

The views expressed in this paper are those of the authors and do not necessarily reflect the views or policies of the Asian Development Bank. The Asian Development Bank does not guarantee the accuracy of the data presented.

# Strategies for Improved Social Protection in Asia: Labor Market Policies (Project and Program Issues)

ALAN ABRAHART and PAOLO VERME

---

Alan Abrahart and Paolo Verme are Labor Market Expert/Consultants, ADB. This paper has benefited from ADB Interdepartmental comments and guidance from the ADB Interdepartmental Working Group on Social Protection. The paper is to be delivered at the "**Social Protection Workshop 1: Labor Market Policies**" under the *Asia and Pacific Forum on Poverty: Reforming Policies and Institutions for Poverty Reduction* to be held at the Asian Development Bank, Manila, 5-9 February 2001.

---

## I. INTRODUCTION

The following guidelines offer a methodology for analyzing labor markets and for implementing projects that are intended to improve labor market operations. The guidelines proceed through four stages.

- (i) Consideration of regional aspects;
- (ii) A country situation analysis, covering the relevant data and information that are necessary to reach an informed judgment about the state of the labor market;
- (iii) A country policy analysis, used to generate the policy prescriptions needed to overcome the problems identified through the situation analysis;
- (iv) The design and implementation of projects, covering the lending instruments that are available, project timeframes, lending conditionalities, project management and control, and monitoring and evaluation.

## II. Regional aspects

The ADB covers a vast region of the world and the countries contained in such region are extremely diverse. A labor market approach that would attempt to fit all countries with one policy would be a poor way to start. Labor market policies are national, designed and implemented by national governments. Therefore the approach to be followed to support national labor market policies has to be primarily country specific and shrank to fit the local context.

Yet, the advantage of a multilateral and regional organization such as the ADB is precisely to have a regional vision that is likely to be more comprehensive and objective than the one of any individual member state. Such vision is particularly important for labor market policies concerned with issues such as migrant labor. Hence, a country strategy may start by looking at some general characteristics of the sub-region in which the country under consideration operates. The following are some broad priorities concerning labor markets in four sub-regions of the continent: South-East Asia, South Asia, Transitional Economies and the countries of the Pacific.

South-East Asia is the region that has been characterized by fast growth over the period 1960-1996 and that experienced a sharp contraction during the 1997 crisis. The crisis has produced high unemployment and exposed structural problems related to social protection, particularly for the unemployed. Most countries lack the most basic labor market institutions such as labor exchanges,

---

have little experience in assisting the unemployed and do not dispose of the financial means for reforming the labor protection system because of the negative economic cycle sparked by the crisis.

In such situation, the labor market approach has to be developed along two lines. The first is a short-term approach able to cope at best with the consequences of the crisis. Emergency programs such as public works may help in reducing the effect of the crisis while contributing to building infrastructures necessary to re-establish growth. The second is a long-term approach designed to equip countries with labor market institutions able to deal with sharp employment fluctuations as the one recently experienced. This second approach initiates with proper legislation and consolidates with the establishment of permanent structures such as labor exchanges networks and unemployment insurance schemes.

In so doing, however, it should be kept in mind that many of the countries in this region are very much split along the rural-urban divide with a modern urban and industrialized sector and a backward rural agricultural sector. Labor market policies should very much adapt to such divide while helping to reducing it. Traditional LMPs implemented through labor exchanges such as training and unemployment benefits would hardly reach those living in rural and remote areas if implemented through labor exchanges alone. In this case, labor market interventions would be better channeled through local communities and organizations or public bodies that are already present in rural areas. That is because the rural population has usually difficulties in reaching labor exchanges that are typically located in urban areas and because the jobs on offer in such exchanges are typically urban and unsuited for agricultural workers.

An additional important aspect that will greatly shape the future labor markets in South-East Asia is migration. Indonesia and the Philippines have pioneered migration policies in order to cope with large emigration flows. Remittances are for both countries an important source of revenue and migration policies became with time a very sensitive political tool. The issue here is two-fold. On the one hand, policies that address nationals emigrating abroad such as assistance in host countries in terms of housing, social and legal protection should be continued and encouraged. These are often welcomed by host countries because they allow for a stricter control of immigration. On the other hand, countries can do more to register and assist immigrants. This effort should be not only in the direction of control mechanisms but also in the direction of assisting immigrants with social protec-

---

tion schemes agreed with the countries of origin. Harmonizing social protection mechanisms across countries can be an important tool to discourage informal practices and reduce risk for migrant labor.

South-Asia has enjoyed unprecedented growth in recent years based on competitive exports in the manufacturing sector. The region is undergoing a process of industrialization that will necessarily change the social structure of societies. The state still occupies an important position in terms of employment and state enterprises still dispose of excess labor that will eventually need to be dismissed. But the new private sector is vigorous and has a valuable potential for growth in many different sectors. The reservoir of skilled labor is large and competitive though human capital flight in on the increase and threatens local growth potential.

Past experiences such as the Grameen bank in Bangladesh and the Marahasthra public work scheme in India are obviously the answer to reach large number of people in need with means understandable and close to most. However, as the decline in the Marahasthra scheme is witnessing shifting towards more urban and industrialized societies will require different means. First of all, legislation will need to keep pace with changes, labor protection in particular. The role of industrial relations will increase and so will the effect of the minimum wage on the economy. The growing informal urban sectors will need to be contained and formalized, labor reallocation will need to be facilitated through labor exchange offices. The existing gap between the urban and rural sectors will need to be reduced.

Asian transitional economies include the post-Soviet economies (Central Asia) and some East Asian economies (China, Vietnam, Cambodia). The transition process in these two groups of countries have followed a very different path partly for political reasons and partly for the initial economic situations these countries came from. However, one general aspect that unites these countries, apart from the fact that they are all moving towards a market economy, is that birth rates have collapsed and populations are aging. Over the 1990s, the population below the age of 14 has declined in almost all countries and will continue to decline over the next fifteen years. This will be reflected in an expansion of the population in working age (15-64). In terms of labor market, this can be beneficial as more people will be working and less will need to be supported but labor market policies have to be designed to expand employment quickly in labor-intensive industries. This is where the coun-

---

tries of Central Asia and the East Asian Transitional Economies will need a different kind of approach.

In the transitional economies of Central Asia the biggest challenge for labor market development remains privatization and enterprise restructuring. Privatization has occurred nominally with large enterprises changing ownership but not management or strategies. There has been hardly any investment in restructuring and, where there has been, managers have tended to extract personal gains rather than using the resources productively. This has created very difficult living conditions not only for those who had to leave the enterprises and are now struggling to make a living in self-employment or unemployment, but also for those who are still in enterprises and suffer from meager salaries or wage arrears. LMPs cannot only focus on the unemployed but have necessarily to look at employment and the enterprise in particular. Even agriculture was managed in an industrial manner during the Soviet times and the transformation of agriculture requires a lot of support for those new individual farmers who do not have the skills or the means for small farming. Re-activating production is a major challenge in Central Asia today.

China and Vietnam also face serious problems in terms of restructuring of ex-state enterprises but this challenge is greatly supported by fast growing economies. Perhaps the greatest challenge for labor market policies remains the transition from a rural to an urban life. The coastal fast growing and industrialized regions have attracted and are still attracting millions. The construction of proper infrastructures to host such numbers cannot possibly cope with the speed of the phenomenon generating an urbanization process difficult to control. Labor market policies are called to put some order in such process. Towns and Village enterprises have been an important initiative to encourage people to remain in their surroundings but by no means they have stopped the internal migration flows. Labor exchanges have the potential to contribute to allocating resources more efficiently on the territory and provide the necessary information to forecast labor flows and design measures to support such flows. Hence, the key issue is not how to foster production and growth but how to manage the social consequences related to production and growth.

The Pacific islands are a case on their own. The region has benefited from large flows of aid and favorable trade conditions on the part of the European Union and the United States during the past decades. GDP per capita is generally higher than in developing Asia and poverty has never

---

reached dramatic levels as seen elsewhere in Asia. However, during the 1990s, growth has been modest, urbanization has increased together with urban poverty and environmental degradation is taking its toll on very fragile ecosystems. The region has also poor infrastructures hampered by distances that make trade expensive, even within the region. Pacific islands generally produce few items in large quantities for export and rely to a great extent on imports.

In such context, the establishment of a labor exchange network and the formal registration of the unemployed are less urgent problem as opposed to employment generation activities centered on self-employment and small business development. Legislation related to industrial relations while important it is less relevant that the urgent problem of infrastructure and housing for the new urban dwellers. In other words, in a context where natural conditions and kin networks allow for households to survive without the necessary intervention of the state, the latter can afford to focus more on boosting productivity and growth, two areas where the pacific islands are lagging behind vis-à-vis other developing areas in Asia. Hence the key aspect for the Pacific seems to be diversification and small business development export oriented.

### III. SITUATION ANALYSIS

The starting point for considering labor market issues would normally be the relevant country strategy paper, which should describe a country's basic socio-economic situation. The key information that is required includes:

- (i) The economic framework,
- (ii) The demographic structure,
- (iii) The structure of the labor market, and
- (iv) The institutions and legislation that underpin the labor market.

#### A. Economic Framework

The first purpose of the situation analysis should be to determine if the necessary conditions are in place for various labor market policy initiatives to be considered and, if not, to identify the circumstances that would have to be achieved before sustainable policy development could take place.

The assessment should cover the essential features of the economy:

- (i) Historical data on output, employment and productivity by economic sector;
- (ii) Current macroeconomic framework (output, budget, inflation);

- 
- (iii) Sector analysis (urban/rural; formal/informal, public/private);
  - (iv) Domestic and foreign investments (FDI) prospects and projections by economic sector;
  - (v) Growth projections in the medium and long-term by economic sector.

The important thing to understand is in what direction the economy is moving, what sectors will be central to economic development and what is the role played by the private formal sector in this development. Economic development and the government financial capacity will ultimately rely on the growth of the formal private sector and the prospects in this sector have to be monitored to understand how LMPs can contribute to such growth.

The Bank should already dispose of much of this information through the country offices network. Alternative sources of information are the World Bank and IMF country reports, central statistical offices publications, central banks bulletins and UNDP National Human Development Reports.

#### **B. Demographic Structures**

Many Asian countries have fast growing populations. Their economies must therefore grow particularly fast if they are to develop employment in the formal sector. Without that development, employment is confined to the informal, even subsistence, economy and countries have an impossible task to reduce their poverty levels.

The important consideration, of course, is labor force growth. While it is obviously linked to population growth, it may differ, for example, according to cultural differences such as commonly accepted roles of women in the labor force or attitudes towards schooling. More importantly, there is a lag between changing population growth and its impact on the labor force and it will be many years before the impact of any declining birth rate is reflected in declining labor force growth rates. The age structures of the population as well as the growth pattern must also be established. On the other hand, increasing retention in school and in further education may result in slowing labor force growth and reducing participation rates, especially among the young.

The important indicators to monitor are:

- (i) Birth, death and natural growth rates;
- (ii) Migration flows;

- (iii) The size, structure (male/female; urban/rural; age; education) and projections of the Working Age Population (WAP = Men 15-60/65 + Women 15-55/60)
- (iv) The size, structure (male/female; urban/rural; age; education) and projections of the Labor Force (LF = Employed + Unemployed).

The obvious primary source of information is the population census. It is in fact best to identify the last population census and use the official data and projections made by the central statistical agencies. Secondary sources of information are the various UN population statistics, though these sources tend to be outdated by at least two or three years. World Bank data may be an additional secondary source.

### **C. The Structure of the Labor Market**

The main purpose of the analysis is to identify labor market imbalances and mismatches. This can be done by analyzing the demand and supply for labor separately and by identifying the major sources of imbalances such as geographical, skills, education or gender factors. The first part of this analysis may look at labor supply, the human capital available in the nation, while the second part may look at labor demand, the human capital needs expressed by the nation. Labor supply looks typically at people while labor demand looks at institutions and organizations, particularly enterprises. This allows identifying imbalances and mismatches that can be addressed later in the policy analysis phase.

#### **1. Labor Supply**

An analysis of labor supply should be comprehensive, meaning that the vision should expand beyond the current labor force and to all able-bodied individuals in the nation, including the economically inactive. Especially during deep economic changes, substantial flows of workers occur between the economically active and economically inactive pools.

Following a typical ILO classification of the population according to labor categories, the following statistics should provide a first comprehensive picture of labor supply:

- (i) Employment by industry, occupation, gender, age, education, urban/rural, formal/informal and public/private sectors;
- (ii) Underemployment including part-time work and unpaid leave
- (iii) Unemployment by gender, age, education and urban/rural sectors;

- 
- (iv) Economically inactive population by group (housewives, students, discouraged job-seekers and others), age, gender and education.

These data are 'stock' measures and they should include historical trends as well as future projections over a substantial period of time, such as ten years. Projections will necessarily make use of the population statistics mentioned in the previous section as well as additional data that may influence the distribution of people among the different labor categories.

Additional information relative to labor supply will include:

- (i) Labor migration (internal and external) and impact on the structure of the labor force
- (ii) Changes in the education system affecting school retention;
- (iii) Changes in the pension system affecting retirement age;
- (iv) Estimates of literacy;
- (v) Average years of schooling.

Many Asian countries have a small labor force compared with their total population, particularly Muslim societies with limited access to formal work for women. Considering that this is the potential tax base for a country, both for general government revenue and social taxes, countries in this position would seem ill placed to develop social protection policies. Hence, one important objective for any nation is how to expand labor force participation.

Concerning education and training, it should be kept in mind that statistics can be misleading or inadequate when they are used to assess labor market skills. Longitudinal or tracer studies are rarely available to assess the impact of education and training of graduates at any level. Qualifications and skills, even basic literacy, can be exaggerated, especially through collections that require self-enumeration such as a census.

Differences in the participation of males and females in education and training need to be understood and eventually aligned with labor market realities. Gender differences, although evident everywhere, vary greatly from place to place. In particular, while it is difficult to assess the effect of cultural or social differences on the way girls are educated, the reasons for any mismatches between the education of girls and their participation in the labor force need to be understood.

The primary sources of information for the labor categories data are households budget surveys and labor force surveys. The most valuable way of dealing with such data is to obtain the data-

---

base and then carry out analysis according to the specific information sought for the particular project under study. However, this is a rather time consuming process and requires statistical skills not always available with Bank staff. Hence, the best alternative is to rely on survey analyses already made by other international agencies, researchers or the central statistical office. Additional primary sources of information are enterprises reports and surveys usually collected and analyzed by the central statistical offices. Secondary sources of information are international organizations' reports and country studies.

## 2. Labor Demand

The basic characteristics of the labor demand that need to be assessed include:

- (i) Industry structure;
- (ii) Regional economic structure;
- (iii) Wage levels and earnings;
- (iv) The relationship between the formal and informal sectors;
- (v) The relationship between rural and urban sectors;
- (vi) The size, structure and educational profile of the public sector;
- (vii) The potential for private sector development.

Countries with a significant shortfall between the economic growth rates and the population growth rates are bound to have substantial informal sectors. A country with a labor force growing at 3% a year is going to need something like a 6% economic growth simply to maintain formal sector employment opportunities. Otherwise, employment growth is essentially supply-driven with excess labor being occupied in the informal sector.

Assessing labor demand, especially on a detailed industry or occupation level, may be difficult to do except in general terms, although for most policy prescriptions this may be sufficient. For example, using income statistics to assess labor demand may be problematic. It may be difficult to determine earnings with any accuracy. It is difficult to unravel the extent to which people hold second jobs, to assess earnings in the informal sector, to reveal disguised income, and seasonal or intermittent patterns of earnings.

It is also difficult to define, let alone quantify, the formal and informal sectors although it may not be that important to be precise. The formal sector might be defined in terms of business registra-

---

tions but this would not allow for employment estimates to be made. It could also be defined in terms of those responsible for paying social taxes. However, tax avoidance can be high so that the resulting figures may not be so accurate.

A better starting point, though also with weaknesses, is to define the formal sector in terms of wage earners. Naturally, this limits the sector to employment in the public sector and in enterprises covered by relevant statistical collections. Consequently, this definition tends to equate the formal sector with employment in firms above a certain size. However, collections might miss a significant number of workers especially if the nominal survey coverage extends to smaller firms, which come and go rapidly. In addition, total employment can be disguised, again to avoid taxes. Social taxes, based on payroll assessments, can be avoided by disguising total salaries or by breaking income into taxable and non-taxable components, sometimes legally sometimes not.

Whatever estimates are finally made, they have to cover two elements of the informal sector. The first occurs in rural areas. Many economies in Asia are still largely rural-based and will be so for many years. In many of them, less than a third of the populations live in urban areas. Employment in family enterprises or farms is high and workers may be engaged only intermittently or seasonally. While there are surely large productivity gains to be made in the agricultural sector, this does not mean that significant employment increases will follow. Growth is more likely to occur in surrounding industries in rural areas, such as in building and in service industries, and in associated industries such as agro-business. A steady drift away from agriculture is inevitable although it might not necessarily take place very quickly.

The second feature of informal employment relates to urban areas. In all countries, internal migration is leading to a growth in urban populations that outstrips the growth of the formal sector. Informal employment in urban areas takes place in the service sectors, particularly in transport (taxis, cyclos, rickshaws and the like), in retail services (including itinerant trade) and in tourism and hospitality (restaurants, stalls and so on). The problems for this sector relate to social protection, which, more or less by definition, is confined to the formal sector.

The scope for the development of a manufacturing sector, and the type and level of the sector, depends on a variety of factors such as accepted wage levels and the skills of the labor force. Typically, countries at the lower end of development gain immediate improvements in incomes as a re-

---

sult of direct foreign investment into manufacturing but the gains are limited unless there is a longer-term movement towards higher-level manufacturing involving greater skills.

Services cover a wide range of sectors, notably tourism and hospitality, and retail. These sectors are noted for the extent of small enterprises and for informal employment generally. Tourism and hospitality are usually seen as growth industries but a great deal depends on the nature of the country in question – on its openness or perceived levels of corruption, for example, or on the potential for civil unrest.

The primary source of information for labor demand is enterprises surveys, usually those conducted on a national level by the central statistical office. Some countries require enterprises to provide quarterly or annual reports but this is usually a less reliable source of information. Information on enterprises is also often available in labor force surveys and even household surveys where questions are asked about employers. Again, the central statistical office will be the main source of all statistics on labor demand though other organizations such as the ministry of industry, employer's organizations or chambers of commerce and industry may collect independently valuable information. Some countries have enterprises rosters kept at tax offices or in other government organizations that, if updated, can be a valuable source of information.

The final stage of the structural analysis of the labor market will be to compare the current and projected demand and supply to isolate the major constraints to matching and labor market development. These constraints can then be looked at in the light of the LMPs framework.

#### **D. Labor Market Institutions**

The impact of labor policies is affected significantly by the institutions that operate in the labor market. These include labor legislation, administrative structures and the various stakeholders that are involved or have an interest in the labor market.

##### **1. Labor Market Legislation**

All relevant legislation should be analyzed. The major concern is direct labor legislation, which includes:

- (i) Legislation on core labor standards: (a) Freedom of association, (b) Abolition of forced labor, (c) Equality, and (d) Elimination of child labor;

- 
- (ii) Industrial relations legislation, which covers issues to do with employer and employee associations, collective bargaining and the resolution of industrial disputes;
  - (iii) Wage policies, which includes legislation on minimum wages and wage setting procedures outside collective bargaining processes;
  - (iv) Job security provisions, which cover the recruitment and the separation of employers;
  - (v) Working conditions, which cover issues such as working hours, leave provisions, and occupational health and safety;
  - (vi) Vocational and technical training, which covers rules on the recruitment of skilled workers, and the accreditation and certification of skilled workers

Other relevant legislation could include regulations controlling labor mobility (for example, internal passports); enterprise-based forms of social protection such as pensions or housing; and wider-based social protection policies (pension systems, unemployment benefits, maternity leave and the like).

The form the legislation can take will vary substantially from country to country but the issue has less to do with form than with substance. In all cases, the primary goal is to identify legislation that acts to restrict the operations of the labor market. While it is not always possible to say that any such legislation is wrong or unnecessary in principle, it certainly warrants specific justification.

## **2. Administrative structures**

There is a high risk of making poor policy decisions when labor market operations are solely the responsibility of government or where employers are unwilling or unable to get involved. Investments will also be unwise where there is an unclear division of responsibility between government agencies, for example in the field of training.

The two main institutional processes to consider are the way that finances are managed and the way that labor market programs are administered. Many labor market programs, especially training programs, are expensive.

It should be determined:

- (i) Who pays and who spends;
- (ii) Cost recovery procedures if any;

- 
- (iii) The extent to which financial management is centralized or decentralized;
  - (iv) Potential conflicts in financial management (for example, between layers of government).

The quality of management is no less important and that should be judged by assessing the extent to which management is concerned with labor market relevance and with outputs, for example skills testing, accreditation and standards, or with labor market program outcomes. Many administrations, particularly those covering training institutes and public employment services, are more concerned with inputs rather than outputs, especially if there are no performance criteria that allow outputs, let alone outcomes, to be measured adequately.

As part of managing quality issues, governments may choose to introduce inspectorate functions. The need for inspections, for example to protect consumers or employees from unscrupulous private providers, can be the main justification for much labor legislation. But whether inspections can be performed adequately or honestly is itself open to question. This falls into the wider problem of governance and the capacity of the public administration to deliver services in an effective and transparent manner. Poorly paid civil servants have strong incentives for rent-seeking and the establishment of an inspectorate can turn out to be more of a problem than a solution.

Attention should also be paid to the problem of over-management in the labor market. Heavy-handed inspection against what are really restrictive labor regulations is one example. Another aspect concerns training standards and consequent licensing arrangements that are set too high, leading to unnecessarily high costs for employers and training authorities alike and poor rates of return, both private and social. In other cases, official intervention can be onerous for little if any real gain to the labor market and there is a high risk that interventions are used for rent seeking rather than for addressing labor market issues.

### 3. Stakeholders

Poor investments in labor market programs are most likely because of a failure to properly understand the interests of all stakeholders. These include:

- (i) Governments;
- (ii) Individual ministries (economic or finance, labor and education, social affairs);
- (iii) Parliament and political stakeholders

- 
- (iv) Employers (particularly the private sector);
  - (v) Employees;
  - (vi) Students and trainees;
  - (vii) The unemployed;
  - (viii) Gender and age groups;
  - (ix) Special target groups and
  - (x) Non-government agencies such as NGOs or private entrepreneurs that provide training or employment services.

The analysis should identify winners and losers, singling out those whose vested interests in established structures is so great as to be potential inhibitors to change; or those whose possible future vested interests would be so great as to warrant their involvement in institutional developments.

The lines of responsibilities between stakeholders must be unraveled, for example, the different responsibilities of labor and education ministries. Other relevant structures, such as private sector chambers of commerce or labor organizations, should be described. It is important to note the absence or the weaknesses of such structures.

#### **IV. POLICY ANALYSIS**

The situation analysis is likely to uncover perceived labor market weaknesses and inefficiencies as well as weak institutional arrangements. The first step in the policy analysis is to verify the current status of LMPs and their adequacy to the identified labor market constraints and general economic framework.

Therefore, the first step is to gather information on:

- (i) Long-term national economic plan and human capital objectives;
- (ii) LMPs framework (number and types of policies);
- (iii) Organizations responsible for implementing LMPs;
- (iv) Coordination between different organizations;
- (v) Sources of finance of LMPs;
- (vi) Target groups.

---

Sources of information should be the country five years economic plan, the works of special economic advisory bodies established close to the council of ministries or presidential apparatuses, the ministries of labor, education, industry and finance.

Such information will allow making a first assessment of whether the current LMPs framework responds to labor market needs. However, whether any of the labor market problems that have been identified can be ameliorated through changes to labor market policies may not be clear.

In the first place, many governments are inclined to favor policies that intervene in the labor market when perhaps they need not. Governments have intervened, for example, to give a monopoly position to public employment services in the hiring of workers or to make it difficult for private training providers to operate freely.

In the second place, policy reforms may sometimes address obvious symptoms, usually unemployment, without recognizing the underlying causes. Retraining programs for the unemployed, for example, may be ineffective where the major cause of unemployment is demand deficiency. Similarly, the development of TVET systems may not be justified if the underlying basic education system is adequate. From the ADB's point of view the objective is to improve the outputs and, more importantly, the outcomes of labor market policies, but from the point of view of labor market authorities the objective, more often, is to improve inputs.

The primary purpose of policy development should therefore be to change, if necessary, the way that the labor market is governed by central, provincial or local authorities: the way it is administered, the way it is financed and the types of interventions made by governments. The changes that will be required will invariably involve both institutional and financial reforms.

#### **E. Institutional Reforms**

Institutional reforms involve either legislative actions or some form of administrative changes. Given the inclination of most authorities to want to extend their control, the underlying policy objectives that are likely to be pursued in this way often run against the grain of government inclinations. In this respect, the role and attitudes of stakeholders must be taken fully into account.

The basic issue for institutional reforms lies with the legislative framework being used to govern the labor market. As the earlier discussions showed, there can be a wide divergence of opinions even in developed countries about what sort of labor market legislation is acceptable. Legislative

---

change requires negotiation with many stakeholders, particularly the social partners. It has to be accepted by a country's legislature and it requires the cooperation of the authorities. It is easier to implement another labor market program or invest further money in labor market programs or infrastructure rather than change legislation.

The second issue for institutional reform involves the administrative arrangements for governing the labor market. Many of the administrative arrangements that need changing may well be defined in legislation. Many ministries may be involved, especially in training, while the social partners may not be involved at all. Tripartite mechanisms may be difficult to arrange even though they should be an integral part for many, although not all, administrative arrangements. It should be noted that reforms to administrative arrangements are not confined to government authorities. They also touch on the structures and legislative requirements for the social partners. Reforms should involve social partners.

Reforms to institutional arrangements also involve capacity building – among all three main social partners. Naturally, reforms of this type are much more acceptable to stakeholders because they involve investment in their own human resources and in their physical infrastructure. For that reason, too, they are often more acceptable to donors who are not always in a position to confront basic reforms or may not be willing to do so. However, questions of sustainability have to be addressed. Any investment in the human resources of a government authority, for example, must have a reasonable prospect of delivering a return, which is not necessarily the case in all authorities or among public sector employment groups (senior managers, for example) that have a high turnover.

The third issue for institutional reform involves program interventions. Some of these interventions have a very broad scope and can have long timeframes involved. They need to be planned with sustainability in mind and have to properly analyze the labor market weaknesses they are trying to address. Skills development policies, in particular, are a special case. They usually represent significant reforms in their own right and investments that focus on capacity building are likely to be ineffective unless they are accompanied by the institutional reforms that have been discussed here.

Other interventions such as training for the unemployed or public works programs have far shorter timeframes. In terms of their long-term impact and their effectiveness, these are probably the least important development to be undertaken. In fact, they are usually the starting point for many

---

developments. This is because program interventions, like capacity building, require investment in human resources and capital infrastructure and are more attractive to government agencies. They can also be politically attractive. They hold out the possibility of bringing about improvements for individuals, for specific target groups or for specific localities. In some cases, target groups such as the disabled or war veterans, may have strong public support or a long history of government support that is difficult to unwind.

The program interventions have therefore to be assessed very carefully. The starting presumption should be that such interventions are not automatically effective and should be justified only when interventions are carefully targeted and the programs are kept small.

#### **F. Financial Reforms**

A large part of governance is concerned with finance and a lack of money can become an all-consuming consideration. It is tempting for government authorities to assume that once this problem is "solved" an improved system will necessarily follow. Proposing a method for financing labor market interventions can therefore wrongly become the driving force behind the policy agenda.

Finance can come from four sources: government budgets, special off-budget funds, cost-recovery, and, lastly, donors. Because of budgetary restraints, governments may well be inclined to favor the use of off-budget funds, typically financed by employer, payroll-based levies and employee levies. After all, when dealing with labor market issues it may seem obvious to obtain financing from the labor market participants, especially employers.

But this is not necessarily a good idea. Employer levies may be justified but they run the risk of becoming just another source of revenue and being sequestered for other purposes. The distinction between different levies and the way they are managed can also become hazy. Multiple levies may be imposed for related purposes (such as paying income support through unemployment benefits or to finance retraining programs). If an off-budget fund is to be used, it will be important that it is complemented, preferably with a system of governance that would act to protect it as a matter of course. In this respect, ownership of the fund becomes an important issue and can be contentious.

In the end, the capacity to finance labor market policies, whether through budget or off-budget funds, depends on a country's tax base. It is difficult to collect significant amounts of either income

---

taxes or employer-based taxes in countries with large informal sectors. Careful decisions have to be made about how to use the limited revenue that is collected.

Cost-recovery may also be an important source of finance. The most important situation probably concerns the use of student or trainee fees for TVET. Cost-recovery can be used even where it is known that some of the fees or charges will be levied on other government agencies, for example for training. In many countries, cost-recovery procedures usually have exemptions applied. Governments often find it unacceptable to levy charges on the unemployed or other target groups. However, exemptions have a habit of expanding to meet the needs of different interest groups and they should really be introduced only on clearly exceptional grounds.

Finally, the question of donor finance has to be considered. This is a key issue for the ADB. The main concern for the Bank is whether its finance can be used to develop sustainable long-term policies. In principle, its loan funds should not finance short-term interventions. These are really the domains of bi-lateral donors using grant funds. Nor should the Bank finance shortfalls in government revenue except through instruments such as program or structural adjustment loans. In project terms, the purpose of the funds is to bridge the gap between a country's present circumstances and the more effective and sustainable policies that can be achieved in the future.

#### **G. Related Policy Fields**

Labor market policies cannot be considered in isolation from related policy issues. Many of the issues that affect social protection policies can only be determined in the light of a good understanding of the labor market. Also, the characteristics of the labor market are determined significantly by the outcomes of the education system. Changes in the one reverberate in the other. The relationship of the labor market to both these policy fields must therefore also be analyzed.

#### **Education Policies**

The analysis should show where labor market policies, especially those concerned with technical and vocational training, fit in with education priorities; and whether these priorities are or should be directed towards, say, primary education or towards adult re-education and retraining. In countries with large rural sectors, for example, the priority would probably be to improve literacy through primary education. A priority for vocational education would be clearer in countries in transition to

---

market economies where levels of primary and secondary education are usually already high but where there is a need to redefine entry-level training requirements and to retrain older workers.

The structure of post-compulsory education and its effects on vocational outcomes should be analyzed. While some evidence suggests that the returns to general education are greater than returns to more specific investments in vocational education, this may say just as much about excessive costs and the poor structure of vocational education systems as it does about the subsequent benefits to students.

Investments in vocational schools may further entrench poor systems. Streaming of students in secondary education should generally be regarded as inefficient on vocational grounds. If governments intend to persist with these policies, investments in vocational schools should be designed to lead to at least the same level and scope of educational attainment that would be achieved through general education.

Where vocational schooling is an alternative to general education, the analysis should show how the alternatives differ: cost structures and the schooling or the characteristics of the students involved. The latter may influence the likely rates of return to the respective forms of education. Investments in vocational schools could be designed to influence these characteristics in order to increase the likelihood of greater returns.

#### 1. **Social Protection Policies**

Most governments tend to use labor market programs to correct broader social problems, particularly when the problems are seen to be associated with unemployment. When they do this, there is usually a high risk that their interventions will not be relevant in labor market terms and therefore poorly directed either to the needs of the target groups or to the needs of the labor market. Many programs have ended up being criticized for inadequate design and poor labor market relevance when, in fact, they were probably doing pretty much what the government expected of them.

Unfortunately, what governments expect from LMPs is often misplaced. For example, the best measure of labor market inequity is duration of unemployment. The longer the unemployment, the greater the disadvantage (except where unemployment is regarded as an attractive option, for example, where there is a relatively high level of unemployment benefit). However, not all causes of long-term unemployment can be ameliorated by labor market programs. Older workers who have

---

been suffering from long-term unemployment want more immediate returns from any investment in labor market programs, and retraining is less likely to give them that compared to, say, assistance through a wage subsidy program or through a public works program.

Social problems present profound difficulties for governments. They may be due to demographic factors such as age, they may arise from individual circumstances such as a disability or there may be inequities based on regions or on ethnic groupings. The greatest difficulties will usually arise with substantial gender inequities or with large-scale unemployment among the young. But in all cases, governments will be attracted to labor market programs, usually training and retraining schemes, as offering at least partial solutions to their problems. The attraction will be particularly strong in the case of young people where the initial problem is seen to be rooted in the labor market and where almost any response can be seen as preferable to idleness or other socially unacceptable behavior. The question is whether this attraction is reasonable and whether or how governments should act on it.

Irrespective of how people come to be directed towards labor market programs, it should still be seen primarily as a labor market initiative. Unfortunately, and almost by definition, the most likely participants are those with the least employment prospects, the least education, or the least aptitudes. This will be true no matter what state the labor market is in. Returns to these groups for their participation in such programs are likely to be low. Participation in labor market programs will surely involve queue shuffling, which may be justified in certain circumstances, but usually on social protection grounds, not on labor market grounds.

In that respect, participation in labor market programs may not be so different to other gainful activities that the target group could become involved with such as extended secondary education, community service work or even military service. In some cases, the objective may be as limited as encouraging work discipline; or, in its worst form, establishing "parking bays" for disadvantaged groups. For that reason the cost of programs needs careful consideration. They are rarely cheap and alternatives may be preferable.

None of these arguments is sufficient to argue against the use of labor market programs for handling social problems. However, unless we are prepared to talk about social safety nets and not LMPs, they should be used only with two clear understandings: Firstly, that the primary purpose,

---

however poorly achieved, will be to actually reduce inequities in the labor market and secondly, that the costs of the programs should be minimized. For example, using community groups and training centers that do not depend on massive investments in capital could be far more cost-effective than investing large sums in public sector institutions (for, say, teacher training or materials and equipment). The latter is a high-risk investment when the main problem is to solve social problems.

The important point here is to be clear about what the real government objective is. If the government's primary objective is to reduce social tension, then the real cost of the programs should be more properly considered, and assessed, as a social safety net rather than as an investment in the labor market.

## **V. DESIGN AND IMPLEMENTATION OF ADB PROGRAMS AND PROJECTS**

### **H. Labor market policies and the ADB operational framework**

According to the ADB Social Protection Strategy, social protection issues emerge in four operational contexts:

- (i) Country strategy;
- (ii) Policy lending to provide broad budget support with social protection conditionalities;
- (iii) Project lending for institutional development and capacity building in social protection;
- (iv) Collateral issues associated with lending where social protection is not the central objective.

Labor market policies can figure in different ways in all these contexts. The situation and policy analyses described above are well suited to be placed in the country strategy documents. The ADB social protection strategy document explicitly mentions that country strategies papers will: 'Include a labor market analysis as a critical element in determining the country's priority needs; (...).

Policy lending is more suitable for conditionalities focused on labor legislation, core labor standards in particular. Multilateral institutions are well placed to encourage the application of basic human rights in countries where these rights are routinely violated. The four core labor standards discussed in paper A are the possible contribution to this effort of labor market policies and conditionalities on lending are one of the few means available to foster the application of such standards. This

is by no means the solution to labor human rights violations but an important starting point for further policies.

Project lending is instead by definition the most suitable instrument to host most labor market policies. Labor legislation, skills development, labor demand and supply policies, labor market programs and labor migration policies can all find a place and a justification for 'institutional development and capacity building'. The question here is rather the choice of policy.

### I. The Choice of Policy

The choice of policy stems from the situation and policy analysis conducted in the specific country under consideration. At this stage, there would normally be a range of two-three policies suitable to address the problems emerged during the country analysis. The following matrix provides basic principles and characteristics of the policies outlined in paper A.

Policy Matrix

1. Labor legislation	Target group	Advantages	Disadvantages	Financing	Institutional Structure	Timing
Core labor standards	Enterprises	Human rights protection	Labor market rigidities		Legislation	Always
Industrial Relations Policies	Enterprises, Trade unions	Promote social dialogue	Risk of 'fragmenting' social partners		Legislation	Transition towards industrialised society
Wage Determination	Employees	Protection from exploitation	Labor market rigidities, exclude further the non participants		Legislation	Always
Job security provisions	Employees	Job security	Labor market rigidities, costly for enterprises		Legislation	Always in medium and large enterprises
Working conditions	Employees	Improve labor standards	Costly for enterprises		Legislation	Always in medium and large enterprises

2. Skills development	Target group	Advantages	Disadvantages	Financing	Institutional Structure	Timing
Education and pre-employment training	Students	Improve Human capital	Long-term results, difficult to evaluate the impact	Govt. budget	Schools	Always
Employment re-training and skills upgrading	Employees, unemployed, economically inactive	Preserves and update human capital	Costly, difficult to evaluate the impact	Govt. budget, enterprises, fees	Training institutions	Always

3. Labor demand policies	Target group	Advantages	Disadvantages	Financing	Institutional Structure	Timing
Support to enterprises	Enterprises	Foster or maintain domestic production, protects infant industries	Price distortions	Govt. budget	Ministries, special legislation	Economic downturns
Apprenticeship Programs	Labor market entrants	Improve youth employment	Risk of free riding from entrepreneurs	Mix Govt. budget and enterprises	Enterprises	Always
Defensive Restructuring	Enterprises	Preserve production and employment during downturns	Not sustainable in the long-term	Enterprises, workers govt. budget	Enterprises	Economic downturns

4. Labor supply policies	Target group	Advantages	Disadvantages	Financing	Institutional Structure	Timing
Public works	Poor job seekers	Income maintenance, contribute to public ends	Risk of dependency	Govt. budget, foreign grant	Ministries	During recessions
Micro-credits	Unemployed, poor	Small Business development	Risk of indebting already poor households	Beneficiaries-savings, Govt. budget, credit institutions	Credit institutions, cooperatives, associations	Always

5. Labor market programs and services	Target group	Advantages	Disadvantages	Financing	Institutional Structure	Timing
Job Brokerage	Job seekers	Matching demand and supply	Costly	Govt. budget or employment fund (workers and employers)	Ministry of labour, labor exchanges	Always in modern sectors, during fast economic changes
Training for the Unemployed	Unemployed	Increase employability	Costly	Govt. budget or employment fund (workers and employers)	Ministry of labour, labor exchanges, training institutions	Always

6. Labor migration policies	Target group	Advantages	Disadvantages	Financing	Institutional Structure	Timing
Internal Migration	Internal migrant labor	Increase matching, help to control rural/urban flows	Potential conflicts between old and new settlers	Govt. budget	Ministry of interior, local authorities	During periods of large migration flows
External migration	External migrant labor	Increase matching, help to control immigration	Politically sensitive	Govt. budget	Ministries, International bodies, NGOs	During periods of large migration flows

#### J. **Project Management and Coordination**

The essential features of labor market projects should always be concerned with achieving successful labor market outcomes. These might be improved labor market operations such as reducing unnecessary rigidities through less restrictive legislation, employment gained through training or self-employment generation, or job placements arranged through counseling and job brokerage.

Project management is therefore concerned with making sure that the reforms underpinning the project are carried through. One way to do this is to recruit staff especially for the purpose. Expert staff can be recruited, with experience of similar projects elsewhere, or with specific expertise in fields such as personnel or financial management and the labor market. The difficulty is that this approach allows for little skills transfer, which should be an essential feature of ensuring sustainability of the reforms once the project is complete.

Another way to manage the project is to arrange for it to be done entirely by the counterpart authority, the Ministry of Labor, for example. The difficulty with this is the likelihood of inadequate experience to begin with, and a lack of familiarity with or even a lack of acceptance of the reforms being pursued. Generally, it is important to identify a suitable local counterpart for implementing the project. For example, the implementation of a loan that focuses on training may rely on many different counterparts such as the ministries of education or labor, trade unions, enterprises organizations, private training bodies, cooperatives or NGOs.

The identification of the right counterpart is crucial for the success of the loan and the criteria for such identification should be strictly based on past performances. An open competition based on curriculum and project proposals may be the right approach to the problem but consultations at the local level with interested parties should also be an important part of the selection process.

A combination of both foreign technical assistance and local counterparts is probably the preferred course of action although it all depends on the country involved and the quality and attitudes of the counterparts. Project management should itself be seen as part of the project development, part of the reform process. Projects should be handled by the counterpart authority but with specific technical assistance being provided, especially in the early stages. Technical assistance should not be concerned solely with issues such as procurement and other details of project management, but with the achieving of the project objectives themselves. A primary goal is to work towards skills

---

transfer with the management of the project eventually passing completely to the counterpart authority.

**K. Monitoring, Evaluation and Auditing**

Monitoring and evaluation must be a feature of any project lending. It is not simply a matter of trying to determine, once it is all over, how successful a project has been. That static model might be appropriate in some types of projects but labor market projects (and social protection projects generally) need data from monitoring and evaluation simply to retain their focus and viability throughout.

In fact, even the notion of a “successful” project has to be questioned. If, at the end of a five years project, the various labor market indicators all point to labor market improvements, it will still be almost impossible to quantify the contribution that the project actually made to this. Equally, if the indicators have all turned down, the project may not necessarily have been a failure. Evaluations on labor market or training programs should, of course, be designed to provide as much comparative data as possible, especially to allow policy makers to review the outcomes for target groups against those for non-participants. But to make a complete judgment about the success or failure of a program would require counterfactual information that will rarely be available.

Monitoring and evaluation components should be included in projects (standard projects or adjustable lending projects) as integral parts of the reforms. Monitoring information should be published regularly and evaluations conducted on an on-going basis. The evaluations should be used to update the situation and the policy analyses that have been discussed in this paper.

The criteria used for monitoring and evaluation are policy specific. The evaluation of training normally require a micro study of a group of unemployed trainees to be compared with a control group of non trained unemployed. A post-training increased likelihood of finding employment on the part of the trainees would prove the effectiveness of the training course. Public works are better evaluated by verifying that the target beneficiaries (geographical areas and individuals) are those most in need, by verifying the increased level of income and by verifying the amount and quality of the actual work performed. Micro-credits schemes can be assessed on the basis of financial criteria such as re-payment rates and turnover but also by checking whether the beneficiaries are those originally intended and whether collaterals required for lending are proportionate to the target group.

Auditing would eventually be the final stage of the project. This needs to be conducted by the ADB or by a foreign firm hired by the ADB but the identification of a local partner to conduct such auditing is also necessary to guide auditors in their searches. When fund embezzlement occurs, it is likely to be in some sort of government apparatus and a simple task like gathering the necessary information may become impossible if the government is not committed to auditing in the first place. Thus, such commitment has to be sought first. Auditing regards the financial disbursement of funds and the correct allocation according to plan and does not have any particular specificity for LMPs as compared to any other type of project.