



WORKSHOP REPORT

ODI-EC Social Protection and Labour Market Transformation in the 21st Century

This report documents the main issues discussed at the workshop on Social Protection and Labour Market Transformation in the 21st Century, held at the ODI in London on 3 April 2014.

The workshop was organized by ODI in collaboration with the European Commission Directorate General for Development and Cooperation – EuropeAid (EC), with the aim of enabling those working in the social protection sector to learn from recent thinking and analysis of the nature of increasingly globalised and interdependent labour markets in low and middle income countries, offering a platform to those working on these issues to share their insights with the social protection community, and stimulating discussion of the implications of a changing economy for the provision of social protection in low income countries in Africa and Asia in the medium term.

Introduction

Recent analysis by the EC of the social protection policy environment identified concerns among those working in the field of social protection within the international development community regarding the implications of economic transformation – including demographic change, labour market regulation, changing education and human capital accumulation patterns, migration and globalization of labour and capital - for labour markets in low income countries, and the consequences for social protection provision. These changes challenge assumptions at the heart of social protection provision as currently conceptualized, in terms of the dominance of formal sector employment, the assumption that full employment is the norm from which economies temporarily depart, and that employment provides adequate income to ensure adequate welfare. The prevalence of chronic mass under and unemployment, adverse conditions of employment, increasing factor mobility, and the persistence of informality have been recognized in recent years as characteristics of labour markets in many developing countries. This workshop provided a forum to review these changes, drawing on the research of labour economists and social protection specialists from key UN, donor, civil society and academic institutions working on these issues, and to explore the implications of these changes for social protection provision and the policy orientation of international agencies active in this sector.

Objectives

The goal of the workshop was to provide an opportunity for leading researchers working on these issues to share their research with key practitioners from donor agencies, civil society and international agencies working in social protection, to promote understanding and stimulate new thinking and approaches to respond to the challenge of social protection provision in low-income countries and to support the development of social protection provision which is relevant for the coming century.

The specific objectives of the workshop were to bring together a diversity of actors to promote understanding of:

- a) the main labour market trends in low-income and middle-income countries in Africa and Asia
- b) the implications for social protection design and implementation in LICs in these regions, and
- c) priority areas for future research and collaboration.

To this end the workshop was divided into three components, the first developing an understanding of the nature and causes of changes in labour markets in low and middle income countries in Africa and Asia, the second examining the implications for social protection provision in low income countries in these regions, and the third identifying issues for further exploration, drawing on experience from other regions as appropriate. The workshop generated an interdisciplinary dialogue among a diversity of participants, and the main issues discussed are outlined below, with a focus on sub-Saharan Africa, followed by the implications for future social protection provision, and finally the potential future research areas identified are set out. A list of participants and bibliography of selected reference materials discussed at the workshop is also attached.

The 21 Century Labour Market in Developing Countries - Employment Trends

Over recent decades there have been sustained changes in the nature of the global economy and related changes in the nature of the labour markets in the developing world, influenced by processes of urbanisation, migration and economic development. This has led to significant changes in traditional economic relationships, locally, nationally and internationally and resulted in sustained levels of unemployment, and more importantly underemployment in the developing world.

The nature of employment created

Even among sub-Saharan (SSA) countries with positive aggregate GDP growth, many are experiencing a slowdown or reversal in employment generation and increases in unemployment together with persistently high levels of underemployment. Most developing countries are not able to provide decent work, characterised by adequate remuneration and social protection provision, for the majority of their labour force and most of the new employment generated remains in the informal sector. Moreover, income inequality, as measured by the Gini coefficient, is worsening in many countries and markets are failing to provide a solution to the challenge of the working poor.

The working poor

Over 800 million workers globally are living in poverty on less than \$2 a day, and of these 375 million are living in extreme poverty, on less than \$1.25 a day. These workers are adversely incorporated into the global economy, and unable to find adequate hours of work, or sufficiently remunerated work to enable them to keep their families out of poverty. In SSA the working poor make up 64% of the labour force, with 42% of all workers being in the extreme poor category, with the percentages being 60% and 26% respectively in South Asia. An estimated one-third of the developing world's workforce is living in poverty and the rate of reduction in the numbers of the working poor has slowed significantly since the 2007/8 crisis.

The majority of the chronic poor are in work, but labouring under adverse terms of engagement, with the majority of the 'extreme working poor' being informal and/or own account workers.

Growing inequality and demographics

The labour market situation is affected by demographic changes in developing countries, with the youth bulge exacerbating the challenge of youth unemployment which has been increasing since the 2008/9 crisis, with school leavers entering the labour market unable to find work. At the same time, the mismatch between the employment aspirations of younger generations and actual employment opportunities – mainly in agriculture or household-based traditional/family businesses - lead to a reluctance among this group to take-up what opportunities exist. The resulting youth employment challenge is how to reduce the duration of the period between school exit and finding an adequate job. An associated concern is the issue of youth who have withdrawn from the labour markets due to the difficulty of finding employment (youth not in employment, education or training, or NEETS), as labour market withdrawal has potentially

adverse effects both on individual labour market performance, and also in terms of wider social destabilisation.

Women and the labour market

Across these issues, gender remains a key dimension of variation and disadvantage. Women's labour market participation, while encouraged and promoted through a number of initiatives, continues to be low in many countries. Even where increases have been recorded, women are more likely than men to undertake work which is insecure, informal and low-paid. The responsibility of care work – which in several countries is increasing as a result of improvements in life expectancy and ageing - continues to disproportionately fall on women. At the heart of these trends lie policy assumptions and value judgements concerning time use, care and unpaid work and the allocation of responsibilities between men and women, which condition women's opportunities, choices and roles in society, including in the labour market.

These labour market trends need to be analysed regionally, as production and consumption are becoming increasingly regionally divided, with new forms of specialisation emerging.

Sectoral Developments

Agriculture

Significant changes in agricultural employment patterns and practices are occurring in developing countries. These are linked to issues of land rights, land ownership and utilisation, and the destruction of traditional forms of agriculture with the commercialisation of production, linked to climate change and conflict as well as changes in global food and commodity production patterns. These patterns are not regionally homogenous, and need to be differentiated by region and also by country.

In sub-Saharan Africa, the structural transformation out of agriculture which had previously been anticipated as a key driver of increased productivity, employment formalisation and poverty reduction is not occurring as rapidly as had been anticipated. Despite high growth in wage labour in the region this is from a very low base, and household enterprises (HE) and agriculture together continue to comprise 80% of employment (15% HE and 65% agriculture), with agriculture projected to continue to dominate employment in the medium term, even in positive growth scenarios.

Rapid growth in non-agricultural wage employment is not anticipated in the region and hence key complementary interventions to promote small scale agricultural productivity, such as livestock and water management investment, rather than the promotion of movement out of agriculture, are indicated in the short to medium term in order to support workers in the sector who comprise the majority of the labour force. Agriculture remains however the least productive sector with lower productivity than in many Asian countries; while a similar share of the labour force work in agriculture in Vietnam and Ghana, the sector is far more productive in Vietnam and therefore poverty lower.

Industrialisation

The structural shift away from agriculture and services in favour of industry remains slow in SSA. The manufacturing sector in SSA is experiencing only limited growth, with a reversion to raw material production rather than significant beneficiation, a process exacerbated by the reduction of tariff and non tariff barriers.

There are indications that rural urban migration may be slowing. This represents a challenge to both Harris Todaro and Lewis models, inasmuch as major areas of inward migration are not necessarily hubs of industry or other economic activity (in the case of SSA) as had been anticipated, and therefore the predicted agglomeration effects may not be discernible. Many cities in Africa may be characterised as consumption cities, based more on service sectors than industry, and given the challenge of being a late entrant to industry, the region may perhaps have a future as service sector provider.

Global Transformation in Labour Processes and Institutions

The underlying causes of these changes are multiple, and relate to a range of national, regional and international processes.

Changing labour processes

Recent decades have witnessed significant increases in the global labour supply as a result of factors such as population growth and the opening of closed economies. This trend has been accompanied by the growing strength of capital, taking place alongside the dismantling of institutions of social solidarity including labour regulations, with the aim of addressing perceived 'market distortions'. At the same time new forms of regulation have been introduced which reduce the bargaining power of labour resulting in downward pressure on wages. This has also resulted in changes in the overall distribution of national income between labour and capital in favour of capital, an effect which is particularly notable in countries such as India and China.

At the same time increased labour market flexibility and technological developments have resulted in significant changes in global labour processes and the structure and functioning of domestic labour markets. Two examples of such changes are;

- the emergence of labour export regimes, including China, Indonesia, Nepal, the Philippines and Vietnam, wherein the export of labour is organised by the state, undermining national wage bargaining in recipient countries
- the outsourcing of jobs and their transfer offshore, with increasing amounts of labour contracted on line. One example of this is 'crowd work', in which work is divided into tiny outsourced fragments carried out by online labour and allocated on the basis of a Dutch auction, managed by agency brokers

These new forms of employment are resulting in changes in traditional employer-employee relationships and are contributing to the growth of a grouping of workers who have been described as the 'precariat'. These workers receive a wage, but their labour market engagement is characterised by uncertainty in terms of security of employment, and they lack access to social protection or rights as workers or citizens, with limited bargaining capacity in the labour market. The growing 'precariat' may be contrasted with a minority 'salariat' who enjoy security of employment, income and access to formal social protection.

Institutions and national policy

In this context the structure of institutions supporting labour rights have changed, with national governments in many instances promoting the emergence of these new forms of employment in an attempt to attract employment, but in the process engaging in a race to the bottom in terms of labour rights and conditions, an example being Bangladesh, which offers tax breaks and subsidies for crowd labour. State subsidised employment through direct labour subsidies, state sanctioned violation of labour protection policies, and the use of convict labour are contributing to exploitative labour practices, as for example the case of the electronics multinational Foxconn in China.

Trade unions and collective action

These changes represent a challenge for the traditional Trades Unions, and require new ways of conceptualising and organising labour. The Indian Self Employed Women's Association (SEWA) represents one successful attempt to organise informal labour, but the challenges represented by recent globalising labour market trends in terms of collective action and labour organisation are yet to be addressed. In the UK Trades Unions are experimenting with extending membership to include the unemployed and self employed in order to extend rights to these groups, but means for the inclusion for the majority of informal workers and the new types of workers emerging in the global economy are yet to be developed.

Labour Data Challenges

The validity of the global and regional employment data currently in use is open to debate, given the 'stylised concepts' on which much analysis is based. There are questions regarding the applicability and relevance of the concepts driving such data in developing country contexts, including 'labour force participation', and 'unemployment' and the difficulty of identifying 'main activity' in terms of the realities of the diversified labour experience of many poor workers. In particular the meaningfulness of 'unemployment' is problematic, with 'labour slack' rates perhaps being a better measure of labour use in the context of informal activities and new phenomena such as zero hour contracts. Similarly the dualism of formal/informal may not be accurate, with the reality being more of a non-linear continuum.

The practice of equating vulnerability with monetary poverty may also be inappropriate. In China, for example, a fall in the measured poverty rate has been observed due to increased money income, but while income poverty may have fallen, insecurity has risen due to the reduction of state benefits provided to workers, so income poverty may not be an adequate indicator of wellbeing or vulnerability.

Social Protection Summary

Globally the welfare state model of social protection provision has been in decline since the 1970s. The US corporate model of the welfare state is being globalised by MNCs to provide social protection provision for (and partly financed by) the minority 'salaried'. At the same time work is becoming increasingly informalised and separated from entitlement to benefits and labour protection for the majority.

In developing countries the working poor, numbering some 800 million, and comprising own account workers and wage labourers, whose households comprise the majority of the chronic poor, are largely excluded from formal social protection provision. Provision is not currently available on a universal or rights basis in most developing countries, and the appetite for universal provision among many donors and most governments is limited.

In developing contexts social protection could potentially play a redistributive role with cash transfers serving to provide a secure income, promote improved labour market engagement, and enable workers to move out of the most exploitative forms of employment, while potentially also contributing to livelihoods development and diversification. However, the scale of provision which would enable these changes is not currently available or under discussion in many developing countries, particularly LICs.

Issues Arising

Instruments

While provision remains limited in developing countries, achievements have been made in extending coverage to workers who were previously excluded in recent years across a broad range of typical social protection instruments:

- Social assistance (for formal and informal workers)
- Social insurance (including pensions)
- Subsidies (food, agricultural inputs, fuel)
- Basic income guarantees
- Tax credits
- Wage subsidies
- and tax credits
- Public Works Programmes

The impact and efficiency of these instruments varies significantly and hinge critically on the design and implementation details of alternative policies. For example, while relatively easy to implement, large scale subsidies can be distortionary, hold deadweight costs, and benefit capital more than labour, the rich more than the poor, having significant inclusion error; tax credits may function as a subsidy to capital to

maintain low wages; PWPs may be subject to corruption and fraud and may not be consistent with the needs of the working poor; and cash transfer programming may underperform due to poor targeting as a result of inaccurate or complex selection criteria and the costs of conditionality. Hence an adequate analysis of social protection instruments should take into account the potential unintended costs and effects associated with different social protection instrument design parameters.

The needs of the working age poor are included within the Social Protection Floor (SPF) Recommendation 202, ratified in 2012, but practical tools to promote the realisation of this section of the floor are weak. What is needed is not limited to unemployment compensation, but also includes means to address the challenge of employment which provides inadequate income. Existing social protection tools tend to exclude the working poor who represent a blind spot of current provision, in part due to the extreme scale of the problem they represent.

There is a need to develop innovative means for the provision of social protection (both social assistance and social insurance) in the informal sector and also to find opportunities to engage at the relevant levels of new extended global value chains. The provision of improved public services is also one approach to compensate for the impact of inadequately remunerated employment.

Government Commitment

Ideally the provision of social protection should result in an improvement in the terms of labour market engagement by providing choice and potentially also bargaining power relating to the conditions of employment. In this way provision has the potential to respond to the concerns of both the precariat and NEETs, both of which can be forces for destabilisation. There is not however a generalised commitment to universal, or even large scale coverage of provision around the world. Social protection coverage is low among formal workers in developing countries and coverage among informal and own account workers is extremely limited, and far from the ideal of being rights based with decent work for all. While the TUs and social protection proponents argue that provision represents an investment in the future, to many governments it represents, primarily an additional cost and demand on the fiscus which is not a priority with a vociferous constituency behind it.

Some governments articulate concerns relating to the role of social protection as a disincentive to work (due to the high marginal tax rate associated with some means tested provision) resulting in a negative labour supply effect, and as a disincentive to enter formal employment. These concerns underlie government reluctance for provision, but are not supported by the evidence base.

There is no corollary of the widely accepted climate-related call for action relating to a 'lower carbon economy', for social protection, in terms of a transition to a more just economy, promoting adequacy of income. There is an argument for developing a normative basis for provision based on social justice principles, following Rawls, but currently there is no consolidated international case being made for such an approach.

Financing

The provision of large scale social assistance is not self-financing and would require financing, through taxation, aid, philanthropy or mineral wealth. In many countries, efforts to extend formal social protection coverage to those previously excluded have led to the adoption of social assistance programmes primarily financed through general taxation or, in the case of LICs, through development aid. Increasingly, the debate is focusing on the sustainability implications of alternative domestic financing sources, as financing modalities have important implications for: a) the net distributional impact of policy and b) policy sustainability and legitimacy. With regards to domestic financing, the source of government revenue used matters.

There is a risk that tax based financing can be regressive where domestic tax is used to finance provision. Equitable approaches may not be politically or economically viable. However, the growing attention paid to distributional and equity concerns – in the context of increasing evidence on the persistence and worsening of inequality and its detrimental effect on growth and poverty reduction – has led to renewed interest among donors and policymakers in the distributional implications of policy financing (in addition

to spending) and consideration of the incidence and incentive effects of alternative sources of social protection financing. There are examples of reforms that have led to the extension of social assistance with financing from social insurance/contributions, for instance in Costa Rica and Brazil and as such discussing social assistance and social insurance as dichotomies can be misleading since in many countries, social insurance is, in practice, subsidised by taxes – often regressive taxes.

There is a concern that the extension of social protection in many developing countries is driven, primarily by donor and UN agencies, on the basis of a Keynesian model of the economy in which the state takes responsibility for stabilising a market economy through the adoption of social protection. However, under this model state compensation for inadequate incomes (from own or market based employment) would have significant fiscal implications if addressed to scale, and one consequence has been a state preference for the extension of privatised social security provision (eg pensions and unemployment insurance). The result has been low coverage rates, with those adversely incorporated into the economy being effectively excluded from provision due to a preference for consumption rather than participation in voluntary insurance schemes.

Implications for Social Protection Programming

The main insights relating to social protection programming that emerged from the workshop are summarised below:

1. Social protection can be conceptualised as both the compensation of market failures and an issue of entitlement and rights.
2. Growing labour market insecurity - as a result of a combination of factors including the persistence of high informality, weakening labour regulation and organisation, the rise of new forms of employment characterised by uncertainty in terms of security and access to social protection and with limited bargaining capacity in the labour market – poses a challenge to social protection provision and needs to be addressed by labour market policies aimed at making labour more secure.
3. Much labour is adversely incorporated into the economy, resulting in significant numbers of ‘working poor’, with major implications for the role and sustainability of social protection as the need for support from social protection for this category of workers persists or increases and one of its potential sources of funding remains constrained.
4. Informality is a persistent characteristic of employment in many countries and sectors. This poses a challenge to the extension of social protection coverage, particularly social insurance, and its financial sustainability. Extending social protection to informal sector workers remains a critical objective.
5. The high, and in some cases increasing, unemployment and underemployment rates among youth warrant special attention as a range of social protection instruments can be employed to address this issue.
6. Gender remains a key dimension of disadvantage, with the critical issues listed above, including informality, low-paid work, unemployment and underemployment disproportionately affecting women. Social protection programming needs to make the underlying assumptions regarding the allocation of care and other household responsibilities and the role of women in paid employment explicit and ensure that these are gender-sensitive.
7. Addressing the social protection challenge is linked with addressing labour market needs through a range of other macro and social policies which entails engagement and coordination with other ministries.
8. Contextual differentiation is required, by region, income and economic structure.

Areas for Future Dialogue and Research

A number of questions areas for further research relating to labour market and social protection were identified:

1. Where does responsibility lie for realising social protection rights in the changing global labour market? The attribution of responsibility for social protection provision becomes more complex in a globalised economic environment where both employers and workers may be mobile and participate in new forms of employment through brokers and the internet, as the extended chain of labour intermediaries confuses responsibility. The changing role of private welfare also needs to be considered in this context.
2. What are the implications of changing citizen-state relationships in relation to labour in a context of mobile labour and mobile employers?
3. How can social protection reach unorganised labour unable to claim its rights?
4. What are the options for the extension of existing and exploration of new alternatives for improving social protection coverage for workers in the informal sector, with a view to increasing policy financial sustainability as well as coverage?
5. What are the prospects for the development of alternative mechanisms for funding provision, such as a global fund?
6. What social protection policy instruments and specific instrument design parameters have successfully tackled the issue of youth un- and underemployment? Under which conditions are such policies effective?
7. What are the main assumptions regarding the allocation of care and other unpaid work among household members, the value of care work and the role of women in the labour market that underpin social protection programme design? How can social protection help promote women's labour market participation while ensuring that disadvantage in terms of pay and employment type are tackled and that good quality care to those in need is guaranteed?
8. How should social protection be linked to macro-policies, particularly relating to infrastructure, agriculture and making markets work for the poor?

ODI & EC Workshop

Labour Market Transformation in the 21st Century and the Implications for Social Protection in Low Income Countries:

Participants List

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Documents Shared by Participants

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