It was found that small farmers saved at least as high a proportion of their income as the big landlords and were more productive. So prolonged poverty or inequality were not needed in order to accumulate savings and capital.' in Deutsche stiftung für Internationale Entwicklung. 1987.

<sup>173</sup> ILC, 2002.

<sup>174</sup> Emmerij, Louis; 1987. "Basic needs and employment-oriented strategies reconsidered" in Ghai, 1987, p. 209.

<sup>175</sup> FAO, 1998, p. 15.

<sup>176</sup> Putterman, Louis. 1992. "Dualism and reform in China" in *Economic Development and Cultural Change*, volume 40, number 3 April 1992.

**Table 4.2. Land tenure security policies and measures in some Ethiopian regional states (2005)**

Regional state	Policy and measures adopted
South Nations, Nationalities and Peoples	In February and March 2005, tenure security certificates have been issued for some farmers.
Tigray	A land policy was adopted in 1997, according to which land certificates are issued to allow renting out for cash or sharecropping parts of land for up to 10 years if modern technologies are used, and up to 2 years if traditional technologies are applied.
Oromyia	Land Use and Administration Proclamation No.56/2002 allows renting out for cash or sharecropping of up to 50 per cent of land for up to 15 years if modern technologies are used and up to 3 years otherwise.

Source: Information contained in Yehene Tsegaye, 2005.

**Box 4.3. Community-based land tenure reform in Mozambique**

In 1997, a new Law on Land was passed in Mozambique. This law provides that people can acquire land use rights through local communities according to customary norms and practices. These rights are just like those that private investors can obtain through a formal request to the State, still the only land owner in the country. Thanks to the new legal framework, farm communities can reach mutually advantageous joint-venture arrangements with private investors and hence conclude agreements on land use, employment, resources utilization, etc.

Source: Hall (principal editor), Dixon, Gulliver with Gibbon; 2001.

In Latin America, the situation is substantially different. As already mentioned in section 2.3, land is very unequally distributed with a high concentration of ownership in the hands of very few wealthy individuals. This has led to a remarkable disparity in income distribution and to a situation of high insecurity for large numbers of rural households. The Gini for land distribution is 0.87 in Argentina, 0.85 in Brazil and 0.70 in Mexico compared with 0.38 in the Republic of Korea and 0.47 in Malaysia.<sup>177</sup> In Pakistan, less than half of all rural households own any land, with over 40 per cent of land ownership in the hands of 2.5 per cent of the households. However, historically in this country land leasing has assured the landless poor access to land.<sup>178</sup>

In several developing countries of Africa, Asia and Latin America, women are often denied access to land and secure title to land especially but not exclusively by customs and practices. This phenomenon puts women in a situation of particular insecurity and vulnerability. Some of the constraints deriving from the lack of title to land include the impossibility of offering land as collateral to obtain loans, and restrictions on the type of crops which may be grown. In Ghana, for instance, only land owners can grow tree crops, such as cocoa.<sup>179</sup>

In some countries cultural beliefs and traditions discourage savings for productive purposes and risk management. Rather than for unforeseen income losses and for productive activities, a large share of the population in both rural and urban areas tends to save for social, traditional and religious events and social obligations. This is, for instance, what happens in Ethiopia where most savings are used to finance funerals and weddings through traditional savings societies called IDDIR.<sup>180</sup> At least part of these savings could be used for managing risks related to income losses.

Should social dialogue as described in section 4.3 lead to the decision that savings as a risk management mechanism needs to be encouraged, specific measures should be adopted, such as awareness raising campaigns and the creation of a favourable institutional and legal environment, etc.

<sup>177</sup> Berg, Ernst and Auer. 2006, Ch. 2.

<sup>178</sup> Gazdar, 2004.

<sup>179</sup> FAO, 1998. For additional information on the constraints to women's access to land and financial resources, see De Gobbi, 2004. *Micro-finance, microenterprise development and their contribution to the economic empowerment of women: Nepal and Pakistan*, ILO SEED Working Paper No. 69, Geneva.

<sup>180</sup> De Gobbi, 2006a.

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#### 4.4.2. Credit

Credit is another important risk management mechanism aimed at enhancing security. It can be used both to meet consumption and emergency needs and to foster productive activities. On the one hand, it allows poor people to enjoy food security and to cope with sudden shocks, while on the other it substantially contributes to the development of alternative sources of income and to the expansion of existing micro-businesses. In rural areas, access to financial resources is crucial to improving agricultural productivity of farmers. However, in very poor countries, credit in rural areas is used especially for consumption and emergency needs. For example, in Ethiopia, during the period 1999-2000, in urban areas loans from Equbs, traditional savings and credit schemes, were used for productive activities in 28 per cent of cases and for buying food for the household in 27 per cent of situations. The picture is very different in rural areas where in 44 per cent of cases credit was used to purchase food.<sup>181</sup>

Unfortunately, access to credit is not easy for poor people in general, because they are considered as non-bankable by formal financial institutions. The situation is particularly difficult in rural areas, where the lack of infrastructure and the scarce population density keep formal financial institutions away. It should not be forgotten that, as shown in box 2.1 on Bolivia, Paraguay and Peru, lack of access to credit may lead to a situation of forced labour. While both men and women smallholders lack sufficient access to agricultural inputs and financial resources, women generally have much less access to resources than men.<sup>182</sup>

Evidence from several developing countries (Ethiopia, Ghana, Nepal, Pakistan and the Philippines) indicates that personal savings, and loans from relatives and friends are the main sources for funding in the informal economy. These findings highlight the relevance of social capital in poor countries with weak or missing institutions. During the past three-four decades, efforts have been made to ensure access to credit from financial institutions to the poor through alternative collateral instruments such as solidarity groups which build on social capital. Microfinance institutions have become a viable option for the provision of financial services to the poor. The microfinance industry has been expanding both in urban and in rural areas, although, when savings are scarce, sustainability problems arise. A positive feature of microfinance institutions is that the majority of their clients are women especially for small-size loans. 'Microfinance has shown that poor people are bankable – they can save regularly and borrow and repay loans at interest rates at or above commercial rates of interest. At the heart of the microfinance movement the world over are working poor women, who make up around 80 per cent of all clients of microfinance institutions. They have proved to be credit worthy and good savers and, in general, they have better repayment rates than men.'<sup>183</sup>

Savings and credit schemes have also historically proven very successful, because they are based on common bonds, social relations and mutual trust. These schemes are semiformal or informal and are spontaneously set up by people to meet their mutual needs. Based on similar principles, but with a more formal character and on a larger scale are cooperatives. They are appreciated 'because payments are lower and flexible, processing time is shorter, and benefits are immediate upon enrolment'.<sup>184</sup>

Should credit as a risk management mechanism be strengthened in a given country, savings as the basis for credit in the form of savings and credit cooperatives should be promoted. Cooperatives can be used also as in-kind savings and credit schemes as in West Africa. For instance, in the 1990s, in different regions of Burkina Faso, some crop-based savings cooperatives were set up. Their main objectives were to store crops for periods of drought and famine, and to buy and store crops when prices were low and sell them when prices went up, but at a more affordable cost. Links with formal and semi-formal financial institutions were established. Profit was not redistributed to cooperative members and was used to set up a fund for loans both for crop cultivation and for productive non-

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<sup>181</sup> Tassew, Woldehanna; Fantu, Guta; Tadele, Ferede. 2005.

<sup>182</sup> FAO, 1998.

<sup>183</sup> Chen, Vanek, Lund, Heintz with Jhabvala, Bonner; 2005 p. 93.

<sup>184</sup> Joshi, Gopal. 1997, p. 48.

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agricultural activities.<sup>185</sup> To promote credit, other measures would need to be adopted, such as a favourable legal and institutional framework.

#### 4.4.3. Mutual insurance

As already observed, formal social security schemes in developing countries cover only a small part of formal workers and employers, especially in low income economies. In general, societies with strong family or community networks are able to protect people better when the State and other civil networks break down<sup>186</sup> or are missing. It is on the basis of strong community networks and social capital which are typical in the informal economy that self-help groups are set up and serve, at times, for the establishment of mutual insurance schemes which can reach informal workers. The movement of community-based social protection mechanisms was first developed in French-speaking Africa. Based on solidarity, it was characterized by risk-pooling of some specific social risks, in particular sickness and death. Micro-insurance schemes were just a few in the mid-1990s in countries such as Senegal and Mali but have since increased significantly in number and in strength.<sup>187</sup> To be sustainable, such organizations must rely on an association based on trust and on an administration which can collect contributions and pay benefits.<sup>188</sup>

Setting up mutual health insurance schemes can be a quite effective tool to manage risk of becoming ill and temporarily incapable to work. Micro-insurance schemes could cover also other social risks, but it seems that for informal workers risk related to health is a priority.<sup>189</sup>

There needs to be an appropriate legal framework for mutual health organizations. Legislation must be conceived in consultation with the mutual health movement. The same fiscal treatment reserved for non-profit organizations should be extended to mutual health systems as well.<sup>190</sup>

#### 4.4.4. Public works

Public works in rural areas may provide temporary employment for unskilled workers in periods when agricultural labour and subsistence activities do not assure an income. In moments of peak agricultural season, flexible working time is indispensable to allow farmers to attend to their agricultural activities and participate in the public works programme at the same time. Public works also generate indirect jobs when the materials which are utilized are produced locally. They can be equipment-based or labour-based. The latter type has a bigger impact on employment creation. A study on Uganda<sup>191</sup> reveals that a labour-based project has a percentage spent on wages varying between 45 per cent and 60 per cent of the total budget vs. 3 per cent and 8 per cent for an equipment-based project. In general, labour-based public works can generate 2 to 4 times the number of jobs created for unskilled workers through equipment-based public works implemented with an equal investment. In addition, due to the high cost of equipment which is usually imported, labour-based public works are cheaper and require much less foreign exchange than equipment-based ones. Whenever possible, therefore, public works should be labour-based.<sup>192</sup>

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<sup>185</sup> See ILO. 2001a. *Communautés rurales en marche au Sahel: L'impact d'un programme participatif*. Cooperative Branch (Geneva).

<sup>186</sup> Stewart, Frances. "Civil Wars in Sub-Saharan Africa: Counting the Economic and Social Cost", in Ghai, Dharam (ed.). 2000. *Renewing Social and Economic Progress in Africa: Essays in Memory of Philip Ndegwa*. UNRISD (New York).

<sup>187</sup> Bailey, Clive. 2004. *Extending social security coverage in Africa*, Social Security Policy, Geneva, ILO.

<sup>188</sup> Van Ginneken, 1999.

<sup>189</sup> Ibid.

<sup>190</sup> ILO. 1998. *Abidjan Platform: Strategies to support mutual health organizations in Africa*. STEP programme.

<sup>191</sup> Taylor, Gary; Bekabye, Moses. 1999. *Labour-based technology in roadworks: The macro-economic dimension, An opportunity for employment creation*. The Republic of Uganda and ILO (Geneva).

<sup>192</sup> For more information, see Tajzman, David; De Veen, Jan. 1998. *Employment-Intensive Infrastructure Programmes: Labour Policies and Practices*. ILO (Geneva); and Shone Mike. 2003. "Labour-based infrastructure rebuilding" in *Jobs after war: A critical challenge in the peace and reconstruction puzzle*, Eugenia Date-Bah (ed.), ILO (Geneva).

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Public works are of the utmost importance in the development of rural areas and for the modernization of agriculture in developing countries. They may include building roads to access rural areas, establishing access to drinking water, making farmland productive, setting up irrigation systems, building schools and nurseries, etc. Public works in general can be sectoral and be managed by specific ministries at the national level; in this case, they tend to be executed by large private firms, operating with heavy equipment and small numbers of workers. They can also be multisectoral, namely managed and funded by entities covering different technical areas, such as social funds, municipal funds, etc. In the latter case, local enterprises are more likely to be assigned the execution of public works. Small and medium-sized enterprises employ relatively (L/K ratio) more workers than large firms and can also better meet local needs. This is why they should be favoured as contractors of public works. The national contractual system, including the government procurement policy and bidding process, often discourages the intervention of SMEs in the execution of public works. To better meet local needs, it may be preferable to organize public investments of local interest through community-contracting or to have local associations manage public works.

#### 4.4.5. Training

Although it does not directly provide an income, training is also a risk management mechanism, in that it enhances employability and lowers the degree of insecurity caused by lack of skills. Training also increases productivity which leads to subsequent higher incomes. A special feature of training is that it enhances security, on the one hand, and increases labour market flexibility, on the other, by facilitating not only lateral, but also vertical occupational mobility.

In order to be an effective risk management mechanism, in rural areas training must be provided in moments of agricultural slack season. It must also offer a very flexible schedule adapted to the working time of beneficiaries. It is particularly needed in rural areas, although organizing training in regions where population density is low and where bad roads limit mobility and communication may be a real challenge. Examples of training organized in rural areas however do exist. For instance, in Ethiopia the Ministry of Agriculture has recently launched a large training programme on agriculture for youth.

Training for informal operators could be successfully provided through self-help groups or cooperatives which are active in the same areas where informal activities take place. Training should have a short duration and be based on visual material which does not require any previous formal education or literacy.<sup>193</sup> Informal operators usually find it useless to participate in training courses, because they see it as a waste of time which does not lead to any gainful return. It is therefore necessary to teach skills which have an immediate and tangible impact on the informal economic activities of trainees.

Traditional apprenticeship training is typical in the informal economy, particularly in West Africa. It is self-financing, self-regulating and cost-effective, but it perpetuates traditional technologies and lacks standards and quality assurance. Informal sector associations, like the self-help groups mentioned above, can be helpful in raising awareness of skills shortages among members.<sup>194</sup>

Traditional apprenticeship usually occurs through informal arrangements between an entrepreneur and the parents of a young trainee. In this traditional system, the apprentice learns new skills by spending some time and working directly with a master. This type of apprenticeship in informal workshops should be encouraged by introducing employment incentives, such as specific benefits for those masters who employ their trainees after completing apprenticeship and obtaining a certificate.

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<sup>193</sup> Joshi, Gopal. 1997.

<sup>194</sup> Johanson, Richard K. 2004. *Implications of globalization and economic restructuring for skills development in sub-Saharan Africa*. Working Paper No. 29, Policy Integration Department, World Commission on the Social Dimension of Globalization, ILO (Geneva).

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## 4.5. Employment services

Convention No. 122 of 1964 of the ILO on Employment Policy 'urges governments of ratifying countries to formulate and implement, in close collaboration with the social partners - employers and workers - an active policy promoting full, productive and freely-chosen employment.' "Active labour market policies" (ALMPs) are a set of rather well-defined measures aimed at facilitating access to the labour market for the unemployed. Examples of similar policies are provided in boxes I and II of Annex 2.

One specific active labour market measure, labour exchange or job placement services (also called employment services), is the most well known of these policy interventions. Efficient labour exchange or job placement services help improve the labour market situation by facilitating the match between vacancies and job seekers and by providing job search assistance to job seekers and sometimes recruitment assistance to employers.

In many industrialized countries, the public employment service has expanded beyond its original function and has become a multi-function service provider. Additional major functions of public employment services include the development of relevant labour market information, the registration for and sometimes administration of a variety of labour market programmes, the administration of unemployment benefits or other social assistance programmes, and the administration of some regulatory activities such as the issuance of work permits or the control of overseas employment. These functions are often performed in collaboration with other institutions, such as training centres, local governments and the social partners.

In developing economies, employment services usually only deal with the registration and placement of job seekers. Understaffed and with very limited resources, employment services in poor countries are often unable to provide the most basic services to jobseekers or employers. Local labour market information and information for referral to local employment and labour market programmes (including training, public works, self-employment promotion schemes, mobility schemes) are not organized and made accessible. Employment and poverty alleviation programmes as described in the next section, which would often be part of the services offered by the public employment service in advanced economies, are often independently run by NGOs using external donor funds in developing countries.

Private employment agencies are finding a niche in the provision of job placement services in both developing and industrialized countries. In poor economies this is particularly the case in the provision of overseas employment placement services.<sup>195</sup>

Governments in developing countries are taking action to reform weak public employment services in different ways. Economic, institutional, social and historical factors all contribute to the focus and performance of public employment services. In an upper middle income economy like Argentina, understaffed and ineffective employment services were reformed in the mid-1990s when an employment service network was created. The institutions which were part of the network had to register vacancies and job seekers, provide counselling and intermediation, administer unemployment benefits, help in worker relocation, and assist the self-employed and micro employers. In the late 1990s State placement agencies were discontinued, whereas training and technical assistance were provided to other institutions involved in intermediation, such as municipalities, non-profit private organizations, and trade unions.<sup>196</sup>

Largely disorganized and ineffective, Egyptian government employment services are about to be reformed. The 2003 labour law allows licenced associations, institutions and trade unions -with regard to their members- to establish offices for the recruitment of the unemployed. Monthly bulletins advertising both public and private vacancies are issued by the Ministry of Manpower and Migration. As of March 2003, the annual placement rate reached through the monthly bulletin was 40 per cent.<sup>197</sup>

In Ethiopia, a low income economy, employment services played a key role in the pursuit of full employment during the Socialist regime. After the introduction of a market-based economy in the

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<sup>195</sup> The introductory paragraphs of this section have benefited from a generous technical input from the ILO Employment Skills Department.

<sup>196</sup> Berg, Ernst and Auer. 2006, Ch. 6.

<sup>197</sup> De Gobbi, Nesporova; 2005.



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early 1990s, their relevance in the labour market has been considerably reduced. Decentralization has further contributed to their current poor performance because of the lack of both financial and human resources on a local level. The only task they perform is job placement. Employment services are more effective in urban areas than in rural ones. In Addis Ababa, between 1998 and 2002, 51,761 job seekers and 4,184 vacancies were registered and a total of 3,249 persons were placed in suitable jobs. With the technical assistance of the ILO, the Ethiopian government is making serious efforts to improve the current situation of public employment services. As a remedy against the incapacity of public institutions to offer efficient employment services, in 1998 a new law was adopted, according to which private agencies can perform the tasks of employment services both nationally and in job placement abroad. The high number of migrant workers, especially towards the Gulf States, has led to the adoption of measures aimed at enhancing security for Ethiopian migrant workers. The number of private agencies operating both at a national and at an international level has been rapidly growing.<sup>198</sup>

In Ghana, although legislation allows it, there is no officially registered private employment agency. Employment services are therefore provided only by public centres which are rather ineffective. In 2000 the average proportion of persons who were placed was only 2.8 per cent of total registered job seekers. In this country, employment services tend to provide counselling and to enrol unemployed people in training and retraining programmes. Although they are not registered, some private employment services are active in the national labour market.<sup>199</sup>

In Pakistan, public employment services are mostly geared towards the formal sector and their operations in terms of labour exchange and job placement have considerably deteriorated in time. Job matches take place mainly through private agencies and informal intermediation channels both at a local level and for placement abroad.<sup>200</sup>

In Algeria, Morocco and Tunisia, job placement occurs mainly through public employment services which rarely offer labour market information as an additional service. While in Tunisia public employment services hold the monopoly of intermediation, in Morocco private employment agencies have recently been introduced. In Algeria, several different institutions deal with intermediation, which generate high costs in the provision of employment services and poor coordination.<sup>201</sup>

#### **4.6. Employment and poverty alleviation programmes**

At this point, a special aspect of labour market-related programmes in developing countries must be raised; it concerns the existence of many poverty alleviation and employment promotion programmes funded and executed by international donors and NGOs. Such programmes are not exactly ALMPs, unless they somehow involve the participation of either governments or social partners (see boxes I and II in annex 2 for examples of ALMPs). Nonetheless, they can be extremely helpful to improve the labour market situation in a given country, provided that they are well coordinated with existing structures and policies and that they are organized and implemented within a well-defined framework. Poverty Reduction Strategy Papers (PRSPs) could constitute such a framework if employment were properly mainstreamed therein. Unfortunately, this is presently rarely the case.

Employment and poverty alleviation programmes often take the form of projects, have very specific objectives and have a duration which is limited in time. A large part of public sector investment in developing countries has taken place through projects. Aid funds are usually channelled through projects in the official or NGO sector.<sup>202</sup> Unfortunately, coordination of these programmes is often missing. Box 4.4 provides an example of poor coordination of employment and poverty alleviation programmes in a low income country like Ghana.

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<sup>198</sup> De Gobbi, 2006a.

<sup>199</sup> Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

<sup>200</sup> Gazdar, 2004.

<sup>201</sup> Barbier, 2006.

<sup>202</sup> Shepherd, 1998.

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**Box 4.4. Employment and poverty alleviation programmes by NGOs in Ghana**

Over 2,000 NGOs working in different areas of employment and income generation are currently officially registered. However, many of them are inactive. Coordination of their activities is very weak. To date Ghana does not have any policy or policy framework for NGOs. The Ghana Association of Private Voluntary Organizations in Development is an umbrella organization grouping such NGOs. The association has about 429 foreign and local registered organizations working in different areas, such as food security, microcredit, conflict resolution, health, education, environment and income generation. The positive aspect of these NGOs is that they operate at the grass-root level and most of their activities directly benefit the rural, vulnerable and marginalized groups. Complete information on their activities is non-existent.

Source: Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

In many developing countries where structural adjustment programmes were introduced, social development funds were set up to mitigate the negative effects of structural adjustment policies on vulnerable groups and particularly on the very poor. Such funds provide usually temporary relief to selected groups of the poor through targeted employment programmes and similar measures. Social development funds reportedly had the dual purpose of alleviating the negative consequences of structural adjustment policies on the poor and of making such policies more acceptable to the national population.<sup>203</sup> They are seen as demand-driven instruments through which donors can channel resources to the rural poor rapidly by avoiding cumbersome bureaucratic government procedures. Some believe that in practice these funds can reach only a very small portion of the very poor. In addition, according to the same view, relief interventions cannot have any significant and long-term impact on poverty which tends to have a structural nature in most poor countries.<sup>204</sup> Unlike it was initially envisaged, projects financed through social development funds are rarely driven by the priorities of local people and are rather designed by social funds' staff and small groups of decision makers according to the availability of resources and without any democratic consultation. Last but not least, it is observed that social development funds are vulnerable to political manipulation.<sup>205</sup> Despite the critical views described so far, box 4.5 presents an example of a rather successful fund of the type under discussion, that of the Social Fund for Development in Egypt.

**Box 4.5. The Social Fund for Development (SFD) in Egypt**

The SFD started its activities in 1993. Its target groups are the poor and the unemployed. Among the latter are university graduates, craftsmen, etc. The SFD has five main programmes, four of which (Public Works Programme, Community Development Programme, Small Enterprise Development Organization and Human Resources Development Programme) create job opportunities.

The Small Enterprise Development Organization (SEDO) focuses specifically on SMEs. It supports both new and existing small enterprises by providing credit and business support services. The SEDO is a successful and cost-effective programme where industrial projects have been found to be the most employment-generating ones. The Public Works Programme provides funding for small projects to improve infrastructure in rural and deprived urban areas. Better local infrastructure should attract investment in local communities and lead to a favourable work environment. PWP projects are labour intensive. They consist of activities, such as repaving roads, supplying remote villages and deprived areas with water and drainage, etc. During the period 1994/2000, the PWP created some 6,316 permanent jobs and 111,013 temporary ones.

The Community Development Programme and the Human Resources Development Programme focus on social and human development by supporting activities in the field of education, health, training, environment, etc. Projects are implemented by NGOs and a few governmental entities. Between 1994 and 2000, the two programmes generated about 25,857 permanent jobs and a similar number of temporary ones.

Source: De Gobbi, Nesporova, 2005.

An initiative which is quite innovative in the area of employment promotion and income security enhancement is the recent Rural Employment Guarantee scheme in India. The Indian authorities passed the so-called National Rural Employment Guarantee Act in August 2005. This act makes it mandatory for the Indian State to provide 100 days of work a year to rural households. The

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<sup>203</sup> Barraclough, Solon L. 2000.

<sup>204</sup> Ibid.

<sup>205</sup> Ibid.

scheme is an employment promotion programme and a social security programme at the same time. It aims at also including landless families in the national social safety net. In addition, the National Rural Employment Guarantee Act makes the right to work legally enforceable for all, including the rural poor.<sup>206</sup>

#### 4.7. Extending social security schemes to informal operators

The New Consensus<sup>207</sup> recognized that the best way to provide income security is through decent work and the extension of social security coverage to informal workers and employers. Besides the creation of micro-insurance schemes as described in section 4.4.3, in developing countries four other tools can be used to extend social security coverage to both formal and informal workers and employers. They are the extension and adaptation of statutory social insurance schemes, the promotion of tax-financed social benefits for vulnerable groups which may not be able to benefit from contributory schemes, the integration of informal operators in contributory health insurance schemes, and the creation of welfare funds for informal workers and by informal workers.<sup>208</sup>

Within the scope of the first approach, some social security schemes targeting specific groups of workers according to their contributory capacity, such as the self-employed, construction or agricultural workers and domestic servants are to be mentioned.<sup>209</sup> In some poor countries, governments have also set up special schemes for informal casual and home workers. Such schemes are successful, in particular when they can be supported by earmarked taxes as is the case in Uruguay.<sup>210</sup> Box 4.6 shows some examples of existing schemes of this type.

Universal schemes fall under the second approach. In developing countries, employment security through income transfers that compensate earnings loss (pensions, unemployment benefits, etc.) is not assured to the largest section of the population, due to the small size of the formal sector with limited, but existing, compensation and to the very limited State budget. Universal schemes cover all the target population, (for instance above a certain age), without any conditions as to contributions

##### **Box 4.6. Alternative ways to provide social security to informal workers**

The Republic of Korea has extended compulsory coverage to self-employed workers for pensions and health insurance. Pension coverage has been extended first to self-employed workers in rural areas, and then to the self-employed in urban areas. The State covers the cost of contributions (6 per cent of a 9 per cent contribution) with the gradual disappearance of the subsidy over 10 years.

Sri Lanka has introduced a pension scheme for agricultural workers, fishermen and self-employed workers, based on voluntary membership and with a State subsidy.

In Senegal, since 1998, the Social Security Fund has been working with the Federation of Chambers of Trade to encourage handicraft workers to join on an individual basis in order to cover work injury.

In Uruguay, three categories of workers have been identified as encountering particular problems deriving from the precarious and informal nature of their employment: construction workers, domestic servants and the self-employed. Specific arrangements have been designed for each category: one scheme covering construction workers for old-age pensions, sickness, family and employment injury benefits; a health insurance scheme for domestic servants; and coverage for the self-employed by the country's main social security institution (the Social Insurance Bank) for old age pensions, survivors and invalidity and sickness benefits.

Source: Reynaud, 2001.

<sup>206</sup> <http://www.thesouthasian.org/archives/000498.html>; <http://pib.nic.in/release/release.asp?relid=11820>; <http://66.249.93.104/search?q=cache:j-97DXgBudgJ:us.rediff.com/money/2005/aug/22spec1.htm+The+National+Rural+Employment+Guarantee+Act,+2005&hl=en>

<sup>207</sup> ILO. 2001c. *Social Security: A new consensus*. Social Security Department (Geneva).

<sup>208</sup> For further information on the first two approaches described in this section, see van Ginneken, Wouter. 2003. "Extending social security: Policies for developing countries" in *International Labour Review*, vol. 3, p. 277.

<sup>209</sup> Reynaud, Emmanuel. 2001. *Extension of social security, The extension of social security coverage: The approach of the International Labour Office*. Paper 3, Social Security Policy and Development Branch, ILO (Geneva).

<sup>210</sup> Van Ginneken, 1999.

or income. Universal pension schemes can be used as a labour market measure protecting the elderly. By redistributing part of the State budget through very small pensions, this measure has the dual beneficial effect of empowering vulnerable people, on the one hand, and of strengthening domestic demand and promoting employment creation, on the other. Egypt, for instance, has developed an income support scheme of this type for vulnerable groups of persons to cover living expenses through a monthly pension. Individuals who are entitled to receive this type of financial support do not need to have paid up any prior contribution and to have been previously employed. Table 4.2 shows the number of people who have received a pension of this type and the progression in the financial allocations from 1994-1995 to 2001-2002. The annual financial support per person increased from L.E. 141.5 in 1994-1995 to L.E. 594.7 in 2001-2002. Moreover, the number of beneficiaries rose more than three times from 247,900 in 1994-1995 to 794,500 in 2001-2002. It is to be noted that the benefits provided under this scheme are anyway not sufficient to cover living costs.<sup>211</sup>

**Table 4.3. Data on social security benefits from 1994-1995 to 2001-2002**

	No. of beneficiaries (in 1000)	Spent amounts (in 1000)	Annual amount per person (in L.E.)
1994/95	247.9	35094.6	141.5
1995/96	259.8	46815	180.2
1996/97	297.7	57760	194.0
1997/98	343.9	82946.7	241.2
1998/98	422.4	102845.3	243.5
1999/2000	334.0	106025.3	317.4
2000/01	448.9	175891	391.7
2001/02	794.5	472182	594.7

Source: Ministry of Insurance and Social Affairs as reported in De Gobbi and Nesporova, 2005.

The third tool for enhancing security for informal operators is a fusion of Social Health Insurance and Mutual Health Organization concepts. It draws resources from the formal sector, but applies to the informal one as well. In the case of Ghana, for instance, formal workers pay 17.5 per cent of their wages for social security (old-age and invalidity pension). Some 2.5 per cent of their salaries (included in that 17.5 per cent) is used for health insurance. Additional funding for the national health system comes from a 2.5 per cent VAT-type tax. Informal workers must pay a fixed per capita contribution in order to be covered by the health insurance system. The new system will build on mutual health organization that have developed during the past few years and that will shortly be operational in each of the 130 or so districts of Ghana.<sup>212</sup>

Last but not least, rather unique in its nature is the case of the Kerala welfare funds in India, where informal workers have managed to get organized and set up their own social security system through the establishment of welfare funds also for construction workers. It is estimated that 30 per cent of informal workers are covered by existing social funds in India. The funds are modelled after the social security and insurance arrangements available to formal workers. The principal sources of revenue of the Kerala construction labour welfare fund include contributions from registered workers, contributions from employers of construction works, licence fees levied on the contractors, and other sources like the interest from fixed deposits. In general, in almost all funds, the employers' contribution is the main source of revenue. The funds are autonomous bodies with representation of workers, employers and government. The role of the State is dominant in the management and institution of the welfare funds. As of March 2002, 68 per cent of all construction workers in Kerala were members of the fund. Retirement pension is the most important benefit provided by the welfare fund.<sup>213</sup>

<sup>211</sup> De Gobbi and Nesporova, 2005.

<sup>212</sup> ILO Social Security Department. See also Cichon, M.; Tumwesigye, D.; Pal, K.; Léger, F.; Vergnaud, D. 2003. "Linking Community Initiatives to National Institutions: Ghana" in *International Social Security Review*, Vol. 56, Numbers 3-4, November 2003.

<sup>213</sup> For more information, see Nair, R.P. 2003. *The Kerala Construction Labour Welfare Fund*. Sectoral Activities Programme, Working Paper, ILO (Geneva); and Sivananthiran A., Venkata Ratnam C. S. (Eds.). 2003.

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## 5. Conclusion and emerging issues

The discussion developed throughout the present paper is mainly a self-concluding one, in that it is first stated and argued that the labour markets of developing countries are largely flexible and in need of higher security levels, and then some tools which can be used precisely to enhance security are presented. In general, it is to a certain extent true that formal labour markets in developing countries present some restrictions which may hinder flexibility. However, the difficulties people encounter in obtaining a formal job are not necessarily linked to legislation on hiring, firing and labour contracts, but rather in a host of factors that include a weak private sector, the lack of skills of the labour supply matching the needs of the labour demand, weak and inefficient employment services, and the existence of social norms and informal institutions creating rigidities and labour immobility.

This paper has also tried to show that decent work for all can be achieved by extending the application of international labour standards and the use of social dialogue to both formal and informal workers. A full realization of international labour standards for all workers can be obtained also - although not only - through the adoption and implementation of a number of tools including both purely economic measures and social security schemes. More efforts are needed to reduce decent work deficits in poor economies, but the several country experiences described indicate that progress is being made particularly in the areas of labour inspection and new social dialogue approaches.

The foregoing discussion raises some issues concerning employment policies and poverty alleviation. Labour market flexibility and security are considered indispensable conditions for the creation of productive and remunerative jobs providing regular incomes. Developing countries are often criticised for not pursuing those labour market objectives, in particular flexibility, or for not making enough efforts. Four areas where clear needs for further future action in this respect have emerged: (i) strengthening State institutions, (ii) improving knowledge on the informal economy, (iii) investigating the need for capital flexibility as complementary to labour flexibility, and (iv) increasing security for women.

Before considering such topics one by one, it should be highlighted at this point that any policy balancing flexibility and security requires a country-specific approach. Each single state presents special economic, social, institutional, legal, cultural and historical conditions which cannot be neglected if positive results in employment and labour market conditions are to be achieved.

### 5.1. Strengthening State institutions

As already discussed, State institutions have been generally weakening in most developing countries especially but not only after the adoption of structural adjustment programmes and decentralization. For instance, this is the case of Mexico and its increasingly ineffective labour inspection system described in section 3.5, and of Ethiopia which, as presented in section 4.5, after decentralization has remained with purely nominal employment services in some regions. The security level within the labour market of a given country is largely dependent on State institutions. China and Sri Lanka are two examples of countries which have been successful in poverty and insecurity reduction with low economic growth and low GNP. This was possible thanks to their solid State institutions which ensured contained inequality through redistributive mechanisms and an effective welfare state.<sup>214</sup> Hence, strengthening State institutions becomes a key factor to increase security levels and reduce poverty in developing countries. It should be noted that this statement does not necessarily conflict with the neo-liberal view that the role of public institutions in general should be limited in any market. Emphasis is to be placed on effective and well-functioning institutions which do not waste resources and deliver quality services.

Public institutions at a local level are particularly important because they can better meet the needs of specific communities. In developing countries, where often informal employment is widespread, local public institutions become very helpful in trying to establish linkages with informal operators. In Ghana, for instance, local committees comprising representatives of both formal

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<sup>214</sup> Shepherd, 1998.

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institutions and informal operators have been set up for the formulation of employment measures tackling existing local problems. Through similar local committees measures aimed at the achievement of a good balance between flexibility and security and at poverty alleviation can also be adopted.<sup>215</sup>

## **5.2. Improving knowledge on the informal economy**

As pointed out in different sections of the present paper and particularly in section 4.1, in industrializing economies the distinction between formal and informal workers and producers does not make much sense in most cases. First of all, as indicated in sections 2.4 and 3.4, formal employment in developing countries often does not provide sufficient social protection coverage and representation, and certainly does not coincide with decent work. One may even wonder whether a reason accounting for the non-growing formal economy lies precisely in the non-attractive conditions of formal jobs. Why should a worker try to become formally employed if he/she receives no additional benefits for that? It may be added that in order for all workers to fully enjoy fundamental rights at work, policies aimed at improving working conditions of both formal and informal workers and producers are to be adopted.

One aspect which makes the distinction between formal and informal employment meaningful is taxation. It has been observed, particularly in section 3.4, that a solid State budget is essential for the development of good social security systems. Nowadays, the major contributors to the State budget are formal workers and producers. It is absolutely indispensable that all workers and employers contribute equally to the public finances. Unfortunately, the limited scope of this paper does not allow any further consideration on this subject, but taxation needs to be greatly strengthened as a redistributive mechanism for poverty reduction and for the achievement of decent work for all.

Learning more about rules governing relations in the informal economy is a crucial element both to think about innovative taxation mechanisms and to design employment policies integrating the special needs of the poor and reflecting the characteristics of the informal economy. It is especially while studying rules governing the informal economy that the specific country features and in particular local dimensions become extremely important. As a matter of fact, the rules of the informal economy vary considerably from community to community and are characterized by social norms and traditional institutions. This is also why local institutions are important in the design of employment and labour market policies addressing the needs of local populations.

## **5.3. Investigating the need for capital flexibility as complementary to labour flexibility**

The present paper has shown that labour markets in developing countries are generally characterized by a rather high degree of labour flexibility. Labour supply is abundantly available and there are no major constraints to its adjustment to the needs and fluctuations of labour demand. Lack of skilled labour remains an issue mainly because of inadequate access to education and vocational training. It has however not been demonstrated that a more and better skilled labour force would better meet the needs of labour demand.

A clear open issue seems to lie in the impediments that demand may face in access to capital (land, credit, capital). An indication of this has been provided in sub-sections 4.4.1 and 4.4.2 discussing land, savings and credit. In order to have well-functioning labour markets, it is important to have not only labour flexibility, but also capital flexibility, in particular opportunities of access to capital.

## **5.4. Increasing security for women**

Women in developing countries as well as in advanced economies are employed in the most precarious jobs. Moreover, in industrializing economies they are subject to less protected forms of

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<sup>215</sup> ILO Decent Work Country Programme in Ghana.

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employment and income-generating activities than men in that they are represented in larger proportions in agriculture and in the informal economy.

To increase the security levels women enjoy, the pursuit of MDG I and III play a very important role. Indicators linked to both the eradication of extreme poverty and hunger, and to the promotion of gender equality and the empowerment of women must be regularly and closely monitored in order to introduce policy changes aimed at improving the situation of working women.

Although scanty, data on the pursuit of MDG I and III in Ethiopia indicate that some improvement has been recorded, especially in poverty eradication. Poverty seems nonetheless to have increased in urban areas. As per the specific situation of women, indicators reveal that much is yet to be done in the field of women's education.<sup>216</sup>

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<sup>216</sup> De Gobbi, 2006a.

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## ANNEX 1. Some statistical data on developing countries

**Table I: Percentage of informal employment in non-agricultural employment in 1994/2000**

Region	Total informal employment	Women	Men
Asia	65	65	65
Latin America	51	58	48
North Africa	48	43	49
Sub-Saharan Africa	72	84	63

Source: Adapted from ILO, 2002d.

**Table II: Informal employment as percent of total non-agricultural employment**

Country	Year	Total	Self-employment	Wage employment	Type of economy*
Brazil (1)	2003	51.1	93.9	33.8	lower middle income
Ecuador (1)	2004	74.9	85.5	68.0	lower middle income
Mexico	2005	65.6	71.6	62.2	upper middle income
Panama	2004	49.4	94.5	30.5	upper middle income
Peru (2)	2004	67.9	92.8	48.8	lower middle income
Mali	2004	81.8	88.0	65.4	low income
South Africa	2004	57.2	70.5	54.5	upper middle income

(1) Urban areas.

(2) Lima metropolitana.

Sources: ILO Bureau of Statistics on the basis of official national data;

\* World Bank classification according to 2004 GNI per capita.

**Table III: Informal employment as a proportion of total self-employment in some developing countries in 2004 (%)**

Country	Own-account workers	Employers	Total self-employment as a share of total employment	Informal share of total self-employment	Type of economy*
Ecuador (1)	28.3	6.9	35.2	85.5	lower middle income
Panama	27.6	3.4	31	94.5	upper middle income
Peru (2)	34.8	4.1	38.9	92.8	lower middle income

(1) Urban areas.

(2) Lima metropolitana.

Sources: ILO Bureau of Statistics on the basis of official national data; ILO (KILM), 2005a;

\* World Bank classification according to 2004 GNI per capita.

**Table IV: Informal non-agricultural employment by sex in some developing countries in 1994/2000 (%)**

Country	Total informal employment	Women	Men
Algeria	43	41	43
Benin	93	97	87
Bolivia	63	74	55
Brazil	60	67	55
Chad	74	95	60
Chile	36	44	31
Colombia	38	44	34
Costa Rica	44	48	42
Egypt	55	46	57
El Salvador	57	69	46
Guatemala	56	69	47
Guinea	72	87	66
India	83	86	83
Indonesia	78	77	78
Kenya	72	83	59
Mexico	55	55	54
Morocco	45	47	44
Philippines	72	73	71
Rep. Dominicana	48	50	47
South Africa	51	58	44
Syria	42	35	43
Thailand	51	54	49
Tunisia	50	39	53
Venezuela	47	47	47

Source: Adapted from ILO, 2002d.

**Table V: Employment in agriculture in developing regions of the world in 2004 (%)**

Region	Employment in agriculture
World	42.8
East Asia	57.7
South-East Asia and the Pacific	44.3
South Asia	62.2
Latin America and the Caribbean	17.6
Middle East and North Africa	25.7
Sub-Saharan Africa	64.5

Source: ILO (KILM), 2005a.

**Table VI. Women's employment in agriculture in developing regions in 2004 (%)**

Region	Women's employment in agriculture
East Asia	61.4
South-East Asia and the Pacific	41.9
South Asia	68.7
Latin America and the Caribbean	8.4
Middle East and North Africa	28.1
Sub-Saharan Africa	66.5

Source: ILO (KILM), 2005a.

**Table VII. Employment in agriculture for men and women in some developing countries (%)**

Country	Year	Total employment in agriculture	Employment in agriculture for men	Employment in agriculture for women	Type of economy*
Bangladesh	2000	62.1	53.3	76.9	low income
Madagascar	2002	78	76.7	79.3	low income
Pakistan	2002	42.1	38.2	64.6	low income
Tanzania	2001	82.1	80.2	84	low income
Uganda	2003	69.1	60.1	77.3	low income
Viet Nam	2003	59.7	57.7	61.7	low income
Yemen	1999	54.1	43.1	87.8	low income

Sources: ILO (KILM), 2005a;

\* World Bank classification according to 2004 GNI per capita.

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## **ANNEX 2: Examples of poorly performing active labour market policies in developing countries**

### **Box I. The Youth Employment Programme (YEP) in Egypt**

It was launched by the Egyptian government in July 2001 and was concluded at the end of 2004. The goal of the programme was to create 800,000 jobs and employment opportunities during the first year both in the public and in the private sectors. The total cost of the programme was 5 billion Egyptian pounds per year. The YEP had 5 components: (i) employment in the government sector for 170,000 persons, (ii) 30,000 jobs for data collection in villages, (iii) 100,000 jobs in the private sector, (iv) employment opportunities through training for 400,000 young persons, and (v) jobs created through microcredit for the expansion of existing handicraft businesses. Unlike envisaged, actual jobs generated after the first year of activity by the YEP were 100,000. Among the main impediments to the success of the YEP and in particular of its training and credit sub-programmes are the poor quality of services provided and the limited financial resources available. The training sub-programme should have been carried out in close collaboration with private enterprises both for the development of curricula meeting labour market needs and for the recruitment of graduates. As for the microcredit sub-programme, loans should have been disbursed much faster and according to modalities meeting the needs of entrepreneurs. A positive feature of this sub-programme has been the direct participation of a business association (Productive Cooperative Union) in marketing the products of credit beneficiaries. This measure has determined the success of a few businesses.

Source: De Gobbi, 2005.

### **Box II. The Presidential Special Initiatives (PSIs) in Ghana**

The PSIs are economic development strategies geared towards employment creation. They have been adopted since the early 2000s to generate new jobs through the production of those items which are labour intensive and where Ghana has a comparative advantage, such as cassava, palm oil, garments and salt. The cassava starch project is the most advanced PSI. It has indirectly created employment for approximately 10,000 small-scale farmers from nine districts in the Central Region of Ghana. The project concerns a \$4 million starch processing plant which is expected to process about 20,000 tons of starch annually for domestic use and exports. As for the PSI on textile, about 50 Ghanaian medium-sized garment-manufacturing companies were expected to commence production in the Tema Free Zone Enclave in 2003. An amount of US\$1.2 million had also been disbursed for the establishment of a Clothing Technology and Training Centre. Training programmes for up to 400 textile employees per batch were expected to commence in 2003. Another initiative linked to the same PSI is the Export Action Programme for Garments and Textiles, under which small industrial villages have been established to make garments for exports to the United States. Some 14 garments and textile companies have benefited from training to improve their production standards in 2002. Moreover, a model medium-sized commercial manufacturing unit with 300 employees has been set up to serve as a demonstration centre for mass production of textiles. No information is available on the implementation of the PSIs on palm oil and salt.

Source: Ebo-Turkson, Kwabena Twerefou, Osei Kwadwo, 2007.

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**ANNEX 3: C158 Termination of Employment Convention, 1982 Convention  
concerning Termination of Employment at the Initiative of the Employer**

(abstracts)

**PART I. METHODS OF IMPLEMENTATION, SCOPE AND DEFINITIONS**

Article 1

The provisions of this Convention shall, in so far as they are not otherwise made effective by means of collective agreements, arbitration awards or court decisions or in such other manner as may be consistent with national practice, be given effect by laws or regulations.

Article 2

1. This Convention applies to all branches of economic activity and to all employed persons.
2. A Member may exclude the following categories of employed persons from all or some of the provisions of this Convention:
  - (a) workers engaged under a contract of employment for a specified period of time or a specified task;
  - (b) workers serving a period of probation or a qualifying period of employment, determined in advance and of reasonable duration;
  - (c) workers engaged on a casual basis for a short period.
3. Adequate safeguards shall be provided against recourse to contracts of employment for a specified period of time the aim of which is to avoid the protection resulting from this Convention.
4. In so far as necessary, measures may be taken by the competent authority or through the appropriate machinery in a country, after consultation with the organizations of employers and workers concerned, where such exist, to exclude from the application of this Convention or certain provisions thereof categories of employed persons whose terms and conditions of employment are governed by special arrangements which as a whole provide protection that is at least equivalent to the protection afforded under the Convention.
5. In so far as necessary, measures may be taken by the competent authority or through the appropriate machinery in a country, after consultation with the organizations of employers and workers concerned, where such exist, to exclude from the application of this Convention or certain provisions thereof other limited categories of employed persons in respect of which special problems of a substantial nature arise in the light of the particular conditions of employment of the workers concerned or the size or nature of the undertaking that employs them.
6. Each Member which ratifies this Convention shall list in the first report on the application of the Convention submitted under Article 22 of the Constitution of the International Labour Organization any categories which may have been excluded in pursuance of paragraphs 4 and 5 of this Article, giving the reasons for such exclusion, and shall state in subsequent reports the position of its law and practice regarding the categories excluded, and the extent to which effect has been given or is proposed to be given to the Convention in respect of such categories.

Article 3

For the purpose of this Convention the terms termination and termination of employment mean termination of employment at the initiative of the employer.



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## **PART II. STANDARDS OF GENERAL APPLICATION**

### **DIVISION A. JUSTIFICATION FOR TERMINATION**

#### Article 4

The employment of a worker shall not be terminated unless there is a valid reason for such termination connected with the capacity or conduct of the worker or based on the operational requirements of the undertaking, establishment or service.

#### Article 5

The following, inter alia, shall not constitute valid reasons for termination:

- (a) union membership or participation in union activities outside working hours or, with the consent of the employer, within working hours;
- (b) seeking office as, or acting or having acted in the capacity of, a workers' representative;
- (c) the filing of a complaint or the participation in proceedings against an employer involving alleged violation of laws or regulations or recourse to competent administrative authorities;
- (d) race, colour, sex, marital status, family responsibilities, pregnancy, religion, political opinion, national extraction or social origin;
- (e) absence from work during maternity leave.

#### Article 6

1. Temporary absence from work because of illness or injury shall not constitute a valid reason for termination.
2. The definition of what constitutes temporary absence from work, the extent to which medical certification shall be required and possible limitations to the application of paragraph 1 of this Article shall be determined in accordance with the methods of implementation referred to in Article 1 of this Convention.

### **DIVISION B. PROCEDURE PRIOR TO OR AT THE TIME OF TERMINATION**

#### Article 7

The employment of a worker shall not be terminated for reasons related to the worker's conduct or performance before he is provided an opportunity to defend himself against the allegations made, unless the employer cannot reasonably be expected to provide this opportunity.

### **DIVISION C. PROCEDURE OF APPEAL AGAINST TERMINATION**

#### Article 8

1. A worker who considers that his employment has been unjustifiably terminated shall be entitled to appeal against that termination to an impartial body, such as a court, labour tribunal, arbitration committee or arbitrator.

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2. Where termination has been authorised by a competent authority the application of paragraph 1 of this Article may be varied according to national law and practice.
  3. A worker may be deemed to have waived his right to appeal against the termination of his employment if he has not exercised that right within a reasonable period of time after termination.

#### Article 9

1. The bodies referred to in Article 8 of this Convention shall be empowered to examine the reasons given for the termination and the other circumstances relating to the case and to render a decision on whether the termination was justified.
2. In order for the worker not to have to bear alone the burden of proving that the termination was not justified, the methods of implementation referred to in Article 1 of this Convention shall provide for one or the other or both of the following possibilities:
  - (a) the burden of proving the existence of a valid reason for the termination as defined in Article 4 of this Convention shall rest on the employer;
  - (b) the bodies referred to in Article 8 of this Convention shall be empowered to reach a conclusion on the reason for the termination having regard to the evidence provided by the parties and according to procedures provided for by national law and practice.
3. In cases of termination stated to be for reasons based on the operational requirements of the undertaking, establishment or service, the bodies referred to in Article 8 of this Convention shall be empowered to determine whether the termination was indeed for these reasons, but the extent to which they shall also be empowered to decide whether these reasons are sufficient to justify that termination shall be determined by the methods of implementation referred to in Article 1 of this Convention.

#### Article 10

If the bodies referred to in Article 8 of this Convention find that termination is unjustified and if they are not empowered or do not find it practicable, in accordance with national law and practice, to declare the termination invalid and/or order or propose reinstatement of the worker, they shall be empowered to order payment of adequate compensation or such other relief as may be deemed appropriate.

### **DIVISION D. PERIOD OF NOTICE**

#### Article 11

A worker whose employment is to be terminated shall be entitled to a reasonable period of notice or compensation in lieu thereof, unless he is guilty of serious misconduct, that is, misconduct of such a nature that it would be unreasonable to require the employer to continue his employment during the notice period.

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## **DIVISION E. SEVERANCE ALLOWANCE AND OTHER INCOME PROTECTION**

### Article 12

1. A worker whose employment has been terminated shall be entitled, in accordance with national law and practice, to-
  - (a) a severance allowance or other separation benefits, the amount of which shall be based inter alia on length of service and the level of wages, and paid directly by the employer or by a fund constituted by employers' contributions; or
  - (b) benefits from unemployment insurance or assistance or other forms of social security, such as old-age or invalidity benefits, under the normal conditions to which such benefits are subject; or
  - (c) a combination of such allowance and benefits.
2. A worker who does not fulfil the qualifying conditions for unemployment insurance or assistance under a scheme of general scope need not be paid any allowance or benefit referred to in paragraph 1, subparagraph (a), of this Article solely because he is not receiving an unemployment benefit under paragraph 1, subparagraph (b).
3. Provision may be made by the methods of implementation referred to in Article 1 of this Convention for loss of entitlement to the allowance or benefits referred to in paragraph 1, subparagraph (a), of this Article in the event of termination for serious misconduct.

## **PART III. SUPPLEMENTARY PROVISIONS CONCERNING TERMINATIONS OF EMPLOYMENT FOR ECONOMIC, TECHNOLOGICAL, STRUCTURAL OR SIMILAR REASONS**

### **DIVISION A. CONSULTATION OF WORKERS' REPRESENTATIVES**

#### Article 13

1. When the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, the employer shall:
  - (a) provide the workers' representatives concerned in good time with relevant information including the reasons for the terminations contemplated, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out;
  - (b) give, in accordance with national law and practice, the workers' representatives concerned, as early as possible, an opportunity for consultation on measures to be taken to avert or to minimise the terminations and measures to mitigate the adverse effects of any terminations on the workers concerned such as finding alternative employment.
2. The applicability of paragraph 1 of this Article may be limited by the methods of implementation referred to in Article 1 of this Convention to cases in which the number of workers whose termination of employment is contemplated is at least a specified number or percentage of the workforce.
3. For the purposes of this Article the term the workers' representatives concerned means the workers' representatives recognised as such by national law or practice, in conformity with the Workers' Representatives Convention, 1971.

### **DIVISION B. NOTIFICATION TO THE COMPETENT AUTHORITY**

#### Article 14

1. When the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, he shall notify, in accordance with national law and practice, the competent authority thereof as early as possible, giving relevant information, including a written statement of

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the reasons for the terminations, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out.

2. National laws or regulations may limit the applicability of paragraph 1 of this Article to cases in which the number of workers whose termination of employment is contemplated is at least a specified number or percentage of the workforce.
3. The employer shall notify the competent authority of the terminations referred to in paragraph 1 of this Article a minimum period of time before carrying out the terminations, such period to be specified by national laws or regulations.

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