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CHAPTER 2 - THE GLOBAL CRISIS IN EMERGING ECONOMIES: THE JOBS IMPACT AND POLICY RESPONSE

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THE GLOBAL CRISIS IN EMERGING ECONOMIES: THE JOBS IMPACT AND POLICY RESPONSE

Introduction

1. The world economy is now emerging from the worst economic downturn since the Great Depression. The consequences of the crisis have been felt in virtually all economies, although the extent of the economic impact differs importantly across countries. The social impact of the global economic crisis may have been particularly severe in emerging economies as workers tend to be more vulnerable to shocks than their counterparts in advanced economies. Absolute poverty is still a major concern in several emerging economies and poor households have a more limited ability to cope with adverse income shocks. Moreover, employment and social policies have a more limited reach due to widespread labour informality and their effectiveness to protect the incomes of those covered may be more limited. Finally, the social consequences of the crisis may be long-lasting due to the presence of poverty traps (*e.g.* education, health).

2. Counter-cyclical macro-economic policies in most emerging economies have been allowed to operate more strongly during the crisis of 2008 and 2009 than during previous crises and, as a result, have played an important role in mitigating the economic and social costs of the global financial crisis in those economies. However, employment and social policies also have had an important role to play. In particular, they have been confronting two main challenges. First, the overall increase in unemployment and underemployment is putting considerable pressure on existing social support systems. Even in normal times, social safety nets in emerging economies have great difficulty in providing effective support to all those who need it. This raises concerns about the administrative capacity and fiscal resources available to scale up social safety nets rapidly enough to meet the increase in needs, while maintaining their effectiveness. Second, the social impact of the global economic crisis is likely to be highly uneven across population groups and it is likely that the groups that are most vulnerable in normal times do not correspond to those most affected by the crisis. This means that employment and social policies should be prepared to address the needs of very different groups of workers.

3. This chapter examines the impact of the global crisis on labour markets in emerging economies and the role of employment and social policies to support the incomes of those who need it in times of crisis. Throughout the chapter, the focus is on key emerging economies, in particular, Brazil, Chile, China, India, Indonesia, Mexico, the Russian Federation, South Africa, and Turkey. These countries are either member of the OECD (*e.g.* Chile, Mexico and Turkey) or in a process of "enhanced engagement" with the OECD.[1] The economic importance of these nine economies is substantial. Together they account for half the world's population and a fifth of the world's exports and GDP. Moreover, all countries except Chile are members of the G20.

4. The remainder of this chapter is organised as follows. Section 1 provides an initial assessment of the economic and social impact of the global economic crisis in the nine emerging economies. In order to

1. The Russian Federation has formally engaged in the process of becoming a full member and the OECD has established "Enhanced Engagement" programmes with Brazil, China, India, Indonesia and South Africa. Enhanced Engagement is a unilateral initiative by the OECD to strengthen cooperation with the countries in question.

get a better understanding of the mechanisms involved, Section 2 reviews recent crisis episodes in the selected emerging economies and discusses to what extent these past episodes are comparable with the most recent downturn. It also analyses the sensitivity of different groups to macro-economic shocks. Section 3 analyses the role of employment and social policies in times of crisis. The discussion is structured around three policy areas that have a major role to play in addressing the needs of different groups of workers in times of crisis: unemployment compensation schemes, cash transfers and public works programmes.

Main findings

- *The economic impact of the global financial crisis differs very much across the nine emerging economies and with respect to the OECD average*. It should be stressed at the outset that the global crisis was transmitted to emerging markets mainly through the collapse of world trade and the sharp reduction of capital inflows. The impact of the global crisis has been greatest in Turkey and Russia where the slowdown in economic growth has been more than twice that of the OECD area. In the Latin American countries considered in this chapter and South Africa, the economic impact has tended to be close to that of the OECD average or somewhat larger (*e.g.* Mexico). In emerging Asia, the economic impact has been considerably smaller than in the OECD area.

- *Sound macro-economic policies in most emerging economies prior to the crisis have helped to mitigate the economic impact of the crisis* by reducing the extent of the credit crunch and by enabling the adoption of effective counter-cyclical macro-economic policies. Crisis-related fiscal stimulus measures have been particularly important in China, the Russian Federation and South Africa. In contrast to previous economic downturns, social spending levels have generally been maintained. Compared with the typical pattern in OECD countries, discretionary measures have been more heavily weighted towards infrastructure and social transfers and less towards personal income tax cuts.

- The current crisis had a strong impact on labour markets in most of the emerging economies considered in this chapter:

  – *Cyclical employment declined in all emerging economies except Indonesia*. The largest cyclical declines in the employment rate are observed in South-Africa and Mexico. However, the rise in unemployment in those countries is modest by comparison, suggesting that a substantial part of the reduction in jobs was reflected by higher inactivity.

  – *The rise of unemployment in response to the decline in output has tended to be weaker in emerging economies than in the OECD area, albeit stronger than during previous crisis episodes*. The steepest rise in cyclical unemployment is observed in Turkey, where the unemployment rate increased by 3.5 percentage points, followed by the Russian Federation and Chile, where the unemployment rate increased by more than two percentage points.

  – *The importance of cyclical adjustments in real earnings relative to that in employment has been high in some emerging economies compared with the OECD average*. It is still too early to assess to what extent jobs losses and lower earnings have had an impact in reversing the recent progress in reducing absolute poverty. However, consumption growth has suffered substantially in most emerging economies.

- The recent economic downturn differs significantly from previous crisis episodes, and these differences have a significant impact on the adjustment patterns in the labour market. *While the current crisis originated from abroad, previous crisis episodes in emerging economies tended to* *have primarily domestic causes*. They typically took the form of balance-of-payments crises resulting from unsustainable current account and fiscal deficits in a context of fixed exchange rates. As a result, they tended to be associated with massive currency devaluations and high inflation which dampened the relative impact of the fall in aggregate demand on exporting firms and firms with high levels of debt.

- *Simulation evidence suggests that the negative impact of the crisis of 2008/2009 on formal employment is likely to be much larger than that during previous crisis episodes*. This is due to the fact that the impact of the current crisis is much more concentrated on the tradable sector where the share of formal employment is relatively high and more responsive to demand shocks. Moreover, most formal workers in the tradable sector who move into informal employment stay in the tradable sector, while relatively few workers move from a formal job in the tradable sector to an informal job in the non-tradable sector.

- *Similar to past crisis episodes, the current crisis is likely to affect vulnerable groups most, such as youth and the low-skilled.* In addition, these disadvantaged groups are particularly sensitive to shocks in the tradable sector, presumably because of the higher degree of labour market segmentation there. This may be a particular concern during the current crisis, since the relative size of the shock in the tradable sector is larger.

- *Policy should work on various fronts to address the needs of the different groups affected by the crisis:* the newly unemployed, households who experienced large income losses and are at risk of poverty and households that were poor prior to the crisis and may have experienced further deteriorations in their incomes. However, limited budget resources on the one hand and the availability of existing programmes on the other, may force policy-makers to give priority to the poorest groups that already benefited from income support prior to the crisis.

- Although there are substantial differences in the level of public social spending across emerging countries, *social protection is generally much lower in the emerging economies than in most OECD countries, leaving* workers *and their families more vulnerable to the consequences of the 2008-2009crisis.* Contributory insurance schemes account for the bulk of public social expenditure in most emerging countries, but, as they benefit only formal workers, their coverage tends to be limited -- especially in India and Indonesia. Social assistance expenditure, which provides the only safety net available to workers outside the formal sector, remains limited, despite increases over the past decade.

- *The relatively low coverage of unemployment compensation systems and the often low benefit level limit their capacity to provide adequate safety nets during a severe economic downturn.* However, efforts have been made to improve income support to formal-sector job losers. Measures were taken to extend coverage in Chile, to temporarily increase the benefit duration in Brazil and Chile and to raise the benefit level in Chile, Russia and Turkey. However, no measures to ease the very strict eligibility conditions to unemployment insurance have been taken in Turkey. In Mexico, Indonesia and India, dismissed formal workers have no unemployment compensation scheme to rely on.

- *Countries which have cash transfer programmes in place are in a better position to provide some protection to the poorest segments of their populations and this applies also in times of crisis.* Cash transfer programmes tend to reduce the long-term impact of the crisis on the chronically poor through income provision and, when conditional, reduced consequences on children's education and health outcomes. Reforms introduced in 2008/09 by Brazil and South Africa as part of their long-term anti-poverty strategy are likely to alleviate the crisis impact for the programmes' beneficiaries. In addition, existing programmes enable making exceptional payments to those households already identified as poor, as was the case in Chile, China and Indonesia during the recent crisis. However, due to budget constraints and limited administrative capacity, it may be difficult to reach those outside the pre-identified target population that may be at risk of poverty.

- *Public works programmes (PWPs) are better placed to provide a post-crisis safety net to the newly unemployed who are not covered by unemployment compensation schemes and are at risk of poverty*. Contrary to cash transfer programmes, targeting is generally not an issue because participants are self-selected on the basis of low wages. Extending existing PWPs can provide quick support to the most needy, as it avoids start-up costs and reduces implementation challenges. PWPs were scaled up substantially in Mexico and South Africa in 2008/09, and to a lesser extent also in Chile. In Russia, a new programme was launched to provide supplementary income support to the unemployed (especially the long-term unemployed). In times of crisis, PWPs should favour labour-intensive projects and limit non-labour costs in order to maximize the number of jobs created and provide a more effective safety net.

1. The economic and social impact of the global financial crisis

1.1. The economic crisis in emerging economies

5. The world economy is now emerging from the worst economic downturn since the Great Depression. The downturn was exceptional in terms of its depth as well as its synchronized nature. Between 2008 and 2009, the world economy contracted by 0.8% (IMF, 2010), the first such drop since World War II. The consequences of the crisis have been felt in virtually all economies irrespective of their direct exposure to the turmoil in financial markets that led to the crisis. A concise way to summarize the economic impact of the crisis in the nine emerging economies is by means of the cumulative output and growth losses. The cumulative output loss captures the total loss in output during the recession period, while the cumulative growth loss captures the total loss in output relative to the growth in output that would have occurred in the absence of the global crisis. The two measures provide the same qualitative picture (see Figure 2.1).[2]

6. The cumulative output loss varies widely across countries. In Turkey, the Russian Federation and Mexico, the total output loss was largest, amounting to 14.2%, 9.8% and 8.8% respectively. This is considerably larger than the equivalent output loss of 4.7% for the OECD as a whole. In the other emerging countries, the recession tended to be shallower than for the OECD average. Three countries, China, India and Indonesia, never went into recession - defined as having at least two consecutive quarters of negative output growth – although India's output growth dipped briefly into negative territory during 2008Q4. However, looking at the cumulative output loss associated with recessions is potentially misleading as it does not take account of the very different starting points when countries were hit by the global crisis. Indeed, all selected countries tended to outperform the OECD area in terms of their underlying GDP growth at the onset of the global economic downturn, with growth rates ranging from 3.3% in Mexico to 10.7% in China in 2007 compared with 3.1% for the OECD area as a whole. As a result, the absolute output loss tends to understate the economic impact of the global crisis in the countries considered in this chapter.

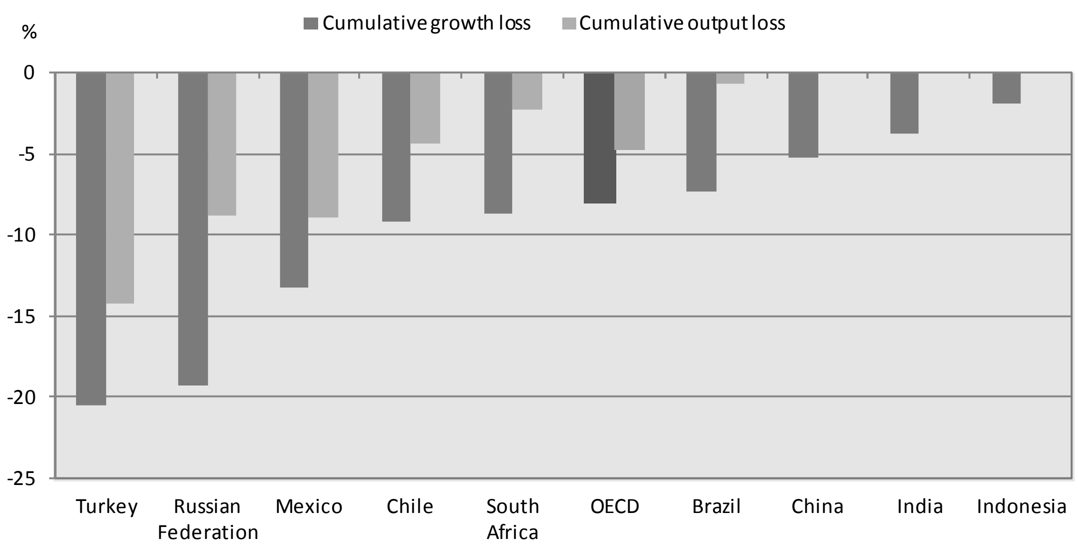
7. The economic impact of the global crisis is considerably larger when taking account of cross-country differences in pre-crisis growth rates at the onset of the global crisis. As before, this measure

2. The growth loss figures are still preliminary as, at the time of writing, not all countries had made a full recovery relative to the pre-crisis trend.

singles out the Russian Federation and Turkey as the most severely affected economies. Using GDP trends over 2005-2008 as a benchmark, GDP was about 20% smaller than it would have been in the absence of the crisis. This is more than double the cumulative growth loss of the OECD as a whole. The growth loss in Mexico was also substantially larger than that for the OECD, amounting to 13%. In Chile, South Africa and Brazil, the cumulative growth loss was similar to that of the OECD. In China, India and Indonesia, the growth output loss was relatively modest, ranging from 2% in Indonesia to 5% in China.

8. The remainder of this sub-section discusses how the global crisis was transmitted to emerging economies and why its economic impact has been so different across countries.[3] It will first discuss the main channels of transmission in the form of trade and financial linkages and conclude with a brief discussion of the macro-economic policy response.

Figure 2.1. **All countries have been affected to some extent by the global crisis of 2008 and 2009**



Note: The cumulative growth loss is defined as the total loss in output relative to the growth in output that would have occurred in the absence of the global crisis based on the pre-crisis trend. Trend growth is defined as the average annual growth rate over the period 2005-2008. The cumulative output loss is defined as the total loss in output during the period in which output growth was negative.

Source: OECD Main Economic Indicators, World Bank for China, OECD calculations.

Export demand plummeted…

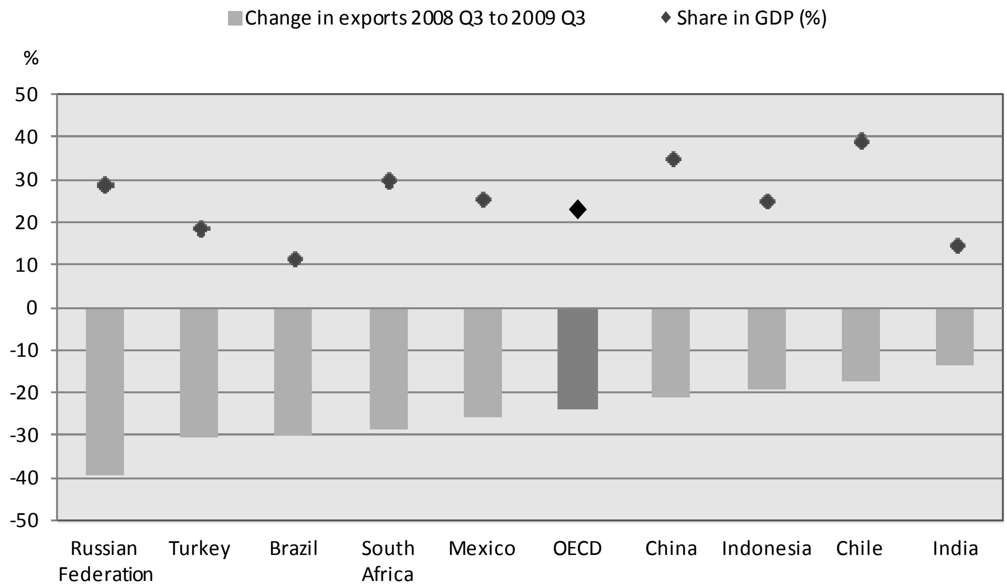
9. The first main channel through which the economic downturn in advanced economies has been transmitted to emerging economies is international trade. The importance of trade has increased across the globe in recent decades, but particularly so for the emerging economies. Due to a combination of political, economic and geographic factors, many of these economies were not closely linked to the world economy in the early 1980s. However, as a result of significant political changes, increasingly export-oriented economic policies and declining trade costs, these countries have all become important trading economies. Yet, the increased integration in the world economy has also meant that they have become more vulnerable to adverse economic shocks in advanced countries. This may be particularly important for Chile and China where exports accounted for about 40% and 35% of GDP respectively in 2008, considerably above the OECD average, while the vulnerability to trade shocks of Brazil and India remains modest with exports accounting

3. So far, only a few studies that have attempted to assess the relative importance of different explanations. See, Berkman *et al*. (2009) and Rose and Spiegel (2009).

for around 15% of GDP (see Figure 2.2). While the ratio of exports to GDP may provide a first indication of the exposure of emerging economies to economic shocks in advanced economies, a full understanding of the role of trade also requires an examination of bilateral trade patterns and the domestic content of exports.[4]

10. As a result of the economic crisis in the US and other advanced economies, world trade plummeted during the last quarter of 2008 and the beginning of 2009. The contraction in world trade was more than eight times larger than that in world output. The proportional response of world trade to world demand also appears to have been substantially stronger than that observed in the past. This is attributed to the growing importance of international production networks and the impact of the credit crunch on trade finance (Cheung and Guichard, 2009; Freund, 2009). Consequently, foreign demand for domestic production has been hit hard in all emerging economies. In addition, large net exporters of natural resources and agricultural commodities such as Chile and the Russian Federation also suffered from a substantial deterioration in the terms of trade brought about by the fall in prices for primary commodities. Over the year to 2009Q3, the decline in the value of exports ranges from almost 10% in India to almost 35% in the Russian Federation (Figure 2.2). The relatively modest decline in India, and to a lesser extent also in China and Indonesia, may reflect the relative importance of South-South trade for those countries. Despite the sharp fall in world trade, world exports have rebounded fairly quickly.

Figure 2.2. **The impact of the global financial crisis on exports**



Source: OECD Main Economic Indicators database, calculations OECD.

4. Indeed, the view that the increased integration of emerging economies in the world economy has increased their vulnerability to adverse economic shocks in advanced countries has been challenged by the 'decoupling hypothesis' which gained popularity in the run-up to the global financial crisis. The decoupling hypothesis argues that business cycles in emerging economies have grown more independent in recent years, because of the increased importance of domestic demand, the relatively low domestic content of exports and South-South trade. The modest slowdown in output growth during the global financial crisis in emerging Asia (see Figure 2.1) may be a first indication that this is the case. Kose *et al.* (2008) provide empirical evidence in support of the decoupling hypothesis.

… and credit has been severely restricted in some emerging economies

11. Financial linkages represent the second main channel through which the crisis was transmitted to emerging economies. While the direct effect of the credit crunch in advanced economies on the availability of domestic lending in emerging economies has been relatively modest due to the lack of exposure of domestic financial institutions to subprime mortgages and other complex derivatives, credit has been severely restricted in a number of emerging economies, due to "sudden stops", the rapid and drastic decline in private capital inflows.[5] The largest proportional declines are observed for bank lending and portfolio investment (IMF, 2009a). However, even foreign direct investment inflows, which traditionally have tended to be less sensitive to the business cycle and represented the most important source of external finance in emerging economies before the crisis, have declined sharply between 2008 and 2009 (see Figure 2.3). This is particularly important for Turkey where FDI inflows fell by about 60% and Brazil, Mexico and Indonesia, where FDI inflows fell by about 50%. In emerging Asia, the decline in the availability of external finance, as measured by FDI inflows, has been limited. These trends play an important role in explaining the steep decline in private sector investment and output growth.[6]

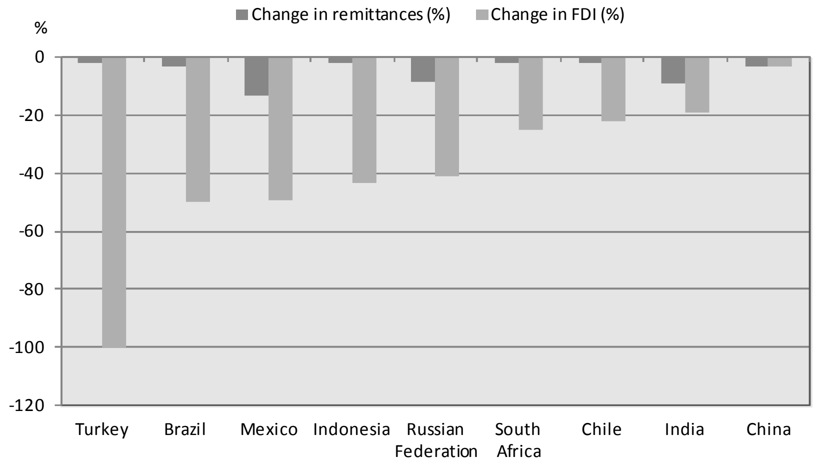
12. International transfers in the form of remittances or public aid also declined during the economic downturn. While the overall importance of remittances in emerging economies in terms of GDP is relatively limited, a decline in such transfers may have important distributional implications as they tend to be more important for poor households. Remittances inflows amounted to less than 5% of GDP in 2008 in all the emerging economies considered here.[7] The World Bank estimates that remittances declined in all selected emerging economies between 2008 and 2009 (see Figure 2.3). The global nature of the crisis implies that the current decline stands in contrast to the experience in previous economic downturns during which migrants tended to increase remittances to support the incomes of their relatives. Indeed, as migrants in host countries are also suffering from the global crisis and typically much more than their native counterparts (OECD, 2009c), they have reduced their remittances. Moreover, the level of official development aid (ODA) is tied to the level of GDP and since GDP has declined in most donor countries, development aid may also be expected to decline. More importantly, according to OECD estimates, several large donors are expected to fall short in 2010 of their aid commitments made at Gleneagles in 2005, which may partly be a result of the large increase in fiscal deficits in these donor countries.

5. Reinhart and Rogoff (2008, 2009) suggest that the vulnerability of emerging economies to *sudden stops* may explain why output contractions in the past have tended to be greater in emerging markets than in developed countries, but also more short-lived.

6. In five of the selected countries, the growth rate of gross fixed capital formation has fallen sharply over the year to 2009Q2 and substantially more than in the OECD area as whole. However, in emerging Asia and South Africa, investment growth has kept up fairly well and there is little evidence that the global economic crisis has had a large impact on the availability of credit in those countries.

7. In 2008, remittances were most important in India and Mexico, amounting to 4.2% and 2.4%, respectively.

Figure 2.3. **The impact of the global financial crisis on foreign direct investment and remittances inflows**



Source: World Bank staff estimates of remittances flows based on the International Monetary Fund's Balance of Payments Statistics Yearbook 2008; National Central Banks or UNCTAD estimates for FDI flows.

Macro-economic stabilization efforts prior to the crisis helped to dampen the impact of the global crisis

13. Most emerging economies considered in this chapter have made significant progress towards macro-economic stability. This helped to dampen the economic impact of the global crisis. Low current account and fiscal deficits have helped to limit the reduction in capital inflows, re-establish financial stability and prevent wider systematic damage (IMF, 2009a). Moreover, low inflation levels at the onset of the crisis enabled a strong monetary policy response whereas relatively low fiscal deficits enabled countercyclical fiscal policies to operate. Compared with OECD countries, where policy interest rates soon approached zero, there has generally been more scope for monetary easing in emerging economies.[8] Table 2.1 provides an overview of the role of fiscal policy during the global crisis in the selected emerging economies. It shows that, while the role of counter-cyclical fiscal policy has tended to be more important in advanced economies due to the greater importance of automatic stabilizers, it has been much more important in the emerging economies than in the past thanks to the improved state of public finances. In contrast to previous economic downturns, social spending levels have generally been maintained, although it is not clear to what extent social spending has also increased in proportion to the increase in needs (see Section 3). The role of discretionary fiscal stimulus measures related to the crisis has tended to be somewhat more important, on average, in emerging economies than in advanced countries. Discretionary fiscal stimulus packages have been particularly important in China[9], the Russian Federation and South-Africa.[10] Compared with advanced economies discretionary measures are

8. At least, in those emerging economies with fully flexible exchange rates. Russia and China are notable exceptions due to the exchange-rate orientation of monetary policy.

9. According to Khatiwada (2009), the fiscal stimulus programme in China will account for 13% of China's GDP in 2009, which would be the highest in the world. This is much larger than that suggested in Table 2.1 based on information from the IMF. The fiscal stimulus programme in China mainly focuses on infrastructure and post-earthquake reconstruction, but also includes additional spending on education, health, environment protection and industrial upgrading.

10. In Chile, not included in Table 2.1, the overall package of fiscal stimulus accounts for about 1.8% of GDP, excluding recapitalisation measures (OECD, 2010a). This is close to the OECD average. Chile increased spending on several temporary programmes (public works, a one-time cash allowance for low-income households, a temporary increase in subsidies for training measures) and various tax reductions. The government also brought forward more permanent reforms including the extension of unemployment benefits to workers with fixed-term contracts and the introduction of a wage subsidy for young low-wage workers.

more heavily weighted towards infrastructure (*e.g.* China and South-Africa) and social transfers (*e.g.* the Russian Federation) and less towards personal income tax cuts (IMF, 2009b).

Table 2.1. **Fiscal policy during the global financial crisis**

	Overall fiscal balance			Overall change in fiscal balance from 2007					
				2009			2010		
	(Pre-crisis)	2009	2010	Total	Crisis-related discretionary measures	Other factors	Total	Crisis-related discretionary measures	Other factors
Brazil	-2.8	-3.8	-1.2	-1	-0.6	-0.4	1.6	-0.6	2.1
China	0.9	-3.9	-3.9	-4.8	-3.1	-1.7	-4.8	-2.7	-2.1
India	-4.4	-10.4	-10	-6	-0.6	-5.4	-5.6	-0.6	-5
Indonesia	-1.2	-2.6	-2.1	-1.4	-1.4	0	-0.9	-0.6	-0.2
Mexico	-1.4	-4.9	-3.7	-3.5	-1.5	-2	-2.3	-1	-1.3
Russian Federation	6.8	-6.6	-3.2	-13.4	-4.1	-9.3	-10	-1.3	-8.6
South africa	1.2	-4.4	-4.7	-5.6	-3	-2.6	-5.9	-2.1	-3.8
Turkey	-2.1	-7	-5.3	-4.9	-1.2	-3.7	-3.2	-0.5	-2.7
Advanced economies	-1.9	-9.7	-8.7	-6.3	-1.9	-4.4	-6.5	-1.6	-4.8
Emerging economies	0.3	-5.1	-4.1	-5.4	-2.2	-3.2	-4.4	-1.6	-2.8

Note: Advanced economies: GDP PPP-weighted average of advanced G20 countries. Emerging economies: GDP PPP-weighted average for emerging economies in the G20.
Source: IMF (Horton *et al*, 2009)

1.2. The impact of the crisis on labour markets in emerging economies

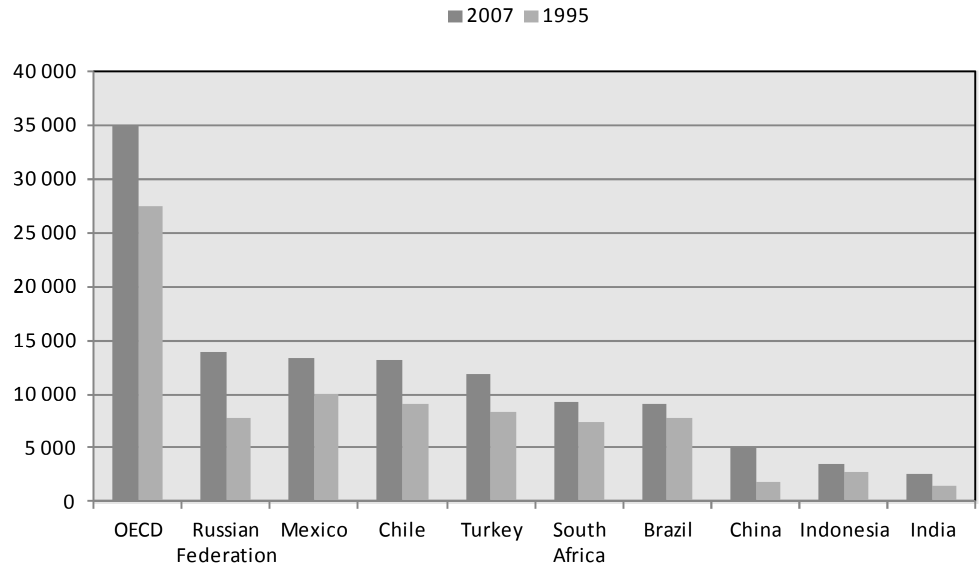
14. While the economic impact of the global crisis differs widely across the emerging economies considered in this chapter, they all have been adversely affected. This section focuses on the social implications of the crisis. It first discusses why workers in emerging economies may be more vulnerable to shocks than their counterparts in advanced economies. It subsequently proceeds with a discussion of the actual impact of the economic slowdown on labour markets in emerging economies.

Poverty remains worrisomely high in emerging economies despite good progress in recent years

15. The emerging economies considered in this chapter all have substantially lower levels of GDP per capita than the OECD area as a whole (see Figure 2.4). In the Russian Federation, the most developed of the emerging economies, GDP per capita amounted to just 40% of the OECD average (or slightly less than USD 14000 at 2005 constant prices), while in India, the least developed of the selected countries, GDP per capita only amounted to 7% of the OECD average (or USD 2600). Nevertheless, most emerging economies have made significant progress during recent years. In China, GDP per capita increased by 175% over the period 1995-2007 (equivalent to 15% per year), raising its GDP per capita relative to the OECD from 7% in 1995 to 15% in 2007. In India and the Russian Federation, GDP per capita also increased rapidly by 86% and 77% respectively (or 7% and 6% per year), while in Chile, Turkey and Mexico it also grew substantially more rapidly than in the OECD as a whole. In Brazil, Indonesia and South Africa, growth was somewhat slower than that of the OECD average.

Figure 2.4. **GDP per capita is much lower in emerging economies than in the OECD area**

Constant dollars, PPP 2005



Source: World Development Indicators database, World Bank.

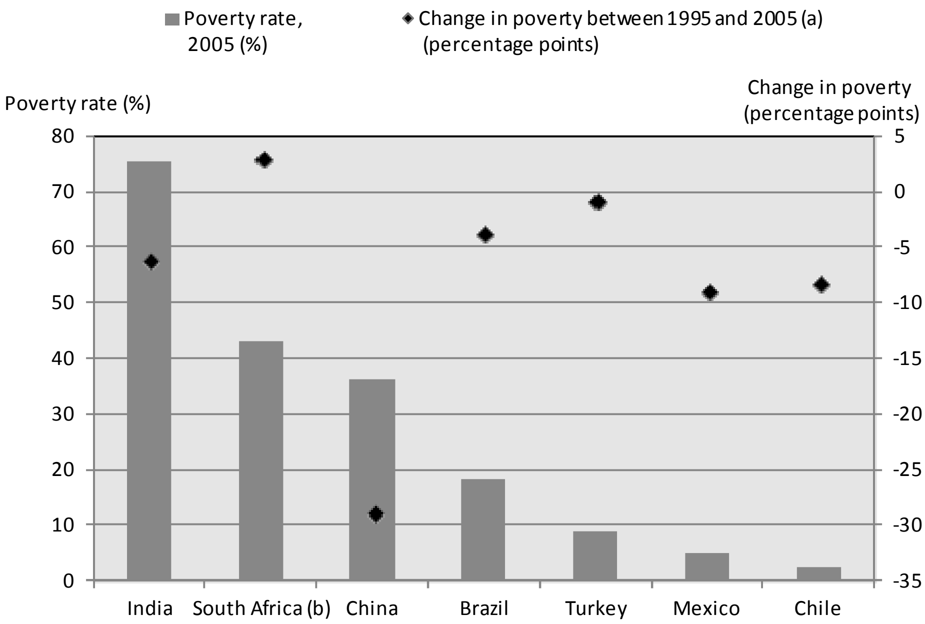
16. High levels of absolute poverty provide another indication of the potential vulnerability of households in emerging economies to aggregate shocks as poor households tend to have a more limited ability to cope with adverse income shocks. Figure 2.5 presents the share of the population living on less than USD 2 a day, a standard benchmark of absolute poverty, in 2005, as well as the percentage-point change between 1995 and 2005. In 2005, absolute poverty was most widespread in India, South Africa and China where respectively 76%, 43% and 36% of the population was living below the poverty line. In Brazil and Turkey, absolute poverty also remains substantial with respectively 18% and 9% of the population living on less than USD 2 a day. In Chile and Mexico, absolute poverty is relatively limited with absolute poverty rates below 5%. Despite high levels of absolute poverty, all emerging economies under review but South Africa have made significant progress over the past decade. The reduction in absolute poverty in China has been spectacular. In just nine years, the proportion of the population living on less than USD 2 a day has declined from 65% to 36%.[11]

17. The global financial crisis may reverse the positive trends in GDP per capita and poverty reduction that characterized most emerging countries since the early 1990s. The World Bank (2009a) estimates that an additional 120 million people may be pushed into absolute poverty by the end of 2010 in the developing world. Moreover, it is not necessarily the case that countries will automatically return to pre-crisis levels in poverty as the economy recovers due to the presence of poverty traps. Families that fall into poverty may feel forced to take their children out of school or economize on preventive health care. As such decisions may be difficult to reverse, this could permanently compromise the future labour market prospects of children and the health situation of households (see Section 3). As a result, a temporary rise in

11. In Chile and Mexico, the share of the population living in absolute poverty has fallen by about two thirds. In India, the poverty rate has fallen modestly by 6% percentage points between 1994 and 2005 and poverty remains very high. In the transition period following the end of Apartheid in South-Africa in 1994, the poverty rate increased by almost 5% percentage points.

poverty may have long-lasting effects for the welfare of households and the growth potential of the economy as a whole.

Figure 2.5. **Absolute poverty rates are high in some emerging economies**



a) China: 1996-2005; India 1994-2005; Chile, Mexico, Turkey: 1994-2006.

b) Data refer to period 1995-2000.

Source: World Development Indicators, World Bank.

Large parts of the workforce are left unprotected by labour market institutions and social security

18. The second reason why the social impact may be particularly large in emerging economies is because of widespread informal employment. There is no universally accepted definition of informal employment (see OECD, 2004, 2008a and 2009 and Perry *et al.*, 2007 for an overview). For the present purposes, informal employment is defined as "employment engaged in the production of legal goods and services where one or more of the legal requirements usually associated with employment (such as registration for social security, paying taxes or complying with labour regulations) are not complied with" (OECD, 2008a, p. 84). In the context of an economic downturn, the main concern with informal employment is that the needs of informal workers and their families are difficult to address with the main instruments of labour market and social policy (*e.g.* employment regulation, social assistance, unemployment insurance, and active labour market programmes).

19. In order to provide empirical content to the conceptual definition of informal employment presented above, two measures of informality are used in this chapter. The first measure focuses on social-security registrations. This is the preferred definition for the purposes of this chapter as it gives an indication of the extent to which workers can access social security provisions when they confront adverse labour market outcomes.[12] The main limitation is that information on social-security registrations is not available for all

12. The share of workers affiliated to social security is measured across all groups of workers (*e.g.* salaried, self-employed, own-account *etc.*). As a result the empirical definition of formal employment is not fully

countries. To address this shortcoming, a second definition is used based on the occupational status of workers, and in particular, the share of self-employed in total employment. While this definition is often used for cross-country comparisons, it only provides a very rough indication of the importance of precarious jobs in the economy.[13] Figure 2.6 presents the level of informality according to the two definitions in 2005, as well their evolution during the past decade. For details on the precise definitions for each country, see Annex 2.A2.

20. Figure 2.6 confirms that informality appears to be widespread in emerging economies irrespective of the particular measure used. The share of workers at the onset of the crisis not affiliated to any social security programme in total employment ranges from 25% in South Africa to 55% in Mexico, while the share of self-employment over the total ranges from 7% in the Russian Federation to almost 70% in Indonesia. Notwithstanding pervasive informality in most emerging economies, there is some evidence of a decline in informality in recent years as illustrated by the decline in the share of workers not affiliated to any social security programme, [14] although the share of non-salaried workers has tended to increase in some countries.[15] The rise in the share of workers affiliated to social security programmes is encouraging in its own right as this means that an increasing share of the workforce will be entitled to social security benefits, but also may indicate that average job quality has increased as workers who are entitled to social security benefits also tend to benefit from better wages and working conditions.[16] Indeed, the growing formalization of emerging economies in recent years is likely to have contributed to the decline in poverty documented in Figure 2.5.

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consistent with the conceptual definition based on compliance as self-employed and own-account workers are generally not required to register for social security.

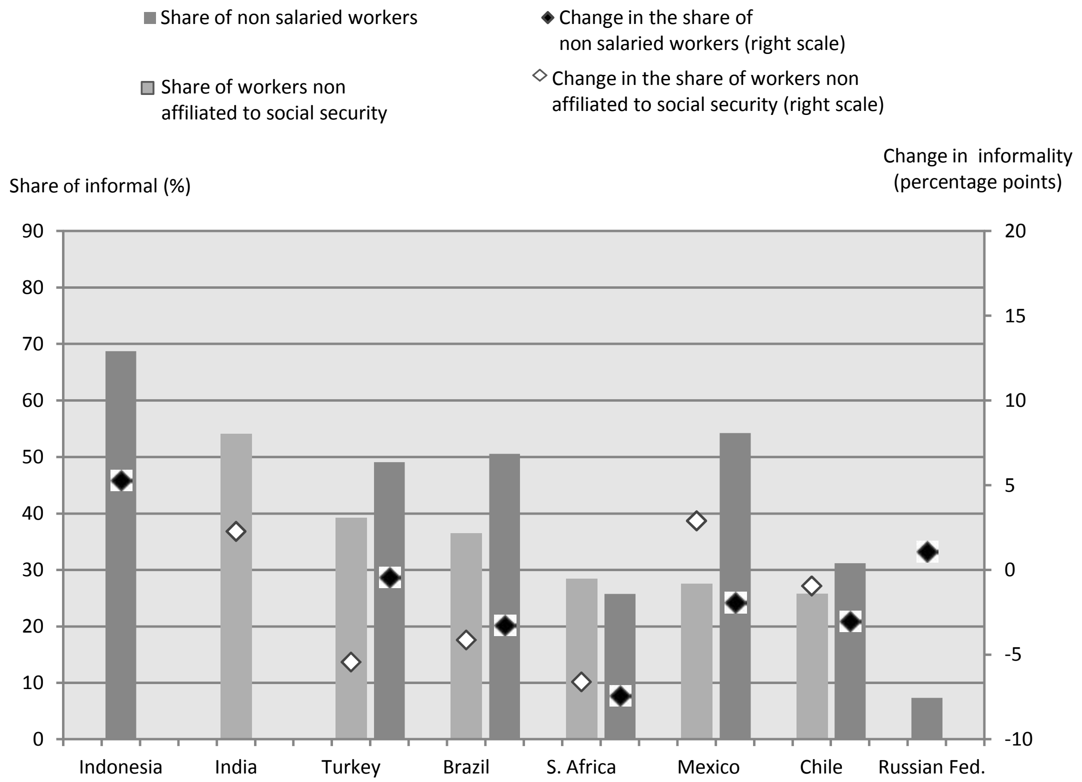
13. The self-employed are a notoriously heterogeneous group consisting of entrepreneurs, professionals and subsistence workers (see Perry *et al.*, 2007). As a result, in some countries average earnings among the self-employed exceed those of salaried workers. Moreover, it implicitly assumes that all salaried workers have access to social security provisions, which is far from being the case in practice.

14. To an important extent, this decline may be attributed to the ongoing process of urbanization that characterizes many of the emerging economies considered here. However, also within the agricultural and non-agricultural sectors, there is some evidence that informality has declined (see Annex 2.A2).

15. However, it more difficult to interpret changes in the share of self-employed given the wide heterogeneity in individuals included in this group.

16. It is more difficult to interpret the changes in the share of self-employed given the wide heterogeneity of individuals included in this group.

Figure 2.6. **Informal employment is widespread in most emerging economies**



a) Data refer to 1995 to 2005 for Brazil, 1996 to 2006 for Chile, 1994 to 2003 for urban areas in Mexico, 1994 to 2004 for India, 1996 to 2004 for Indonesia, 1996 to 2005 for Russia, and 2000 to 2005 for Turkey and South Africa.

b) Data on the number of workers affiliated to social security are not available in Indonesia, India and the Russian Federation.

Source: OECD calculation based on national labour force surveys: Brazil (PNAD), Chile (CASEN), Indonesia (SAKERNAS), Mexico (ENEU), Turkey (LFS), Russian Federation (LFS), South Africa (LFS) and India (the Employment and Unemployment Survey of Households). For more details on the definitions used, see Annex 2.A2.

21. Bearing in mind the often widespread informality and persistent poverty among working households, aggregate labour market indicators reveal significant differences among emerging economies and with respect to the OECD (see Table 2.2). In most emerging economies, the share of the working-age population in employment tends to be somewhat lower than that for the OECD as a whole and in some cases much lower (*e.g.* Turkey and India).[17] Lower employment rates typically reflect lower female participation in the labour force related to cultural norms and high fertility rates.[18] In most of the emerging

17. In four out of the seven countries for which data on the share of the population aged 15 and above in employment are available, the employment rate does not appear to be substantially lower than that of the OECD average. However, cross-country comparisons based on the population aged 15 and above are misleading as life expectancy tends to be considerably higher in the OECD area than in emerging economies. As employment rates among the elderly tend to be very low, this causes the OECD employment rate to look much lower than it really is. Changing the focus from the population aged 15 above to the working-age population (15-65) increases the OECD's employment rate from 58% in 2008 to 66%. For Mexico and Turkey, where life expectancy is lower, restricting the focus to the working-age population only marginally increases the employment rate (from 58% to 60% in Mexico and from 43% to 45% in Turkey).

18. China may be an important exception among emerging economies by having higher labour force participation than the OECD. The latest OECD China Economic Survey suggests that the employment rate may be close to 85%, considerably higher than the OECD average. This may be based on the implicit assumption that the entire rural working-age population is in employment (OECD, 2010b).

economies considered here, unemployment rates tend to be similar or slightly higher than that of the OECD. A notable exception is South Africa where high and persistent unemployment presents a major social concern, with unemployment rates consistently above 20%.[19]

Table 2.2. **Recent trends in labour market outcomes**

Population aged 15 and above, not seasonally adjusted

Panel A: Employment rate

	Annual						Quarterly							
	1995	2000	2005	2007	2008	2009	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4
OECD average	55.0	56.6	57.1	58.0	58.1	..	57.1	58.2	58.0	57.3	56.0	56.3	56.1	..
Brazil[a]	64.2	61.1	62.9	63.0	63.7	..	56.9	57.4	57.9	58.7	56.8	56.7	57.4	57.8
Chile	50.8	49.1	50.4	51.0	51.7	50.5	52.1	51.6	51.3	51.8	51.3	50.3	49.8	50.6
China	..	..	..	..	..	..	..	..	..	..	..	..	..	..
India	47.7	46.8	48.0	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	60.0	60.7	61.6	..	61.6	61.6	61.5	61.8	62.1	..	..	..
Mexico	54.8	58.1	57.2	58.0	57.7	56.7	57.7	58.3	57.6	57.0	56.2	56.4	56.9	57.4
Russian Federation	59.0	58.5	61.1	63.0	63.4	62.1	62.1	64.0	64.5	63.1	60.6	62.0	63.3	62.4
South Africa	..	45.7	43.4	44.5	44.6	42.5	44.5	44.7	44.3	44.8	44.0	43.0	41.3	41.6
Turkey	50.0	46.7	41.5	43.1	43.2	..	40.6	44.7	44.9	42.4	38.5	41.6	42.7	..

Panel B. Unemployment rate

	Annual						Quarterly							
	1995	2000	2005	2007	2008	2009	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4
OECD average	8.7	7.0	6.9	5.8	5.8	..	5.9	5.6	5.7	6.1	7.6	7.8	8.0	..
Brazil[a]	6.0	9.6	9.3	8.1	7.1	..	8.4	8.1	7.8	7.3	8.6	8.6	7.9	7.2
Chile	7.3	9.7	9.2	7.1	7.8	9.6	7.4	8.0	8.1	7.5	8.6	10.2	10.6	9.2
China[b]	..	8.7	8.1	6.1	5.7	..	..	..	..	..	..	..	..	..
India	2.7	2.8	3.2	..	..	..	..	..	..	..	..	..	..	..
Indonesia[c]	..	..	10.8	9.3	8.4	..	8.5	8.4	8.4	8.3	8.1	..	..	..
Mexico	6.2	2.5	3.6	3.7	4.0	5.5	3.9	3.5	4.2	4.3	5.0	5.2	6.3	5.3
Russian Federation	8.3	10.5	7.6	6.1	6.4	8.4	6.7	5.7	5.9	7.1	9.1	8.5	7.8	8.0
South Africa	..	23.3	23.9	22.3	22.9	24.0	23.5	23.1	23.2	21.9	23.5	23.6	24.5	24.3
Turkey	7.6	6.5	10.6	8.5	9.4	..	10.3	7.8	8.7	10.9	14.2	12.2	12.1	..

Panel C. Participation rate

	Annual						Quarterly							
	1995	2000	2005	2007	2008	2009	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4
OECD average	60.1	60.8	61.2	61.4	61.5	..	60.5	61.5	61.4	60.9	60.5	61.0	60.9	..
Brazil[a]	68.3	67.7	69.3	68.6	68.6	..	62.1	62.4	62.8	63.3	62.1	62.0	62.4	62.3
Chile	54.8	54.4	55.5	54.9	56.0	55.9	56.2	56.1	55.9	56.0	56.1	56.1	55.7	55.7
China	..	..	..	..	..	..	..	..	..	..	..	..	..	..
India	49.0	48.1	49.6	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	67.2	66.9	67.3	..	67.3	67.3	67.2	67.4	67.6	..	..	..
Mexico	58.9	59.7	59.3	60.2	60.0	60.0	60.1	60.4	60.2	59.5	59.2	59.4	60.7	60.6
Russian Federation	65.1	65.5	65.8	67.1	67.7	67.8	66.8	67.6	68.5	67.8	66.9	67.8	68.7	67.8
South Africa	..	59.5	56.9	57.3	57.8	55.9	58.2	58.1	57.7	57.4	57.5	56.3	54.8	55.0
Turkey	54.1	49.9	46.4	47.1	47.6	..	45.2	48.4	49.2	47.6	44.9	47.4	48.6	..

a) Quarterly data refer only to the metropolitan areas and are therefore not representative of the entire labour market.

b) The unemployment rate is measured as a percentage of the estimated urban non-agricultural labour force. If the labour force were taken as the total urban labour force, then the unemployment rate would be 0.7 percentage points lower.

c) Data for Indonesia are not harmonized. The unemployment rate is higher than it would be based on the harmonized definition as it includes discouraged workers.

Source: National LFS and EULFS for Turkey from 2007onwards. Data for Mexico prior to 2005 for employment and participation come from the SEDLAC database. Annual data for Brazil come from the PNAD and refer to the entire country, quarterly data come from PME and refer to the metropolitan areas only.

Cyclical employment increased in all emerging economies except Indonesia

22. In order to get an idea of the impact of the global financial crisis, Figure 2.7 represents the cyclical changes in the employment and unemployment rates during the slowdown in economic growth.[20]

19. This largely reflects the geographic fragmentation of the economy that was inherited from the Apartheid regime (OECD, 2008b).

20. That is the period during which output growth fell below trend.

All countries except Indonesia where the employment rate continued to rise was marginal,[21] experienced a cyclical reduction in employment. The largest cyclical decline in the employment rate is observed in South-Africa where it fell by 3 percentage points. In Mexico, the cyclical decline in the employment rate was slightly above that of the OECD average (which equalled 1.5 percentage points), while in other emerging economies the cyclical decline in employment tended to be smaller than that of the OECD average. The cyclical increase in the unemployment rate is comparatively small to the cyclical decline in the employment rate in South-Africa and Mexico. This means that changes in employment tend to be associated more strongly with changes in labour force participation in those countries than with change in unemployment. The steepest rise in unemployment is observed for Turkey, where the cyclical unemployment rate increased by about 3.5 percentage points, similar to the increase in the United States. The relatively large increase in the unemployment rate in Turkey, and to a lesser extent also in Chile, reflects the relatively low level of labour force participation in those countries as compared to the OECD average. The strong increase in the unemployment rate relative to the decline in employment in the Russian Federation may reflect institutional reforms to the unemployment benefit system (see Section 3).[22]

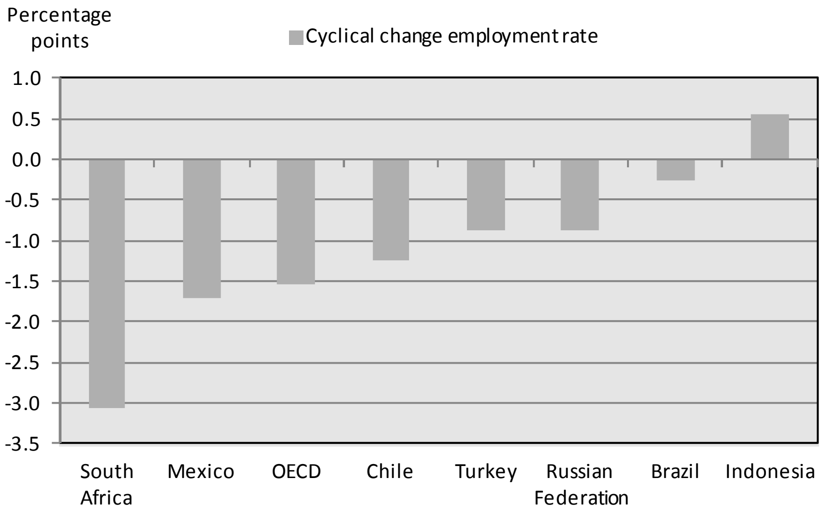
23. The rise in the unemployment rate in response to the cyclical decline in economic growth has tended to be weaker in emerging economies than in the OECD area as whole, but may have been stronger than during previous crisis episodes. Figure 2.7 shows that the response in unemployment to the slowdown in economic growth has been smaller in all emerging economies than in the OECD. In countries where unemployment insurance does not exist or its coverage is poor, job losers in the formal sector may move into informal employment in order to maintain some income during the slowdown. However, it may also reflect the relative importance of adjustments on the *intensive* margin such as reductions in average hours and pay in accommodating the slowdown in output growth. In countries for which it is possible to compare the unemployment response during the current slowdown with previous crises (*e.g.* Mexico and Turkey), the response of the unemployment rate to the slowdown appears to be substantially larger during the current crisis (OECD, 2010c). This largely reflects the very different nature of the global economic crisis from previous crisis episodes. Since the current crisis more strongly affects firms that rely more heavily on formal employment - such as exporting firms and firms with high levels of debt -, this may increase the impact of current crisis on unemployment relative to previous crisis episodes. Moreover, previous crisis episodes were often associated with large currency depreciations, which encouraged adjustments on the wage margin through price inflation (see Section 2).

21. However, the World Bank reports that most new jobs are in the informal sector, especially for women.

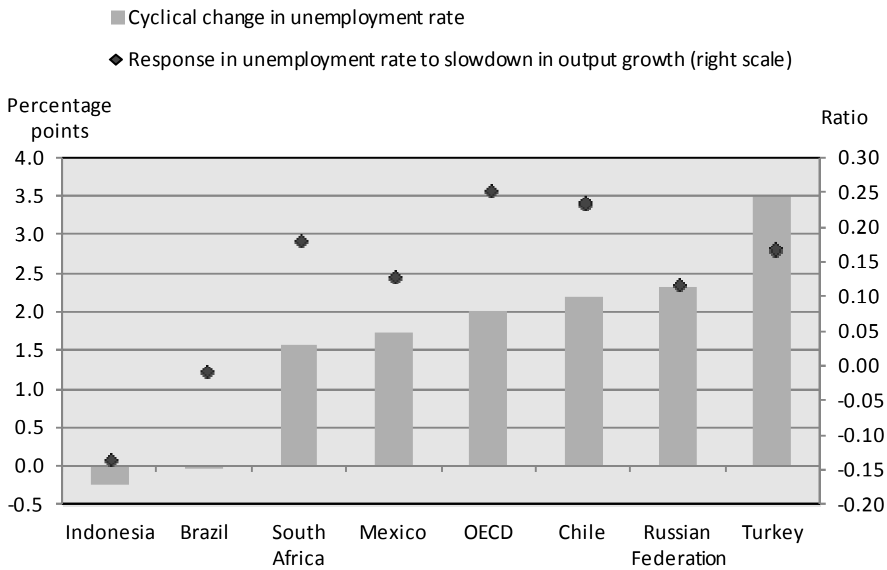
22. In Brazil, unemployment initially reacted sharply to the slowdown but quickly returned to pre-crisis levels.

Figure 2.7. **The impact of the growth slowdown on employment and unemployment**

Panel A. The cyclical decline in the employment rate



Panel B. **The cyclical increase in the unemployment rate**



Note: Harmonized unemployment rates except for Indonesia for which the national definition is used that considers discouraged workers as unemployed. Cyclical changes are calculated over the economic slowdown period with respect to the pre-crisis trend. All data are seasonally adjusted.

Source: OECD Main Economic Indicators, OECD's calculations.

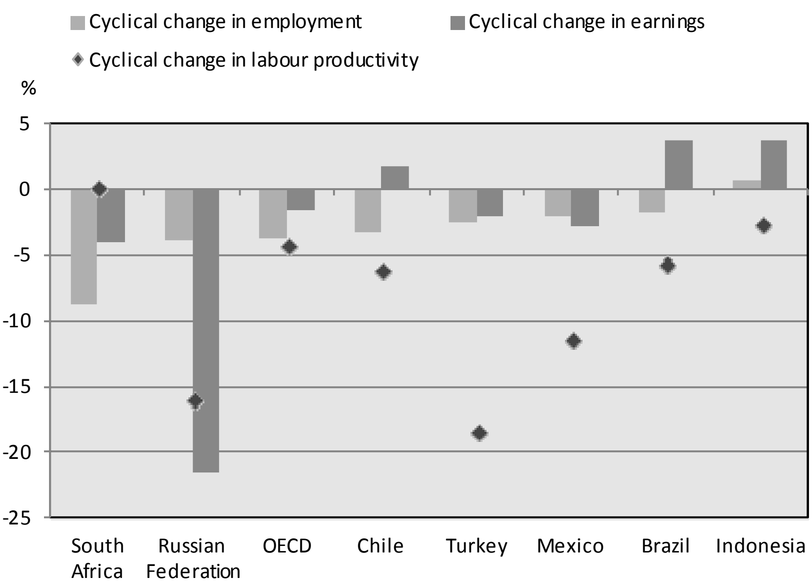
In a number of emerging economies cyclical adjustments in real earnings have been quite important

24. The relative importance of adjustment on the employment and earnings margins differs considerably across countries (Figure 2.8, Panel A). In some countries, the cyclical change in real earnings relative to that of employment has been more important than in the OECD (*e.g.* Russian Federation,

Mexico, Turkey and South-Africa),[23] while in other emerging economies most of the adjustment appears to have taken the form of job losses (*e.g.* Chile, Brazil). The absence of a systematic pattern across emerging economies during the current crisis is noteworthy as during previous crisis episodes a substantial part of the adjustment in these economies has tended to take place on the earnings margin. This largely reflects the fact that most previous crisis episodes in those countries were associated with high price inflation, which enhances the scope for adjustment on the earnings margin without requiring a reduction in nominal wages.[24] This has meant that in the past labour productivity was not only more variable over the cycle, but also that earnings have been more responsive to changes in labour productivity. The relatively smaller scope for adjustment on the earnings margin during the current crisis may make it more difficult for firms to restore profitability quickly now than in the past and slow down the recovery. During the current crisis, negative adjustments on the earnings margin appear to reflect reduced working time in Turkey and Brazil, similar to the average experience in the OECD, while in Mexico cyclical reductions in average hours and real wages both account for a similar share of the cyclical decline in earnings (Figure 2.8, Panel B). The relative importance of adjustment on the earnings margin in some countries suggests that the policy response should not just focus on job losers but also on workers who managed to stay in employment during the slowdown (not necessarily in the same job), but have seen their incomes substantially reduced.

Figure 2.8. **Adjusting the wage bill to the slowdown**

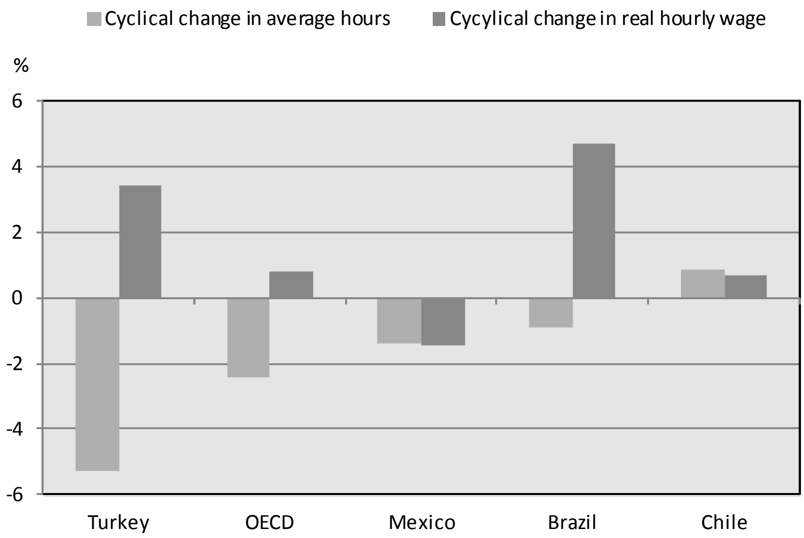
Panel A. The relative importance of the extensive and intensive margins



23. The very large growth loss in earnings in the Russian Federation documented in Figure 2.8, Panel A, reflects mainly the exceptionally fast growth in real earnings during the period 2005-2008, although real earnings have also declined substantially during the crisis period in absolute terms. Nevertheless, the figure also indicates that the slowdown in earnings growth exceeds that in labour productivity growth which is somewhat odd. This may reflect the fact that the various data series do not cover exactly the same population. For example, earnings only cover the manufacturing sector whereas labour productivity covers the entire economy.

24. However, nominal wage rigidities may also be less important in emerging markets due to the weaker role of trade unions and the greater importance of informal employment (Dickens *et al.*, 2006).

Panel B. The relative importance of average hours and real wages



Note: Cyclical changes are calculated over the economic slowdown period with respect to the pre-crisis trend. All data are seasonally adjusted. Data for Brazil, Indonesia, Mexico and Turkey only refer to manufacturing.

Source: National sources, OECD's calculations.

25. Job losses and reductions in real earnings have important social implications for workers and their families who see their incomes reduced. It is still too early to assess to what extent jobs losses and lower earnings have had an impact in reversing the recent progress in reducing absolute poverty and changing recent trends in inequality. One may be able to get a first indication of the impact of the crisis on poverty by looking at the impact of the global crisis on average consumption trends.[25] Figure 2.9 shows that consumption growth has suffered substantially in a number of emerging economies. However, it is not clear from the figure whether the cyclical change in consumption in response to the cyclical change in output has been more pronounced in emerging economies than in the OECD as a whole.[26] Consumption suffered most in the Russian Federation, Turkey and Mexico where the economic impact of the crisis was most severe. In South Africa and Chile, consumption also declined more than for the OECD average, while in Brazil and India the decline was very small and in Indonesia consumption continued to increase. However, a full understanding of the implications of the crisis for poverty would also require information about the way the *distribution* of consumption growth has been affected by the slowdown.

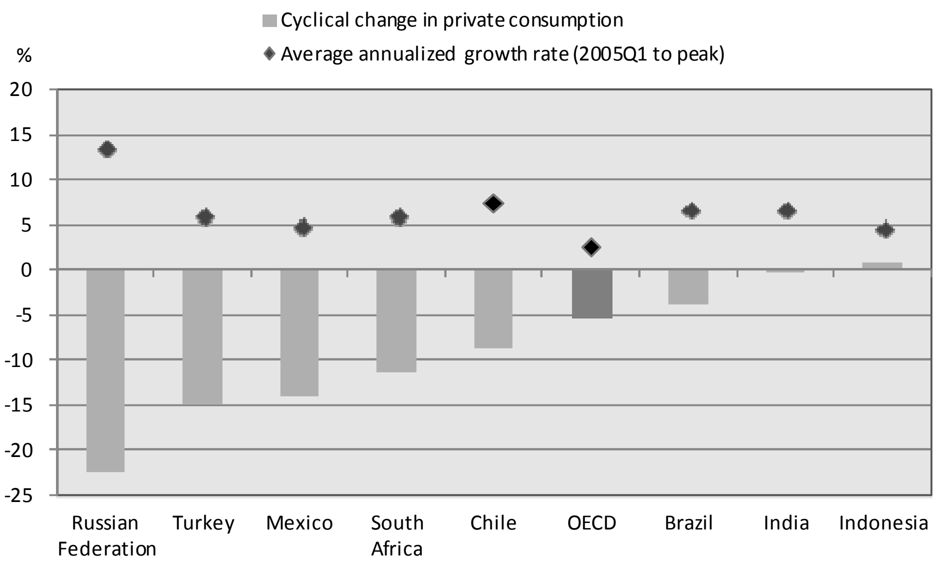
26. The impact of the crisis on the labour market may be expected to be highly uneven across sectors and economic groups. The discussion in Section 1.1 suggests that the direct impact of the slowdown may be concentrated among formal workers as such workers represent a disproportionate share of the workforce in exporting firms and firms with high levels of leverage. To the extent that such workers tend to have better access to social security provisions, this may help to reduce the impact of the current crisis on average consumption relative to previous crisis episodes. However, it also raises important questions

25. Aguiar and Gopinath (2007) suggest that, during previous crisis episodes, consumption in emerging economies tended to be more strongly affected in emerging economies than in advanced economies because of the absence of effective insurance markets and social safety nets.

26. The cyclical response of consumption to the cyclical change in output was larger than that of the OECD average in the South Africa, the Russian Federation, Mexico, Chile and Turkey and smaller in Brazil Indonesia and India.

about the effectiveness of social security programs in supporting formal workers who lose their jobs or see their earnings seriously reduced. The indirect effects beyond exporting or leveraged firms are more difficult to predict. However, the social consequences are potentially important as the scope of formal mechanisms to mitigate the impact of shocks among informal workers is much more limited. Given the precariousness of informal work, it will be crucial to ensure that informal workers do not fall back into poverty. It will be a major challenge to ensure that both the needs of those most affected and those of the most vulnerable are addressed effectively.

Figure 2.9. **The cyclical change in consumption during the crisis**



Note: The change in change in consumption is calculated over the economic slowdown period with respect to the pre-crisis trend. All data are seasonally adjusted.
Source: OECD Main Economic Indicators, National Quarterly Accounts, OECD's calculations.

2. The impact of previous crisis episodes on labour markets and demographic groups

27. The current economic slowdown, as described in the previous section, is expected to have a profound effect on the labour market of emerging economies. Unfortunately, no up-to-date data exist that provide information on the way job quality and formal employment have evolved during the current crisis and thus allow one to identify which population groups have been hurt the most. One may, however, get some handle on this by looking at previous crisis episodes. Although there are important differences between past crises and the recent one, careful comparisons can help identifying the mechanisms through which demand shocks are transmitted to the labour market and identify the groups that are the most vulnerable.

28. The analysis in this section focuses on recent economic downturns in five out of the nine countries covered in this chapter.[27] The objective of this section is three-fold: i) to review how labour markets in emerging economies have responded to aggregate demand shocks in the past; ii) to document which groups were most vulnerable; and iii) to simulate the possible aggregate impact of the current crisis on the share of formal employment in total.

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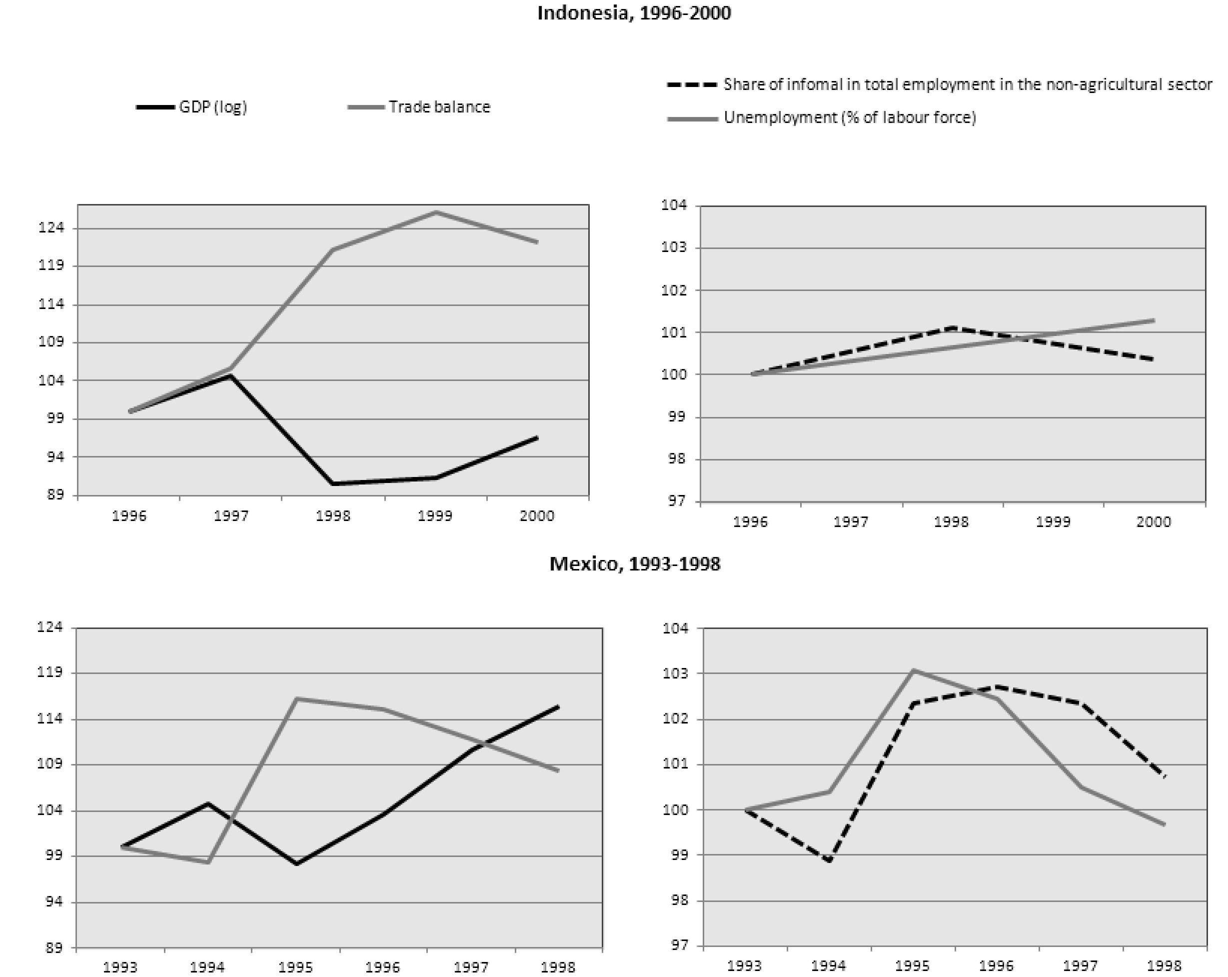
27. The selection of countries in the different parts of this section is imposed by data availability. When micro-data are used, the analysis is restricted to Brazil, Chile, Mexico and South Africa. The lack of regional GDP data for Turkey does not allow the inclusion of that country in the micro-analysis. Indonesia will be added in the next version of this chapter.

2.1. Did past crisis episodes affect aggregate labour market outcomes?

29. As the current crisis originated from abroad, it is quite different in nature from past demand shocks experienced by many of the emerging economies over the past decade which had primarily internal origins. Indeed, the crises in the late 1990s in Brazil, Chile, Indonesia and Mexico, were balance–of-payments crises triggered by broader economic developments in Asia in the first three, and domestic imbalances in Mexico. Importantly, all these crises resulted in large currency devaluations which, in turn, led to a subsequent pick up in net exports and output in the tradable sector. The left panels in Figure 2.10 show that the decline in aggregate demand in Indonesia and Mexico was indeed associated with an improvement in the trade balance in both countries. The severe banking crisis experienced in 2001 in Turkey is possibly the closest to the current financial crisis, although it also had internal economic and political origins (Koch and Chaudhary, 2001).

Figure 2.10. **The Indonesian and Mexican 1990's crises**

Change in percentage points



Notes: Trade balance is net exports over total trade. Base year is 1996 for Indonesia and 1993 for Mexico. Informal employment is defined on the basis of social security coverage for Mexico and as the share of the self-employed and non-paid workers in total non-agricultural employment for Indonesia.

Source: GDP data from the OECD Main Economic Indicators database; labour market statistics are OECD Secretariat calculations based on Sakernas(1996, 1998 and 2000) and ENEU (1993-1998) microdata for Indonesia and Mexico, respectively.

30. Past crises have had profound effects on the labour markets in emerging economies, which can be summarised as follows:

- Financial crises hit first cyclical sectors, such as construction and manufacturing, and were associated with increases in unemployment. The magnitude and duration of the impact on unemployment varied greatly across countries. While Chile, Mexico and Turkey experienced substantial increases in unemployment, in Indonesia the demand shock translated into only mild increases in unemployment (see the right panels of Figure 2.10 for Indonesia and Mexico and the Annex 2.A3 for Brazil, Chile and Turkey). In Brazil, the impact of the crisis on unemployment was also rather weak and short-lived, the export-led recovery generated substantial job creation in the services sector (Menezes-Filho and Scorzafave, 2009).

- The share of informal employment in total non-agricultural employment[28] increased in all countries.[29] It increased substantially in Mexico and Turkey and moderately in Brazil, Chile and Indonesia during the years following the economic downturn. Among emerging economies, Mexico experienced the most important and persistent rise both in the share of workers not covered by social security and that of the self-employed in total employment. Although with some delay, informal employment in the non-agricultural sector increased sharply in Turkey reaching 54% of total non-agricultural employment in 2005.

- In countries where crises were accompanied by currency devaluations and high inflation, the adjustment through declines in real wages was more important than that through (un)employment. This was especially the case in Indonesia and Mexico, where real wages declined by 30% and 13% between 1997 and 1998 and between 1994 and 1995, respectively (Dhanani *et al*, 2009 on Indonesia and McKenzie, 2003 on Mexico), but not in Chile that did not experience high inflation.

- Part of the adjustment operated through declines in hours worked. Average hours fell as a result of the Asian crisis in Indonesia, with the proportion of those working less than 35 hours increasing from 35.8 to 39.1% in 1998 (Dhanani *et al*, 2009).

31. A distinguishing feature of the labour market adjustment to the crises in emerging economies was that massive national currency devaluations and high inflation allowed the labour market to absorb the shock via large real wages declines. In the current crisis, which has not been accompanied by such devaluations[30], unemployment is likely to absorb more of the labour market impact and worker reallocation from the formal to the informal sector may be more important, compared with the downturns in the 1990s and early 2000s. In contrast to past experience during which the drop in domestic demand was partly offset by improvements in exports, in the current crisis exports have declined dramatically. This has further

28. Informal employment outside the primary sector is proxied by the number of workers not covered by social security in total non-primary employment for Brazil, Chile, Mexico and Turkey and the share of the self-employed and unpaid and family workers in total non-primary employment for Indonesia. See section 1 and the Annex 2.A1 for more details on the definitions and the data sources.

29. Indeed, existing literature in many of the countries examined here has shown that formal employment declines in times of crisis, whereas at least some forms of informal employment tend to be counter-cyclical (Bosch and Maloney, 2008; Carneiro and Henley, 1998; Maloney, 1998; Carneiro, 1997; Saavedra and Chong 1999; Saavedra and Torero 2000, Perry *et al*, 2007). Despite that, informal workers account for a substantial part of the unemployed (Vodopivec, 1995; Grogan and van den Berg, 2001; Kupets, 2006).

30. Mexico and Turkey both experienced currency depreciations during the current crisis, but these are smaller than devaluations in the past crises.

contributed to the drop in aggregate demand but also affected disproportionally export-oriented firms that tend to have higher shares of formal and skilled workers.

32. Despite these differences between the nature of the current global financial crises and that of past episodes in the emerging economies, certain similarities can also be found. Severe credit crunch is common to both types of crisis, even if for different reasons. This might imply that the current crisis is likely to have similar results to the 1990s crises experienced by many emerging countries if differences between the current crises and the earlier ones in external demand are taken into account. The aim of this section is precisely to provide an estimate for the magnitude of the labour market impact of the current downturn, based on the available information on past crises and the fact that the current crisis is likely to have affected certain groups more severely in the tradable sector.

2.2. Which groups are the most vulnerable in terms of their initial labour market position?

33. This sub-section uses basic labour market data for different population groups, defined by age, education, gender and rural/urban location (for Brazil and Chile only[31]) in order to identify the most vulnerable groups in terms of their initial labour market position. For expositional purposes, the discussion focuses on differences in labour market outcomes across population groups, averaged across countries[32] and presented in the Annex 2.A3. The analysis is based on Brazil, Chile, Mexico and South Africa[33].

- *Gender*. Similar to the situation in some OECD countries, women in emerging economies face barriers in entering the labour market. Not only do they have a higher probability of being out of the labour force relative to men, but they are also relatively over-represented in informal jobs in both the tradable and non-tradable sectors. Moreover, Chen *et al.* (2004) argue that they tend to be more represented in the lower segment of the informal sector implying lower earnings relative to informally employed men. In addition, subcontracting especially to home-based workers may further contribute to the lower coverage of social protection among women and their limited protection by labour laws[34].

- *Age.* As in OECD countries, youth in emerging economies fare worse than prime-age and older persons in terms of their labour market outcomes. Youth have the highest unemployment and inactivity rates compared with prime-age and older worker*s*. In countries with a small formal sector, youth are queuing for formal jobs and, during the wait, are often pushed into precarious and informal employment.

- *Skill.* The low- and semi-skilled persons are more likely to be inactive relative to the high-skilled, and also have lower employment rates. There is a higher probability of informal work in the non-tradable sector for the low-skilled relative to more skilled workers.

- *Location.* Workers in rural areas face lower unemployment rates compared with their urban counterparts but higher (lower) rates of informality in services (manufacturing) relative to urban workers.

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31. The ENEU in Mexico and the LFS in South Africa only cover urban areas.

32. Although there are cross-country differences in labour market outcomes across these groups, the overall patterns tend to be similar.

33. Data on Indonesia and possibly Turkey will be added soon.

34. Although trade liberalisation and economic restructuring in emerging economies may have boosted the work opportunities of women through manufacturing expansion (especially in sectors such as garments, shoes, and crafts), it is likely that the majority of these new jobs are not fully formal (Ghosh, 2004).

34. Looking at the share of the tradable sector in total non-agricultural employment, this is above the average for prime-age, semi-skilled and high-skilled men in urban areas. If the current economic crisis has affected the tradable sector more than in the past, these groups may be more likely to be hurt by the current economic downturn. The next sub-section looks precisely at this issue for the previous crises in Brazil and Mexico, and the final section makes a rough calculation of the potential impact of the current crisis, based on the observed patterns of labour market adjustment in past crises.

2.3. Which groups were most affected during past crises?

35. This sub-section uses historical data to analyse the business-cycle sensitivity of different population groups in terms of various labour market outcomes. In order to ensure sufficient variation in demand shocks, the analysis focuses on regional demand shocks rather than national ones. This is particularly appropriate in the present context as the focus is on large emerging economies, with substantial regional variation in economic structure and labour market conditions, implying that the magnitude of a demand shock can vary dramatically across regions. Demand shocks are measured through regional fluctuations in GDP over time within countries. To account for the fact that the current crisis originates from abroad whereas previous crises had a largely domestic cause, the estimations are conducted separately for the tradable sector (manufacturing) and the non-tradable sector (services) when considering formal employment.

36. The probability of observing a certain labour market outcome (employment, unemployment, inactivity and formal employment) is regressed against regional GDP, demographic variables and a full set of time and regional dummies. The time period in each country includes the crisis episodes described in the previous sub-section and in the Annex (2.A3). Socio-demographic groups are identified on the basis of gender, age (youth, prime-age and older workers), education (low, medium and high) and location for Brazil (rural versus urban).The analysis is only conducted for Brazil and Mexico[35] because of data limitations for the other countries (for more details on the data and the years included in the analysis, see the Annex 2.A1).

The most vulnerable groups are also the ones most hurt by past demand shocks

37. Table 2.3 summarises the results on the sensitivity of labour market outcomes to regional shocks for different demographic groups. Every cell in the table corresponds to a separate regression, of which only the marginal effect on the regional GDP variable is reported.

- In both Brazil and Mexico, employment is found to be pro-cyclical, as is the case in more advanced economies with small informal sectors and effective social safety nets. Unemployment in both countries is counter-cyclical whereas the share of formal employment in total employment (measured on the basis of social security coverage) is pro-cyclical.

- Despite certain differences in the results between the two countries, certain common patterns are found. Overall, the most vulnerable groups are also those that are most hurt by past crises in these two emerging economies. For instance, youth unemployment in Mexico and employment and participation of the low-skilled in Brazil are more sensitive to changes in GDP relative to the skilled persons. Moreover, in both countries, the share of formal employment in total non-agricultural employment is more sensitive to the cycle for men and youth relative to women and older workers respectively, as well as relative to the population.

35. Indonesia will be added in the next version of the chapter.

- Because the current crisis is likely to disproportionally affect the tradable sector through a decrease in external demand, it is important to identify the groups of workers that are the most vulnerable to demand shocks in that sector and whether they differ relative to those in the non-tradable sector. The results in the last two columns of Table 2.3 show that formal employment is pro-cyclical in both the tradable and the non-tradable sectors and even more so in the former. In both Mexico and Brazil, the sensitivity of formal employment to the cycle in the tradable sector is on average higher for women, youth and the low-skilled, whereas the results are more mixed in the non-tradable sector. This suggests that although prime-age, skilled men are more likely to work in the tradable sector, they are not necessarily those that would be most hurt by an external demand shock, disproportionally affecting the tradable sector.

Table 2.3. **How sensitive to the business cycle are the labour market outcomes of different groups?**

	Employment	Unemployment	Inactivity	Formal non-agricultural employment	Formal employment in the tradable sector	Formal employment in the non-tradable sector
Sensitivity of labour market outcome to GDP for:			Brazil			
Population	0.059	-0.007	-0.045	0.157 **	0.254 ***	0.113 **
Men	0.039 *	-0.009	-0.030 **	0.163 **	0.233 ***	0.126 **
Women	0.058	-0.006	-0.043	0.140 **	0.285 *	0.093 **
15-24	0.060	0.004	-0.051	0.274 ***	0.440 ***	0.207 ***
25-54	0.063	-0.010	-0.046 *	0.103 **	0.160 *	0.069 *
55-64	0.059	-0.019	-0.040	0.161 *	0.355 **	0.115
Low-skilled	0.099 *	-0.015	-0.078 *	0.168 **	0.301 **	0.104 ***
Semi-skilled	0.021	0.001	-0.015	0.103 **	0.161 *	0.087 *
High-skilled	0.004	0.004	-0.006	0.090 *	0.144 *	0.080 *
Sensitivity of labour market outcome to GDP for:			Mexico			
Population	0.018	-0.083 **	0.055	0.371 **	0.571 **	0.144 *
Men	0.090 **	-0.076 **	-0.011	0.387 **	0.485 **	0.177
Women	-0.032	-0.094 *	0.079	0.348 **	0.800 **	0.075
15-24	-0.060	-0.140 *	0.147 *	0.453 **	0.733 **	0.130
25-54	0.096	-0.075 **	-0.026	0.401 **	0.514 **	0.199 *
55-64	0.021	-0.011	-0.016	0.092	0.678	-0.027
Low-skilled	-0.072	-0.059	0.129 *	0.316 **	0.539 **	0.094
Semi-skilled	0.009	-0.121 **	0.085	0.401 **	0.323 **	0.225 *
High-skilled	0.044	-0.091 **	0.054	0.207	0.477 *	0.086

*, **, *** statistically significant at the 10%, 5%, 1% level, respectively.

Notes: Marginal effects are reported. The analysis is conducted at the individual level with samples including persons aged 15-64. Every cell in the Table corresponds to a separate regression of the outcome of interest on regional GDP and controls for education, age, gender, a rural dummy (for Brazil only), time and regional dummies. Age dummies are defined for three groups: i) youth (15-25, ii) prime-age (25-55, and iii) old (55-64). Three broad educational groupings are defined using ISCED. Formal employment is defined on the basis of social security coverage (see the Annex 2.A1 for more details on the definitions and data sources). Standard errors have been corrected for clustering at the regional level.

Source: OECD estimates based on the PNAD (1990, 1992-1993, 1995-1999 and 2001) for Brazil and the ENEU (1993-1998) for Mexico.

38. Overall, the evidence suggests that already disadvantaged groups, such as youth and the low-skilled, are also most likely to enter into informal employment in an economic slowdown and even more so if the demand shock affects disproportionally the tradable sector.[36] New entrants into the labour market, such as youth, have smaller chances of finding employment in the formal sector in times of crises, because

36. It is a stylized fact that youth, women and low-skilled persons are more likely to be in informal employment even in normal economic conditions (see for instance the discussion in Jutting and de Laiglesia, 2008 and Perry *et al* 2007 for a discussion on this).

of the low hiring rates and strong competition they face from more experienced and qualified job-seekers (see Maloney, 1999, on Mexico). This evidence is even more worrying considering that the probability of leaving informal employment declines over time, suggesting the existence of an "informality trap", as has been found for Brazil by Szerman and Ulyssea (2006).

39. These results for the emerging economies are in many ways similar to those found for the OECD countries, pointing to youth and the low-skilled as the demographic groups that are most likely to be adversely hit by the economic slowdown (OECD, 2009). Nonetheless, differences in business-cycle sensitivity across education groups appear to be much larger than those across age groups in the emerging economies while in the OECD countries the elasticities of the latter are bigger than those for the former.

2.4. The implications of past crisis episodes for the crisis of 2008 and 2009

40. To simulate the impact of the crisis on the evolution of the share of formal employment during the period 2008-2009, this section uses the results of the previous section, while taking account of the *size* of the shock in the tradable and the non-tradable sector and differences in the responsiveness across sectors to demand shocks (together these give the 'within' effect) as well as its impact on the share of the tradable sector in the overall economy (the 'between' effect). The results are reported in Figure 2.11.[37]

- The crisis of 2008 and 2009 is likely to have a negative impact on formal employment.

- The negative impact on the share of formal employment is much larger during the 2008-2009 crisis than during previous crisis episodes. This reflects both the larger total percentage point response in the share of formal employment in the tradable sector than in the non-tradable sector (*e.g.* the 'within' effect) and the more negative impact of the most recent crisis on the share of the tradable sector in the overall economy (*e.g.* the 'between' effect).[38]

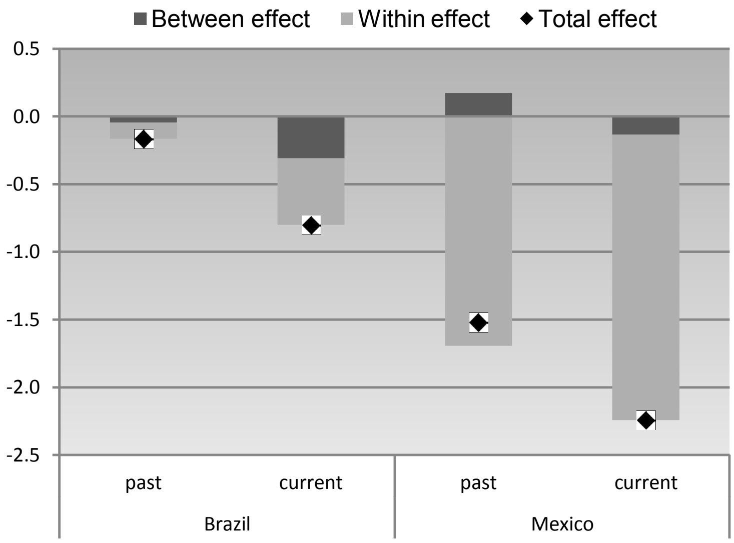
- The role of the within effect dominates that of the between effect, both in the most recent crisis as well as during earlier crisis episodes. This suggests that job losers in the formal tradable sector tend to move into informal jobs in the tradable sector and that relatively few job losers from the formal tradable sector are absorbed in the informal non-tradable sector.

37. For the moment, this is only done for the average worker, but this could also be done for individual population groups.

38. Indeed, during the Mexican crisis of 1994 and 1995 the tradable sector actually expanded.

Figure 2.11. **The simulated impact of the crisis of 2008/2009 on formal employment in historical perspective**

Percentage point change in the share of formal employment in total employment one year after the peak in output



Notes:

The 'between' effect refers to the impact of a crisis on the share of formal employment that is due to its impact on the share of the shares of the tradable non-tradable sector for given shares of formal employment in each sector. The formal employment shares are obtained from section 2.2. The 'within' effect refers to the impact on the share of formal employment that is due to the total response in the share of formal employment to the decline in demand in each sector for given shares of the tradable and non-tradable sectors in the overall economy. This is obtained by multiplying the corresponding average marginal effects presented in Section 2.3 by the changes in output for each sector. The total effect refers to the sum of the between and the within effect.

'Current' refers to changes in demand and sectoral output shares in the most recent crisis between 2008 and 2009. 'Past' refers to changes in demand and sectoral output shares in earlier crisis episodes. For Brazil, this corresponds to the annual change between 1998 and 1999; for Mexico this corresponds to 1994-1995.

Formal employment is defined on the basis of social security coverage (see the Annex 2.A2 for more details on the definition).

Source: OECD estimates.

41. The relatively large expected decline in formal employment during the current crisis is likely to lead to higher unemployment and increased informal employment. Both may have important consequences for household income and transient poverty. Moreover, the increased absorption of formal job losers in the informal sector may also lead to a fall in the market wage in the informal sector, thereby extending the impact of the crisis to those in already precarious jobs. Protecting the poor from the effects of the crisis is important because income declines would further deteriorate their situation, which may have long-lasting consequences. Hence, it becomes clear that policy needs to respond to the downturn with different measures for different groups. The following section discusses the range of policy instruments available in emerging economies, with the objective of identifying the most suitable ones to tackle the adverse effects of the current crisis.

3. Labour market and social policies at times of crisis

42. The discussion so far suggests that the social impact of the global crisis may be substantial due to the relative vulnerability of the working population in emerging economies. As in previous downturns, the main risk is a substantial deterioration in labour income for those who manage to keep their job and a reduction in job quality for those who are forced to take up a low-quality job in the informal sector.

However, compared with previous downturns, the risk of unemployment appears to be larger at present, reflecting both the specific nature of the current shock and increased informalisation in the emerging economies considered here. Addressing these risks effectively clearly represents a major challenge for employment and social policies.

43. The social and labour market impact of the crisis is determined by the overall institutional framework. This section focuses on three areas of employment and social policy which represent the main instruments to protect the incomes of household in times of crisis while keeping the scope of the chapter manageable. After a review of the key features of social protection in the emerging countries studied in the chapter, three specific types of employment and social policies that may be used to support the incomes of households in time of crisis, are discussed: i) unemployment compensation schemes which provide the first line of defence for jobs losers in formal employment; ii) the main cash transfers programmes which provide an essential source of support to the most vulnerable; iii) public employment programmes which provide temporary income support to those who lose their jobs while often involving them in local development project.

44. However, this implies that a number of important employment and social policy instruments will not be discussed in detail. For example, most emerging economies have a variety of active labour market policies in place that provide support to help job-seekers reintegrating into employment (*e.g.* training). Other institutions affecting labour market performance are not reviewed either. This is the case of employment protection legislation and minimum wages, which may not only affect the formal/informal employment distribution, but also may have important consequences for the way the labour market adjusts to the decline in aggregate demand.[39] Other important omissions include income-support specifically targeted at low-earning individuals, short-time work schemes which provide income support to workers whose hours are temporarily cut during recessions, and food programmes targeted at poor families.

3.1. A general overview of social protection in emerging economies

45. Social protection helps individuals, households and communities to better manage risks (of individual or collective nature) and support the critically vulnerable. Social protection includes contributory social insurance programmes, such as pensions and health and unemployment insurance, and non-contributory social assistance programmes financed out of general taxation, such as cash transfers (*e.g.* social pensions, child allowances), in-kind transfers, certain types of price subsidies, public works programmes and fee waivers for essential services (Grosh *et al*., 2008).

Social protection is generally much lower in the emerging economies

46. Social protection is generally much weaker in terms of coverage and generosity in the emerging economies studied here than in most OECD countries. As shown in Figure 2.12 - Panel A, public social expenditure as a share of GDP is consistently lower in all the emerging countries studied in this chapter than the OECD average.[40] But disparities among the countries are large, with public social spending being respectively about four and three times lower than the OECD average in India and China, while it represents about three quarters of the OECD average in Brazil and the Russian Federation.[41]

39 . For a description of employment protection in the nine emerging countries studied in this Chapter, see Annex 2. A4.

40. A number of the countries considered here have mandatory contributions to private social insurance schemes. As a result, private social expenditure tends to represent an important component of total social expenditure in those countries. However, this could not be included in the figure due to data limitations.

41. For data detailed by type of social expenditure, see Annex 2A.

47. There are large cross-country differences in the composition of public social expenditure across contributory insurance schemes financed out of employers and/or employees social contributions (*i.e.* social insurance) and programmes financed out of general taxation (*i.e.* social assistance) (Figure 2.12, Panel B). In most of the emerging economies considered here social insurance accounts for the bulk of non-health public social expenditure. To a large extent this reflects the role of contributory pension schemes, while unemployment insurance tends to account for a rather small part of total social insurance expenditure (see Section 3.2). Eligibility to social insurance programs differs across countries and programs but is crucially based on some kind of contribution requirements. Social assistance programmes tend to be means-tested and targeted to the most vulnerable individuals and households, independent of their labour market status.

Coverage of social insurance tends to be limited ….

48. There is considerable diversity across countries in terms of coverage, scope and degree of fragmentation of social insurance systems (see Box 2.1):

- Social insurance coverage is highest in Chile and South Africa, close to 80% of the employed population, but very limited in Indonesia and India. Extending social insurance coverage has been a priority in a number of countries, including by subsidising contributions for poor workers. Brazil and Turkey have made attempts at extending coverage under their single insurance scheme, while differentiated schemes have been set up for rural workers in China and informal workers in Mexico.

- Social insurance is most comprehensive in scope in Turkey, including health, old-age, unemployment, disability, etc., while it covers only unemployment in South Africa.[42]

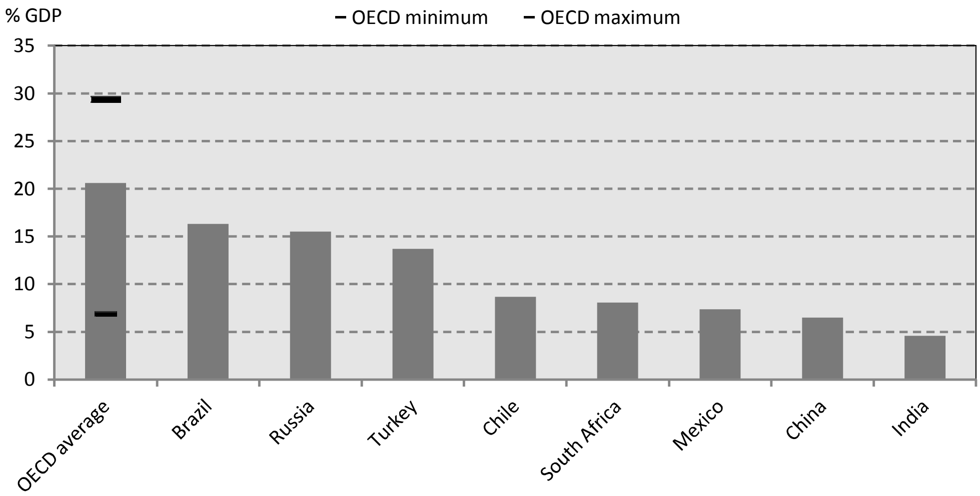
- Social insurance schemes can be more or less unified. In China, despite growing coverage, the various schemes are fragmented, *de facto* limiting the pooling of risk across individuals and the redistributive impact (for example, there are three different medical insurance schemes for urban employees, non-salaried urban residents and farmers, managed by two different authorities, each with its own infrastructure; contribution rates and benefits of most schemes vary across provinces or even localities). Besides having a very low coverage, social insurance schemes are also very fragmented in India.

42. As data on social insurance are not available for South Africa and Indonesia, this could not be included in Figure 2.12, Panel B.

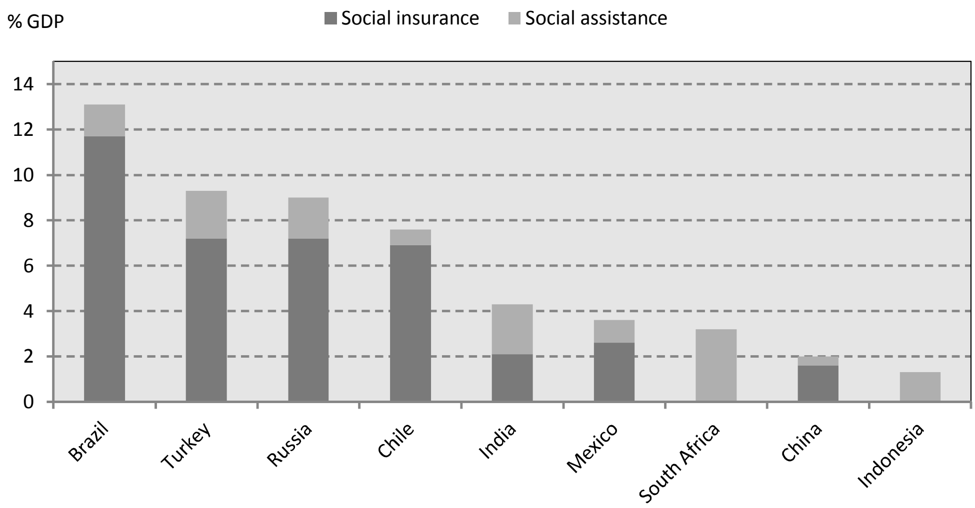
Figure 2.12. **Public social expenditure**

Percentage of GDP

Panel A. Total public social expenditure, second half of the 2000s[a, b]



Panel B. Public social expenditure (excluding health)[c]



a) 2005 for Brazil, Mexico, Turkey and OECD average, 2006-07 for India and South Africa, 2007 for Chile and the Russian Federation, 2008 for China.

b) Data were taken and/or constructed from various sources, trying to approach as far as possible the definition retained in OECD SOCX, which covers old-age, survivors, incapacity-related benefits, family, health, active labour market policies, unemployment, housing and others.

c) Data on social insurance is not available for South Africa and Indonesia.

Source: Panel A: see Annex. Panel B: Weigand and Grosh (2008).

Box 2.1. Main features of the social protection systems in the nine countries studied

Social protection systems can be described using three main dimensions: *i)* the relative importance of social insurance versus general public expenditure and/or social assistance; *ii)* the overall coverage of the schemes; and *iii)* the unification/fragmentation of the schemes.

Brazil has a comprehensive social insurance scheme financed by social contributions, which covers old-age pensions, maternity, disability, and work-accident benefits for all private sector employees and the self-employed, and their dependents. There is also an unemployment insurance scheme. Most public servants are covered by their own social security schemes. According to PNAD data, 52% of the workers were affiliated to social security in 2007. Public health care is provided on a universal basis and financed out of general taxation. Social protection also includes a (rather generous) non-contributory basic old-age pension, as well as a conditional cash transfer scheme for the poorest (*Bolsa Familia*).

Chile: the social protection system relies strongly on private schemes. The health system mixes public and private insurance (the employees can choose) and the pension system is private, mandatory and fully-funded. Free health insurance coverage is provided to low-income households. An unemployment benefit scheme based on individual accounts, combined with a subsidised solidarity fund providing under certain conditions complementary support to unemployed with low previous earnings, was also created in the early 2000s. According to CASEN data, 79% of the workers were covered by at least one insurance scheme in 2006. Social protection also includes additional support for health expenditures for low-income households, family benefits, as well as a conditional cash transfer programme for the poor (*Chile Solidario*) and small public works schemes.

China has various social insurance schemes for medical care, pension, unemployment, etc. Most schemes are administered at a decentralised level (county, municipality) and contribution rates often vary across provinces or even within the same province, thus limiting risk-pooling. Until recently, social insurance schemes covered only urban areas, but efforts have been made at increasing coverage in rural areas under different types of schemes, largely subsidised. According to Zhu (2009), coverage rates in 2008 were 55% for the urban basic pension and 85% for the urban and rural medical care. A means-tested minimum subsistence (*Dibao*) is also provided in urban and rural areas.

India has a very fragmented social protection system. A number of social insurance schemes exist, all of very limited coverage. The main one provides health insurance and maternity benefits to highly-skilled employees (earning wages above a certain ceiling) in large and medium-sized businesses (it covered 8.7 million workers in 2006 to be compared with about 400 million employed persons in 2004). A number of contributory schemes are also run by the States governments (often with funding from the central government) for workers in small enterprises, but their coverage is limited to certain areas and population groups (Mazundar, 2010). The most important non-contributory safety nets for poor households are the national rural public employment programme and the product subsidies (on rice and fuel). A large number of cash transfer programmes for poor households are also available, but most of them are of very limited coverage.

Indonesia: social insurance schemes based on social contributions were only recently established; they offer (low) old-age pensions, life and health insurance, and job-related disability and illness compensation. Participation in health insurance is optional, if the enterprise has alternative arrangements. The scheme covers only workers (and their families) employed in firms with more than 10 employees or a payroll of more than one million rupiah (OECD, 2008). In 2008, about 8% of the workers were registered to the scheme (source Jakarta Post 19/08/2009). Informal workers can register on a voluntary basis, but contribution rates are high, and only very few actually do. Some safety nets targeted at the poor have been in place since the 1997 Asian crisis, some with relatively high coverage, notably a food security programme providing subsidised rice and a cash transfer programme.

Mexico has a relatively comprehensive social security system based on social contributions, providing old-age pension, medical care, dental care, etc., to private sector employees. Self-employed workers can contribute on a voluntary basis, but very few actually do. Contributions to a fully-funded private pension scheme (second pillar) are also mandatory for employees. Public sector employees have their own social insurance scheme. However, there is no unemployment insurance scheme. About 46% of the workers were affiliated to social security at the national level in 2003. A subsidized health insurance programme providing a basic health care package (*Seguro Popular*) has also been created recently for poor households; coverage has been rising strongly and reached about 27% of the population in the first semester 2009. Social protection also includes direct health expenditure, a conditional cash transfer programme (*Oportunidades*), with relatively large coverage (18% of the population in 2007), and a public work scheme.

The Russian Federation has a number of social insurance schemes (pension, health, disability, etc.) covering employees and the self-employed, and financed out of a unified social contribution. Health insurance covers a minor part of public health expenditure, which comes mainly under the form of direct payments to hospitals (check with Howard). Data on the coverage of the social security system is not available. It was high at the beginning of the transition period, but is likely to have fallen, as employment in the unincorporated sector – less likely to be declared to social security – grew together with non-standard forms of employment (workers with civil or oral contracts). Social protection also includes some income-tested programmes for low-income families (child allowances and housing subsidies), food subsidies for children in full-time education and financial support towards children in kindergartens. In addition, there is a system inherited from the Soviet period of "privileges", (often in-kind) benefits, for specific categories of citizens including the disabled, special-merit categories (veterans) but also a large group of workers and retirees with a long employment record.

South Africa: the only social insurance scheme is for unemployment. The pension system is a fully-funded scheme managed by private pension funds. According to LFS, about 75% of the workers were covered by a pension scheme or the unemployment insurance in 2007. Public health expenditure is financed out of general taxation. Social assistance is rather developed, notably through a (relatively generous) basic old-age pension, and means-tested child allowances and disability grants (covering respectively 5%, 10.5% and 3% of the population in 2008, Leibbrandt *et al.*, 2010, statistical annex). Public works programmes are also available for the unemployed.

Turkey has a comprehensive social security system based on social contributions, funding health care, pension, disability, etc. The various existing funds have been recently unified under a single scheme meant to cover all employees and self-employed. Contributions for those deemed unable to pay premiums would be paid from public fund on the basis of a means-test. According to LFS data, 58% of the employed population was covered by the social security in 2008. There is also an unemployment insurance scheme. The state does also finance a (very small) basic old-age pension. A conditional cash transfer programme (the Social Risk Mitigation Programme) is also available for children of poor families identified by the local authorities. 8.2 million workers compared to 102.6 million employed persons in 2008.

… and social assistance expenditure remains limited

49. Despite significant efforts aimed at improving the safety net for the poor in many of the nine countries studied, social assistance expenditure remains limited (Figure 2.12, Panel B), especially when considering the large share of the poor in the total population (Section 1.2). Social assistance is provided under various types of programmes: basic old-age pensions of varying size are provided to the elderly in Brazil, Chile, South Africa and Turkey; public works programmes of varying size also exist in Chile, India, Mexico, the Russian Federation and South Africa; food programmes play an important role in India and Indonesia; means-tested cash transfers to the poor are available in China and Indonesia, as well as means-tested child support in the Russian Federation and South Africa; finally, conditional cash transfer programmes, aiming mainly at improving child school attendance and health status of mothers and children, have been implemented in Brazil, Chile, Indonesia, Mexico and Turkey.

50. Overall, the weak social protection systems and the (often very) limited automatic stabilisers built into the system imply that governments have generally had to use discretionary spending to respond to the employment and social consequences of crises. However, efforts have been made to make social spending not pro-cyclical, as was the case in previous crisis, *e.g.* in Latin American countries (Green *et al.*, 2010).[43] The increase in social spending reflects the relatively sound state of public finances in most emerging economies compared with that during previous crisis episodes. However, it is not clear to what extent more strongly counter-cyclical fiscal policies also have helped to preserve the level of support available relative to the increase in needs. In addition to fiscal constraints, there may also be institutional constraints to scale up social programmes in times of crisis. Indeed, available research suggests that in times of crisis, the

43. On the pro-cyclicality of social spending in previous crisis, see Braun and Di Gresia (2003). Looking at the composition of fiscal stimulus packages further indicates that the emerging economies have placed a greater weight on social spending than advanced economies. This has been particularly important in the Russian Federation and Mexico (IMF, 2009b).

social policy response to shocks is likely to be more effective if it consists in expanding existing programmes rather than implementing new and untested programmes (Paci *et al*., 2009 and Green *et al.*, 2010). The lack of existing social programs may explain why some fiscal stimulus packages have tended to mitigate the social impact of the economic downturn indirectly through the use of labour-intensive infrastructure projects rather than social spending directly.

51. In order to get a more comprehensive overview of the role of employment and social policies to protect the incomes of the most vulnerable and those most affected during the present crisis, this section draws on the responses to country questionnaires submitted to the nine emerging economies to consolidate information on their policy responses.[44]

52. Table 2.4 provides a schematic account of the programmes in each of the three subject areas (unemployment compensation schemes, cash transfers and public works programmes) at the onset of the crisis and whether any measures have been taken or announced in response to the crisis. In addition, it distinguishes, when possible, between temporary measures that were taken as a short-term response to the crisis and those with a longer horizon. Most policy measures introduced in 2009 consisted in expanding or modifying already existing programmes. Only Russia introduced a new public employment programme to mitigate the impact of the crisis. The information available does not always allow distinguishing between temporary and permanent measures; this is the case in particular for public works programmes in Chile, India and Mexico. Temporary changes made to the unemployment compensation schemes in Chile and Brazil, as well as the exceptional cash transfers introduced in Chile, China and Indonesia all constitute short-term responses to the crisis. The permanent changes in the cash transfer schemes in Brazil, Mexico and South Africa and in the unemployment compensation scheme in Chile were often the result of structural development of the programmes. Although not conceived as specific answers to the crisis, these measures have nevertheless played some role in alleviating the crisis impact for their beneficiaries. By contrast, the permanent change to the unemployment scheme in Russia was motivated by the crisis.

Table 2.4. **Existing programmes, new programmes and reforms**

	Unemployment compensation scheme			Public works programmes			Cash transfers (non-pension)		
	Exists before the crisis	Temporary measure	Permanent measure	Exists before the crisis	Temporary measure	Permanent measure	Exists before the crisis	Temporary measure	Permanent measure
Brazil	X	X					X		X
Chile	X	X	X	X	?	?	X	X	
China	X						X	X	
India				X	?	?			
Indonesia							X	X	
Mexico				X	?	?	X		X
Russia	X		X		X				
South Africa	X			X		X	X		X
Turkey	X		X				X		

Source: OECD Secretariat

44. The chapter makes use of: i) the ILO Survey that was circulated Spring 2009 on new measures for employment and social protection announced or taken by countries between mid 2008 and 30 July 2009; ii) answers to a new country-tailored questionnaire circulated by the OECD Secretariat in late 2009 and early 2010 that was specifically designed for the purposes of this chapter and was concerned with new measures that were taken or announced in response to the crisis in three policy areas (unemployment compensation schemes, cash transfers, and public works programmes) for Brazil, Chile, India and South Africa. Two joint EC/OECD questionnaires were circulated in late 2008 and late 2009 to all OECD member countries, including Mexico and Turkey. The responses to these questionnaires are summarised in OECD (2009a) and Chapter 1 of this publication. Complete answers to these questionnaires were received from Brazil and Chile, partial answers from Mexico, South Africa and Turkey, and no answer from India.

3.2. Unemployment compensation schemes

53. In most OECD countries, unemployment benefits have historically played an important role in reducing the social costs of a recession. Being strongly counter-cyclical, they serve as an important automatic stabiliser during a downturn while providing income support to the rising numbers of unemployed (OECD, 2009a). The situation differs in the group of emerging economies reviewed in this chapter, as coverage and/or benefit levels are generally quite limited. In fact, only six of the nine countries considered in this chapter can actually be considered to have such schemes in place, with Indonesia and Mexico having no unemployment compensation system and India a scheme with extremely limited coverage.[45]

Coverage and benefit levels are often limited

54. China, South Africa and Turkey have unemployment insurance schemes financed out of social contributions, quite comparable in principle to those existing in most OECD countries. Brazil has a similar scheme, but financed only by employers through a levy on the business revenues.[46] The Russian scheme is financed out of general taxes and also includes an unemployment assistance benefit accessible to unemployed workers running out of rights or not meeting the entitlement conditions. Finally, the Chilean scheme differs significantly from all the others: it combines individual accounts from which the accumulated contributions are paid out on job separation and a subsidised Solidarity Fund providing complementary supports to those unemployed dismissed for economic reasons with modest previous earnings (Box 2.2).

Box 2.2. **The Chilean unemployment compensation scheme [1]**

Chile's unemployment compensation scheme consists mainly of individual accounts from which the accumulated contributions are paid out on job separation for any reason, most often as a lump-sum. The accounts are financed by contributions from employers and employees (Table 2.5), at rates implying that a permanent and temporary worker would accumulate respectively 26% and 36% of a monthly wage per contribution year (before adjustment for financial returns, administrative costs and changing wages). The funds are managed by special bodies connected with the pension funds. After 12 and 6 months of contributions for permanent and temporary workers respectively, withdrawals must be made in as many monthly payments as the number of years of service, up to a maximum of five.

If the account balance is too low to permit a certain level of compensation, claimants who are dismissed from indefinite-duration jobs for economic reasons and become unemployed can apply for an additional benefit from the Solidarity Fund (financed by state subsidy and part of the employer contribution). This can be done twice in a five-year period. Replacement rates and ceilings imply that a complement from the Solidarity Fund is relevant only to workers with moderate job tenures and modest wages.

In June 2008, benefits were paid to 135000 workers, *i.e.* about one third of the survey-based unemployed, and it is not known how many of the recipients were actually unemployed. Half of the recipients were temporary workers receiving lump-sums. The average benefit was about 30% of the average wage. Due to the strict eligibility rules, the Solidarity Fund was involved in only 6% of all benefit cases.

A reform was passed in August 2008, which makes the Solidarity Fund's benefit somewhat more generous and provides access to the Solidarity Fund to unemployed previously on temporary contract.

1. This box draws mainly on OECD (2008).

45. The Indian scheme is available only to workers covered by the social insurance scheme, which, as seen in Box 2, is of extremely limited coverage.

46. The levy is allocated to a fund for the protection of workers, which also finances job-search assistance and active labour market programmes.

55. The coverage of the schemes -- defined as the share of the unemployed effectively getting unemployment benefits -- is limited, ranging from about 30% in Brazil to less than 5% in Turkey (Table 2.5). Four main factors concur to explain the limited access to benefits:

Table. 2.5. **Unemployment compensation schemes: contribution requirements, benefits, and coverage**

	Contributions / financing		**Benefits**				**Share of unem-ployed receiving benefits**
	Rates (% of gross wage unless specified otherwise)	Entitlement period	Initial replacement rate	Minimum (% of AW)	Maximum (% of AW)	Duration	
Brazil 2008	E: 0.65% of gross revenue in service sector or 1.65% of value added in the industry sector	6 months in 3 years	From 80% to 50% of previous earnings, decreasing with the earnings level.	36 (1 MW)	67 (1.87 MW)	• 3 months if 6-11 months of prior employment • 4 months if 12-23 months of prior employment • 5 months if more than 24 months of prior employment	8% 2007/08
Chile 2008	E: 3.2% for permanent workers (2.4% for individual accounts and 0.8% for Solidarity Fund) and 3% for temporary W: 0.6% for permanent workers	12 months in 2 years for permanent workers; 6 months for temporary workers	Depends on the amount accumulated on the individual account If Solidarity Fund involved 50% of previous wage for permanent workers	-	If Solidarity Fund involved, 41% in the first month and subsequent-ly less.	Depends on the amount accumulated on the individual account; 5 months maximum; 2 months for temporary workers on the Solidarity Fund	20%
China 2008	E: 2% W: 1%	12 months	Fixed amount ranging from 60 to 70% of the minimum wage, as determined by local governments	-	-	• up to 12 months if less than 5 years of prior employment • from 12 to 18 months if 5 to 10 years of prior employment • up to 24 months if more than 10 years of prior employment	Less than 16%
India	Covering also sickness and work injury E: 4.75% W: 1.75%	5 years	50% of the insured's average wage	-	-	Up to 6 months	Close to 0%
South Africa 2008/09	E: 1% capped W: 1% capped Government: up to 25% of E and W contributions capped at 7 million rand a year	3 months in 12 months	38% to 58% of average earnings over the previous 6 months depending on the length of contribution	-	-	Up to 8 months depending on contribution records (1 day of benefit for every 6 days of contribution)	Significan-tly less than 10%
Russian Federation 2008	None. Financed from federal and local government budgets	4 months in 12 months; if not, unemployme nt assistance	• 75% of previous earnings • minimum benefit for those who do not meet the entitlement conditions	4.5%	18%	• 12 months after which entitled to unemployment assistance • 12 months for unemployment assistance	23%
Turkey 2007	E: 2% W: 1%	600 days in 3 years, and 120 days of continuous contributions	50% of average net wage, based over the last 4 months	15%	30%	6 to 10 months according to contribution period	4% in 2004

AW= average wage; MW= minimum wage; E: employer; W: worker
Source: OECD Secretariat based on various sources (see Annex 2. A4).

- As seen above, a significant share of the workers is not affiliated to the social security schemes in Brazil, China and Turkey.

- Eligibility conditions are very strict in Turkey, where workers should have contributed 20 months to the scheme in the previous 3 years to be eligible, and relatively strict in Chile and China.

- A large share of the unemployed are either long-term unemployed or without work experience in South Africa (respectively 25 and 55% in 2007)[47], and thus not entitled to benefits.

- Despite very open access, the very low level of benefits in the Russian Federation simply discourages unemployed workers to apply for it.

56. The generosity of unemployment benefits depends both on the benefit level and its duration. Compared with most OECD countries, initial replacement rates of previous incomes and maximum benefits are relatively low in the nine countries considered.[48] There is cross-country variation, however, with very low benefits in the Russian Federation (due to a very low cap) and relatively high benefits in Brazil and South Africa. The maximum duration of benefits also tends to be lower than in most OECD countries, where it is often comprised between 12 and 24 months (the shortest being six months[49]). Benefit duration is particularly short in Chile and Brazil (two to five months), while it is close to OECD standards in China and the Russian Federation. Table 2.6 schematically summarizes the relative generosity of unemployment benefits in the six countries.

Table 2.6. **Relative generosity of unemployment benefit schemes before the crisis**

		Duration		
		short	medium	long
Replacement rate	low			Russia
	medium	Chile	Turkey	China
	high	Brazil	South Africa	

Source: OECD Secretariat

57. The share of expenditure on unemployment benefits in GDP provides an indication of both the coverage and generosity of unemployment compensation systems, and of their capacity to cushion shocks, although it also depends on the level of unemployment. It is highest in Brazil (0.4%) and lowest in Chile and China (0.01%), with Turkey and the Russian Federation in the middle (at respectively 0.1% and 0.04% of GDP).[50] By comparison, OECD countries spent about 0.6% of GDP on average on unemployment benefit in 2007.[51]

47. Source Leibbrandt *et al*. (2010).

48. See Table 1.1 of OECD Benefits and Wages 2007, characterising OECD countries unemployment insurance benefits in 2005.

49. This was the case in the Czech Republic, Slovak Republic, United Kingdom and United States before the crisis.

50. See 2.A4 for sources.

51. Source: OECD (2009), Annex Table J.

The scope of the response to the crisis varies across countries

58. The relatively low coverage of unemployment compensation systems limits their capacity to provide adequate safety nets during the economic downturn. Nevertheless, some of the countries have taken measures during this crisis to improve the shock absorption capacity of their schemes. This is the case of Chile and Russia, two countries that have experienced a strong increase in unemployment during this crisis (Figure 2.7) -- although in Chile the measures were part of a structural reform of the scheme planned before the crisis (Box 2.2). By contrast, in Turkey, despite surging unemployment, no measure was taken to ease the strict eligibility conditions to unemployment benefits.

59. In most of the countries studied, a substantial share of the unemployed -- even of those previously working for the formal sector-- do not qualify for unemployment benefits. This is especially the case of workers under non-standard forms of contracts, such as temporary or sub-contracted workers, which may be excluded by law (*e.g.* the so-called “falsely” self-employed), or simply *de facto* because they are less likely to meet contribution requirements. Although hard empirical evidence is scarce, as in most OECD countries, non-standard forms of employment seem to have increased significantly over the past decades in the countries studied. They are particularly important in Chile and South Africa, where non-permanent employees represented about 25 and 30% of all the employees with contract respectively in 2006 and 2007, against 12% on average in the OECD in 2008.[52] Non-standard forms of contracts are also widespread in China and India (see Annex 2. A4). Given that non-standard workers are typically more easily fired, they are likely to experience a more-than-proportional share of overall job losses, which is likely to heighten the problems of non-coverage by unemployment compensation schemes. In Chile, as part of the May 2009 reform, workers on temporary contracts were (permanently) given access to the Solidarity Fund, although only for two months to minimise work disincentives.[53] This measure, combined with that mentioned above, has allowed a slight increase in the coverage rate (from 20% in the first quarter of 2009 to 21% in the last three quarters; see Figure 2.13)

60. Traditionally, in a crisis period, the combination of increased layoffs and reduced hiring results in longer unemployment spells. As unemployment spells lengthen, beneficiaries are confronted with expiring entitlements and/or declining benefit payments. While, in general, this is likely to increase job-search incentives, the effect is likely to be less effective in recession periods, as job vacancies dry up and demand-side restrictions become more binding (OECD, 2009a). This is especially the case for countries where benefit duration is short, such as Brazil and Chile. In fact, both countries have implemented a temporary extension of the benefit duration in response to the global financial crisis. In Brazil, as made possible by the law, the benefit duration was temporarily increased by two months for laid-off workers in a list of specific sectors determined at the state level. This was done only for workers laid-off in the months of December 2008 and January 2009, a short period which is probably related with the relatively small increase in unemployment experienced in Brazil.[54] Available data show that this has not resulted in an increased average duration of benefit in 2009.[55] In Chile, as part of the May 2009 reform of the scheme, the

52. For a more in-depth discussion of non-standard forms of work in Chile, see OECD (2008). Although starting from a low level, the share of non-permanent employment increased also significantly in Russia over the past decade to exceed 12% in 2007. It also increased in Mexico, where it represented about 17% in 2008.

53. 4500 temporary workers received benefits from May to October 2009.

54. About 190000 workers were concerned by this extension. This represents slightly more than a fourth of the unemployment benefit recipients in January 2009.

55. The average benefit duration for formal employees was 3.9 months in 2009, just as in 2008. After a 22% increase in the first quarter of 2009 compared with the previous quarter, the number of benefit recipients has been continuously decreasing until the end of the year.

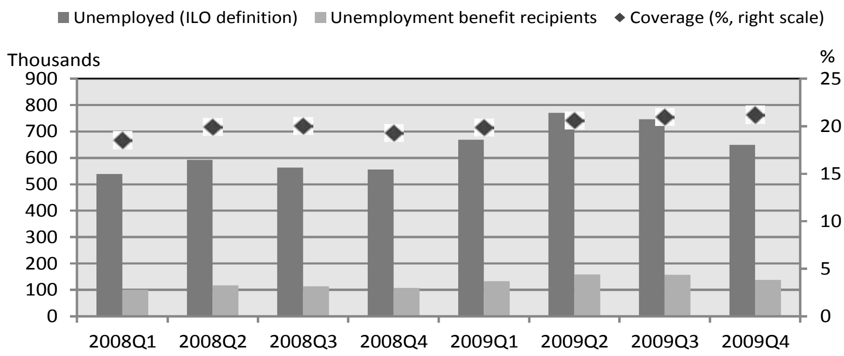
benefit duration of recipients drawing from the Solidarity Fund is automatically extended by two months when the unemployment rate is one percentage point higher than the average unemployment rate over the previous four years.[56]

61. Finally, Chile, Russia and Turkey have increased the unemployment benefit level, thus improving the adequacy of support. In Chile, the aim was to permanently increase the replacement rate for workers benefiting from the Solidarity Fund to about 40%, and it was expected to concern about 8% of the unemployment benefit recipients. The change has been most important in Russia, where the maximum benefit, initially very low (Table 2.5), was increased by almost 60% in January 2009. This has resulted in a strong growth in the number of benefit recipients (more than 50% in the first quarter of 2009 compared with the previous quarter), more than proportional to that of unemployment, thus allowing increased coverage of the scheme (from 20% in the last quarter of 2008 to about 30% from the second quarter of 2009 to the end of the year). Although it was introduced as a response to the crisis, this measure is permanent. As it started from a very low initial level, the replacement rate remains low compared with OECD standards.

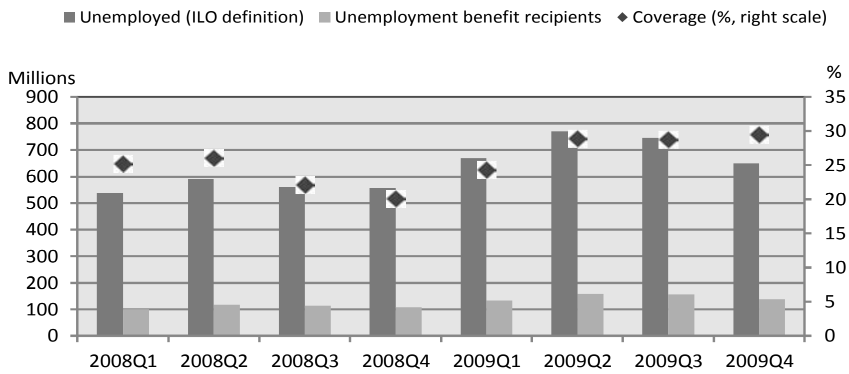
56. From May to October 2009, 3000 persons had benefited from it. The replacement rate for each of these two extra months is 25%.

Figure 2.13. **Unemployment insurance in crisis times in Brazil, Chile and Russia**

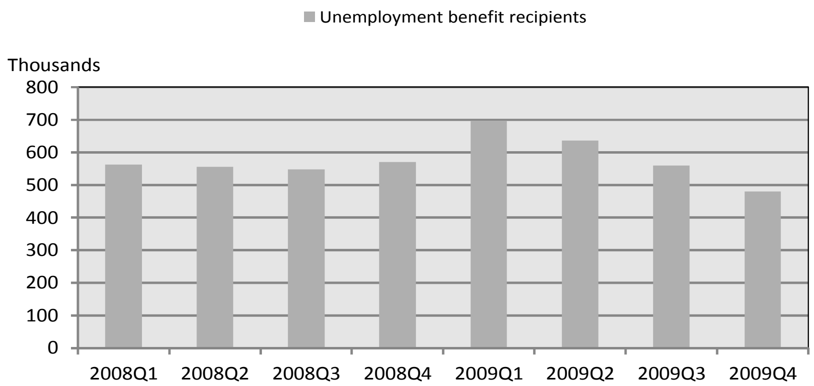
Chile



Russia



Brazil



Note: For Brazil, it is not possible to compare the number of unemployment benefit recipients to the number of unemployed because recent unemployment data are available only for the 5 main urban areas.

Source: Superintendencia de Pensiones and Encuesta Nacional de Empleo for Chile; Rosstat for Russia; Seguro-Desemprego (SAEG) for Brazil.

Long-term reforms to unemployment compensation schemes involve difficult trade-offs

62. By highlighting structural vulnerabilities, the crisis may also promote structural reforms to unemployment compensation systems or reinforce the debate about the need to establish such a scheme. When considering more long-term reforms to unemployment compensation schemes, emerging economies face the same trade-off as more developed OECD countries. On the one hand, by providing an adequate replacement income, unemployment benefits allow unemployed workers to search for a suitable job to match their skills. They also allow smoothing consumption, reducing poverty and avoiding dynamic poverty traps (Vodopivec, 2009). On the other hand, unemployment benefits may reduce the job-search intensity of the worker and reduce work incentives of family members. In most OECD countries, this trade-off can be partly reduced by investing in active labour market policies (ALMP) (through close follow-up of the unemployed job search, participation to training, etc). But this is more difficult to achieve in emerging economies. First, widespread opportunities to work informally make it easier for the unemployed to fraud the system, *i.e.* receive the benefits while working undeclared. Second, the administrative capacity and the budget of the public employment service is more limited, implying that it is difficult to monitor properly benefit entitlement, enforce job-search requirements and to provide effective active labour market programmes (*e.g.* job-search assistance, training and work-experience programmes).

63. Systems based on individual savings accounts, such as the Chilean scheme, are often considered an appropriate alternative to traditional systems of unemployment insurance and/or severance payments (which are sometimes the only form of income support available to dismissed workers from the formal sector) for developing and emerging countries (see *e.g.* Vodopivec, 2009). Moreover, by mandating individual savings to be mobilised in case of job separation, such schemes promote income smoothing for the individual worker over his/her working life rather than pooling unemployment risk over the total working population at a point in time (Ferrer and Riddel, 2009). Their main advantage is to remove the moral hazard problem as the worker internalizes the cost of the benefits and has no incentives to prolong unemployment. This, combined with the fact that they are available on job separation for any reason, reduces the monitoring requirements and thus lowers the administrative costs. Another advantage would be that they allow extending unemployment protection of workers without expanding public deficits.

64. However, such schemes also present problematic intrinsic features. First, the absence of risk pooling across workers implies individual savings accounts do not provide adequate coverage to the workers most in need of it (those who experience frequent and possibly long-lasting spells of unemployment and are most likely not to be able to accumulate enough savings on their account). This is particularly the case in emerging economies where job tenure is lower and job turnover much greater (Berg and Salerno, 2008). This is the reason why the Chilean scheme combines individual accounts with a publicly-funded Solidarity Fund. However, not surprisingly, Hartley *et al.* (2010) find that this redistributive part of the scheme reintroduces the moral hazard problem. There is hence no easy way out of this adequate coverage/employment disincentives trade-off. Keeping benefit duration relatively short is probably part of the solution. In reaction to this problem, Brazil is also considering to introduce training requirements for unemployed workers receiving benefits.[57]

3.3. Cash transfers

65. Cash transfers can provide income support to the unemployed individuals not covered by the unemployment compensation scheme, either because they have not accumulated enough rights or because they were informal workers. They can also mitigate the effect of the income deterioration induced by the

57. Jornal do Brasil, 28/01/2010. No decision has been taken yet. The Brazilian authorities hope that the external evaluation of the unemployment insurance scheme, which was to be delivered at the end of February 2010, will provide operational elements in this area.

crisis (see Section 1) on those who were already on very low income before the crisis. Cash transfers operate through two main channels: consumption smoothing and avoiding strong increases in poverty rates with possible long-term negative impacts on health and children's education that would aggravate chronic poverty and lead to irreversible losses in human capital.

66. Cash transfer schemes targeted at poor households have been developed in the emerging economies studied here since the 1990s. However, compared with most OECD countries, permanent programmes with appropriate finance and/or guaranteed countercyclical finance, which can act as automatic fiscal stabilizers, remain rare (Grosh *et al*., 2008). Some of the schemes, *e.g.* conditional cash transfers (CCT), not only provide income support to poor families in the short run, but also aim to improve the health and education status of children, thus forming part of the overall investment in human capital. Most of the cash transfer schemes are permanent, but there are also examples of one-off/temporary transfers to mitigate the effects of a specific shock.[58]

Coverage and generosity varies a great deal across countries

67. The coverage of the main cash transfer programmes vary a great deal in scope, from 5.5% of the households involved in the Turkish Social Risk Mitigation Project (SRMP), to 36.6% of the households for the Child Support Grant (CSG) in South Africa (see Table 2.7). At 34%, coverage was also relatively high for the one-off cash transfer distributed in 2005/06 in Indonesia to compensate for the reduction in fuel price subsidies. *Bolsa Familia* in Brazil (Box 2.3) and *Oportunidades* in Mexico, two CCT schemes originally set up in the 1990s, also cover large shares of the total household population, 20% and 19% respectively. By contrast, the coverage of the Chilean CCT programme and of the Chinese *Dibao* programme (which provides a minimum living standard benefit to poor individuals; see Box 2.4) is more limited (significantly below 10% of the households).[59] The increase in coverage has been substantial for some programmes over the past decade, notably the Brazilian and Mexican CCT programmes and the Chinese *Dibao* (Cai *et al*., 2010).

Box 2.3 ***Bolsa Familia* and *Dibao*: two examples of cash transfer programmes**

China. Started as a pilot programme in Shanghai in 1993, the Dibao programme was implemented in all Chinese cities in 1997, and progressively extended to the whole country until 2007. The aim was to provide some assistance to workers laid off by state-owned enterprises in their restructuring process and avoid social unrest related to rapid economic transformation (Chen and Barriento, 2006). The amount of the benefit equals the households size times the gap between per capita household income and a locally determined minimum living standard. The Dibao is financed by the central government and the municipalities, with a share that varies according to the financial capacity of municipalities (in the wealthy coastal region, municipalities pay most of the expenditure, while poor municipalities, such as in the west of the country, bear almost none of the expense; Solinger, 2008).

58. This section reviews only the main cash transfers (in terms of coverage and expenditure) that exist in the nine countries studied. Non-contributory old-age pensions are not included, as they are not of direct help to working-age households affected by the crisis.

59. Coverage figures provided for China concern individuals and not households. Hence, they provide an absolute upper limit for household coverage.

Box 2.3 ***Bolsa Familia* and *Dibao*: two examples of cash transfer programmes**

The very rapid increase in coverage is a significant achievement, but a majority of poor households remains uncovered (Figure 2.14). Rural migrants are explicitly excluded, due to the urban registration system (*hukou*). Fiscal considerations enter into the determination of local poverty lines by local governments, with the implication that entitlements cover only part of the poverty gap. This also implies that the benefit does often not cover the basic needs of the poor. Intrusive methods used to determine eligibility and administer the benefit might also discourage people from applying (Cai *et al.*, 2010). For example, the house of the individual applicant is searched and the family and neighbours are questioned. The results of the scrutiny are to be posted upon a public board set in the midst of the community's common grounds, in order to solicit the views not just of immediate neighbours but of everyone in the community acquainted with the applicant family's true state of eligibility, and of everyone in a position to see the targeted family members' daily comings and goings (Solinger, 2008). Some features of the *Dibao* programme may also be seen as preventing recipients from exiting poverty. In some cities, households having a computer or a car, using a cell phone, and arranging a child to enrol in special classes for training and studies are not eligible to the programme (Solinger, 2008). Besides, the method of calculation of the benefit implies that any increase in income results in a reduction of the benefit, implying a 100% marginal tax on labour income.

Brazil. The Brazilian *Bolsa Familia* was created in 2003 by bringing together four already existing federal schemes boosting school attendance, improving maternal nutrition, fighting child labour and providing a cooking gas subsidy. The programme targets two groups on the basis of self-declared income: the very poor and the poor. Both groups are eligible for monthly payments per child up to 15 years of age to a maximum of five children. The very poor also receive a flat payment regardless of household composition. The payment of the benefit is conditional to children fulfilling school enrolment and health visits requirements and pregnant women undergoing medical check-ups. However, the conditions are viewed as encouraging beneficiaries to take-up their rights to free education and free health care, and non-compliance is taken to be a manifestation of some kind of obstacle that the family cannot overcome to access the service rather than an unwillingness to comply (Fizbein *et al.*, 2009). Hence, it is only after three warning notices and a possible visit of a social worker that the benefit will be temporarily withdrawn.

The selection method has been often criticized on the grounds that it can lead to selection distortions such as patronage and leakage. Hall (2008) reports cases of clientelism and manipulation for electoral ends. It is also leading to relatively high inclusion errors compared for example with the Mexican CCT programme (Figure 2.14).

Although *Bolsa Familia* has no impact on consumption levels of the beneficiary households, it affects the allocation of expenditure towards food, educational materials and children's clothing (Soares et al., 2007). The programme has been successful at raising enrolment rates, but at the same times, more children are falling behind in schools. There is also no significant impact on the vaccination of children. This points to the limits of programme intervening on the demand side to have an effect on children education and health outcomes. The capacity of *Bolsa Familia* to serve its objectives is limited by the country's capability to meet the demand for social policies. The lack of investment in the quality of education available to disadvantaged children (Soares *et al.*, 2007), and the lack of access to a set of public services (Paes Souza and Pacheco Santos, 2009) prevent breaking the inter-generational transmission of poverty.

68. The cost of these programmes depends on the number of beneficiaries as well as the benefit level. Among the conditional cash transfers programmes discussed here, *Oportunidades* and *Bolsa Familia* are relatively generous. The transfers under *Oportunidades* represented in 2004 about 29.3% of total pre-transfer consumption among all beneficiaries (33.4% among poor beneficiaries) and those under *Bolsa Familia*, 6.1% of total pre-transfer consumption in 2006 (11.7% of the poor beneficiaries).[60] By contrast, in *Chile Solidario*, both the coverage and the benefit level are relatively low because the programme places a lower weight on the direct cash transfer relative to the psycho-social support and the design of a strategy to exit extreme poverty. Total expenditure ranges from a minimum of 0.15% of GDP for *Chile Solidario* to a maximum of 1.1% of GDP for the CSG in South Africa. *Oportunidades*, SRMP and *Bolsa Familia* represent about 0.4% of GDP, whereas total expenditure in the Indonesian *Bantuan Langsung Tunai* (BLT) amounted to 0.66% of GDP in 2006. In the Chinese *Dibao*, total expenditure more than doubled between 2007 and 2008, reaching 0.24% of GDP.

60. Source: Grosh *et al.* (2008).

Table 2.7. **Main (non-pension) cash transfer programmes**

	Name (date of creation)	Targeted population	Conditionality attached	Number of beneficiaries	Share of households covered	Expenditure (% of GDP)
Brazil	Bolsa Familia (2003)	Extremely poor families and poor families with children	yes	12.4 million households (Dec 2009)	20% (WB 2008)	0.4 (2008)
Chile	Chile Solidario (2002)	Extremely poor and poor families	yes	270000 households (Apr 2008)	6% of total population (2006) (WB2008)	0.15 (2008)
Chile	Subsidio Unico Familiar	Poor families	yes	2.7 million dependents (children, widowed mothers, disabled		
China	Dibao (1999)	Poor households	no	23.3 million individuals in urban areas; 43 million in rural areas (Dec 2008)	3.9 % of the population in urban areas; 6.7 % of the population in rural areas (2008), 5.3% nationally; source ECO survey	0.24 (2008)
Indonesia	Program Keluarga Harapan (2007)	Poorest households	yes	633000 households (2008)		
Indonesia	Bantuan Langsung Tunai (2005/06)	Poor and near-poor households	no	19.2 million households (2005/06)	34 % (source WB, 2008)	0.66 (2006)
Mexico	Oportunidades (started as PROGRESA in 1997, renamed in 2004)	Poor families with children	yes	5 million families (2009/10) or 25 million persons	18.5% (source Oportunidades 2010 and CONAPO 2008)	0.4 (2007)
Turkey	Social Risk Mitigation Project (2001)	Extremely poor households with children from birth to age 6, school-aged children aged 6–17, and women of child-bearing age	yes	2.6 million individuals or 919500 households in 2007 (source: WB implementation and completion report 2008, p.23)	about 5.5%	0.6 (2008)
South Africa	Child Support Grant (1998)	Poor households with children aged below 14	yes	8.7 million children	36.6% of households (2008; source Leibbrandt et al, 2010, table); 54% of children aged less than 15	1.1 (2008)

Source: OECD Secretariat based on various sources; see Annex 2 A4.

69. Many programmes condition the cash transfer both on enrolment and regular attendance of the household's children in school and on regular health centre visits for the younger children and often for pregnant women. This is the case of all CCT programmes (*Bolsa Familia*, *Chile Solidario*, *Subsidio Unico Familiar*, *Oportunidades*, PKH, and SRMP), but the Child Support Grant in South Africa – not identified as a CCT -- also has school enrolment and attendance requirements. Because of this conditionality and the fact that women tend to spend a higher share of the benefits they receive on children and house-related expenditure than men, all the CCT programmes reviewed here pay the benefits to mothers. The frequency of verifying compliance varies widely, from every week in the first two months in *Chile Solidario* to once a year in the Chilean *Subsidio Unico Familiar*, depending in part on the type of conditions that a programme imposes (Fizbein *et al*., 2009). The type of sanctions in case of non-compliance and the degree of enforcement also vary quite substantially across programmes.[61]

61. A temporary reduction of all or part of the benefit is applied in Mexico, followed by an eventual termination of the benefit for repeated non-compliance. But, because they are targeted at the poorest groups of the population, conditional programmes do not always take a hard line on compliance. It is only after three warning notices and a possible visit of a social worker that the benefit will be temporarily withdrawn. In the same spirit, in case of non-compliance with the school attendance requirement in South Africa, a social worker will put in place steps to ensure that the child attends, but punitive measures such as stopping the grant are not envisaged (SARS, 2010).

Targeting is important but costly

70. All the cash transfer programmes reviewed are means tested and try to target the poor (Table 2.78). This is especially desirable in countries with scarce public funds and many competing demands on public budgets, since proper targeting increases the benefits the programmes can achieve with a given budget or, alternatively, allows to achieve a given impact at the lowest cost (Grosh *et al*., 2008). However, given the relatively low levels of literacy and administrative registration among the targeted population, most of the programmes are based on proxy means-tests, relying on characteristics of the households[62] to estimate an income, based on a formula generally derived from statistical analysis of household surveys. South Africa is the only country where the social agency in charge of the grants establishes an actual means-test. In the case of CCT programmes, the proxy means-test is often preceded by a geographical zoning, identifying the regions with high poverty levels, and conditioning eligibility to living in such regions. This is the case in Brazil, Indonesia and Mexico, which are large countries with wide regional inequalities.

71. However, there are potential costs associated with close targeting.[63] First, it is expensive for the public institutions in charge to gather the information required for the means-test. Second, applying to the programme is also costly for the applicants in terms of time, cash cost to gather the information, travelling to the registration site etc. Third, social costs may arise if programme participation carries some sort of stigma. Hence, in practice, targeting is never completely successful.

72. One way to measure targeting accuracy is through errors of inclusion, *i.e.* the percentage of households who are included in the programme when they should not be, and errors of exclusion, *i.e.* the percentage of households who are eligible in principle but are not covered by the programme. Among the five programmes for which such data are available, errors of inclusion range from 20% in *Chile Solidario* to 49% in the Brazilian *Bolsa Familia* (Figure 2.14).[64] Errors of exclusion are generally larger (and often significantly so) than errors of inclusion, reaching up to 70% in the case of Mexico. Obviously, one important cause for errors of exclusion, or under-coverage, is the limited size of the budget that governments allocated to the programme. In fact, a trade-off exists between extending coverage (reducing exclusion errors) and improving efficiency in targeting (reducing inclusion errors).[65] In Indonesia, the BLT distributed in 2005/06 to mitigate the effects of the reduction in fuel price subsidy on poor households was

62. Characteristics typically include the location and quality of the dwelling, its ownership of durable goods, its demographic structure, and the education and possible the occupations of its adult members (Grosh *et al*., 2008).

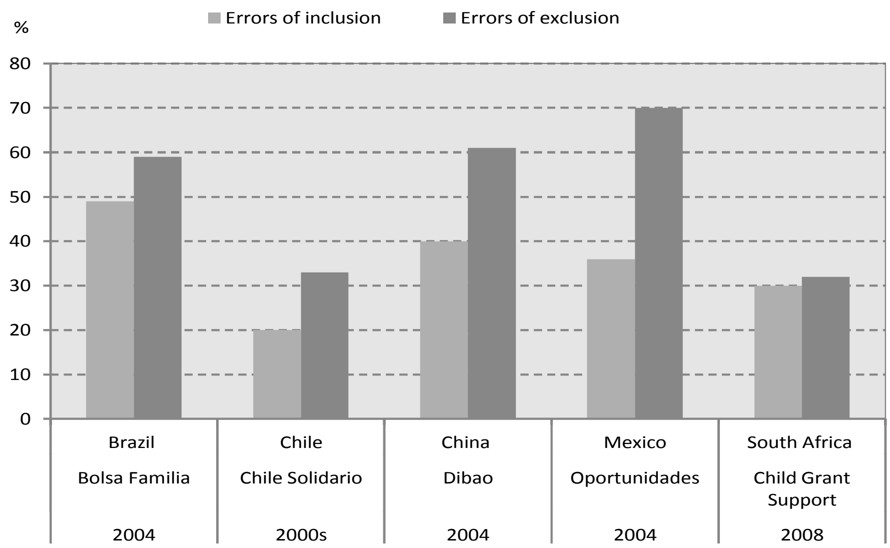
63. For a detailed discussion of those costs, see Grosh *et al.* (2008).

64. In the Brazilian case, data on the average income of recipients suggest that most of these people are only slightly above the programme's poverty line (Kerstenetzky, 2008). The fact that the means test is conducted only at the time of application to the Child Support Grant in South Africa is likely to explain part of the inclusion error in this case. Fizbein *et al.* (2009) also note that, in addition to differences in the quality of the proxy means-test itself, there is also significant variation in how implementation is done (whether households are visited or not; whether some variables are verified or not, comprehensively or for a sample, etc.). In addition, while the proxy means-testing system is led by a central agency, the day-to-day staffing for it is delegated, often to municipalities, with considerable variability in independence and quality control.

65. In South Africa, Leibbrandt *et al.* (2010) report that the lack of correct documentation requested for the means-test is the most common reason for people not applying to the Child Grant Support. The Mexican programme has more efficient targeting than *Bolsa Familia*, but at the price of having fewer poor households covered (Soares *et al.*, 2007). Overall, however, when looking at the ratio of transfers to pre-transfer income at different income percentiles, the three Latin American and the Turkish programmes seem to be well targeted (Soares *et. al*, 2007, and World Bank, 2008b)

found to have left 40% of the poorest households (belonging to the lowest two deciles) unattended (SMERU, 2006). Considering that budget limitations played no role there, this rate of exclusion is high. This might be explained by the fact that targeting had been left to local authorities, with scant monitoring and technical assistance from the central authorities; and there was no involvement of communities and no possibility for households to verify and contest the local authorities' decisions.[66]

Figure 2.14. **Targeting errors**



Source: Soares *et al.* (2007) for Brazil and Mexico; Contreras *et al.* (2008) for Chile, Wang (2007) for China; based on Leibbrandt *et al.* (2010) for South Africa.

Cash transfer programmes play a role in smoothing consumption and reducing poverty and inequality…

73. The evaluation of cash transfers programmes is challenging for two main reasons. First, such programmes have multiple objectives and second, finding an appropriate control group for drawing comparisons is sometimes impossible with the available data. These challenges partly explain the great differences that exist in the number and quality of impact evaluation studies across programmes.[67]

74. The effect on immediate consumption is an important determinant of poverty alleviation in the short-run. Available evaluation studies point to a significant increase in per capita consumption for *Bolsa Familia* and *Oportunidades*, of respectively 7 and 8% (Fizbein *et al*., 2009). Skoufias (2002) and Satriana (2009) also respectively find that the Mexican and Indonesian programmes were quite successful in smoothing consumption for recipient households. In Indonesia, BLT allowed recipient households to compensate for up to 100% of the loss in income due to the increase in fuel prices in 2005, and the biggest proportion of BLT funds was used for food consumption (mainly rice).

66. Smatriana (2009) notes that levies were also applied on the benefits by local authorities, often to redistribute to poor households who were not selected.

67. For example, the experimental design of *Oportunidades* and its continuous evaluation by an external institution has led to a large number of studies analysing the impact of the programme on various measures, while only little is known about the Indonesian BLT.

75. In most of the countries covered, cash transfer programmes have also reduced poverty. This is especially the case of *Oportunidades* and *Bolsa Familia*, notably when extreme poverty is considered (Soares *et al.*, 2007). A positive, albeit small, impact on reducing poverty is also found for *Dibao* in China (Cai *et al.*, 2009). All programmes are also found to reduce inequality significantly.[68]

… and in improving school attendance and health status for children

76. Overall, programmes seem to have fulfilled the objectives of raising school attendance of the children in households participating in the programmes and improving their health status, thus reducing the risk of poverty traps:

- Increases in enrolment rates and school attendance compared with control groups are found for most programmes.[69] An evaluation of the Mexican *Oportunidades* further shows that it also improved the enrolment of children that do not participate in the programme through spillover effects (Bobonis and Finan, 2008).[70] The Turkish programme, which pays higher benefit rates for girls' than for boys' school attendance, has resulted in a particularly large increase in school enrolment for girls.[71] Larger transfers are not consistently associated with larger effects on school enrolment. For example, *Oportunidades* makes large payments, but the impact on enrolment is generally not that big (Fizbein *et al.*, 2009). Besides, no major impact on test scores for children in *Oportunidades* is found,[72] and this tends to be the case for other similar programmes as well.

- CCTs also improve certain health outcomes, although this depends importantly on the availability and quality of health infrastructure. CCTs can improve health outcomes through the

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68. Soares *et al.* (2007) show that about 21% of the fall in the Gini over 1995-2005 in Brazil and Mexico can be associated to *Bolsa Familia* and *Oportunidades*, respectively. Similar positive effects on inequality for the two programmes are found by Fiszbein *et al.* (2009 and Barros *et al.* (2006) for Brazil only. In contrast the impact of Chile Solidario on inequality was smaller, most likely because of the low benefit paid to participants (Soares *et al*., 2007) and the fact that the cash transfer is seen as a way to motivate people making use of social workers' services rather than supporting their income.

69. *Oportunidades* has had large effects on school enrolment and attendance (see Fiszbein *et al*., 2009 for a review of different studies), especially for children that move from primary to secondary school and has achieved its objective of increasing schooling and reduced child labour by 15 percent (Parker and Skoufias 2000; Skoufias and di Maro, 2006). Positive effects on school attendance, lower probability of absence and dropping out are found for *Bolsa Familia* (Soares *et al*., 2007). In South Africa, Case *et al*. (2005) find that receipt of the child support grant benefit results in an 8.1% increase in school enrolment for the 6 year olds, and a 1.8% point increase for those aged 7 years in two regions (Leibbrandt *et al*., 2010). Galasso (2006) shows that *Chile Solidario* has improved education outcomes for participant households in terms of school enrolment but also adult literacy.

70. Angelucci and de Giorgi (2008) analyse potential general equilibrium and spillover effects of *Oportunidades* to find a positive effect on consumption for ineligible households living in treatment communities. In addition, these indirect programme effects are larger for households facing a negative shock.

71. The girls' secondary-school attendance rate rose by 5.4 percentage point, and by 1.3 percentage point in the primary school (a smaller increase due to already high attendance rate in primary school) (Ahmed *et al*., 2007).

72. Behrman *et al.* (2005) find that children in the random sample that received *Oportunidades* transfers for two more years only had marginally higher schooling grades and wages than those in the control group.

obligations they stipulate for benefit recipients, but also through increased awareness. In practice, evaluation results are mixed and vary across programmes and outcomes examined.[73]

77. CCTs can also improve the well-being of children and their future prospects by reducing child labour through i) the conditionality that requires children to attend school (and increases awareness among parents), and ii) the income effect which reduces the pressure on parents to put children at work. Results available for *Oportunidades* show that work among older children, aged 12–17, was reduced, especially among boys (for whom baseline levels of child work also were substantially higher). In the Mexican programme again, Skoufias and Parker (2001) show that domestic work decreased substantially, especially for girls.

Having means-tested programmes already in place makes it easier to mitigate the effects of the crisis

78. A number of countries (Chile, China and Indonesia) have introduced specific one-off cash transfers to cushion the impact of the shock on the poorest groups. In doing so, both Chile and China have made use of the already existing schemes to identify eligible households. In Chile, two payments equivalent to about 25% of the monthly minimum wage were made in March and August 2009, reaching respectively 3.7 and 3.9 million households already participating to the various social assistance programmes.[74] In China, in addition to the ongoing increase in coverage (see Box 2.3), a one-off transfer was provided to poor households, equivalent to the average *Dibao* monthly benefits in urban areas in 2008,[75] and to two average *Dibao* monthly benefit in rural areas (Cai *et al*., 2010). 63 million Dibao recipients benefited from this exceptional transfer, as well as 11 million other households, which were probably already identified as vulnerable households by the local committees in charge of identifying households eligible to the *Dibao*.[76] In Indonesia, the BLT already used twice to mitigate the effects of reductions in fuel price subsidies in 2005 and 2008, was activated for a third time in March 2009.[77] A benefit equivalent to about 20% of the minimum wage in Jakarta should have reached 18.5 million households. It is not clear, however, whether changes have been made in the way households were selected compared with 2005 and 2008, when targeting problems were important (see above).

79. Some countries have introduced permanent reforms that were not specifically motivated by the crisis, but were part of a long-term anti-poverty strategy:

- In Brazil, for example, *Bolsa Familia* has been significantly scaled up in 2009, but along the lines planned before the crisis. Following a change in the estimation methodology, the poverty line that was used to target poor families was revised upwards to better take into account the income

73. Agüero *et al.* (2007) find that children receiving the Child Support Grant during the first three years of their lives are likely to have significantly higher height-for-age than those who have not. Positive effects on various health outcomes are also found for *Oportunidades* (Gertler, 2004; Rivera *et al*., 2004; and Behrman and Hoddinott, 2005) and on immunization for the Turkish SRMP (Grosh *et al*., 2008). The lack of access to health services for the benefit recipients explains why the initial requirement on immunisation for children receiving the CSG was subsequently dropped in South Africa (Leibbrandt *et al*., 2010).

74. Source: answer by the Chilean authorities to the OECD questionnaire.

75. It is equivalent to about 15% of the minimum wage in Shanghai in 2009.

76. They are likely to include registered unemployed, *wubao* families in rural areas (i.e. elderly without children who are already provided some benefits), and those who applied for the *Dibao,* were rejected, but are also likely to be quite vulnerable to income shocks.

77. Information comes from a post on the Indonesian Ministry of Social Affairs website dated from November 2008 http://en.depsos.go.id/modules.php?name=News&file=article&sid=82 and from answers to the ILO questionnaire.

volatility of the poorest population groups which is largely due to their participation in the informal labour market. The 17% increase in the poverty line raised the estimated eligible population from 11.1 million to 12.9 million and, at the end of December 2009, 12.4 million households were effectively covered. The benefit level was also increased by 10%. Together, these two measures imply a 3.5% growth in the budget for *Bolsa Familia*.[78]

- In South Africa, also as part of the long-term programme strategy which aims to extend the CSG to children up to 18 in 2012, the CSG was extended to children aged up to 15 in 2009, instead of 14 as in 2008. As a result, the number of children covered by the programme increased by about 3%. The income threshold used for eligibility was also revised upwards. An additional measure was also taken in response to the crisis and increasing fuel and food prices: all social assistance grants were increased by 20 Rands above the usual annual increase in October 2008, which represents an increase of about 10% in the case of the CSG.

80. Having cash transfers programmes in place is instrumental to alleviate the effects of the crisis on the chronically poor. First, as seen above, the transfers provided tend to reduce poverty and thus constitute a (partial) protection against shocks. In addition, conditional transfers reduce possible long-term consequences of the shocks on school attendance and health status of children. Second, having existing programmes in place makes it easier to introduce exceptional transfers for those already receiving benefits in case of temporary shocks.

81. However, cash transfer programmes in emerging economies are less appropriate to reach those who fall into poverty as a direct consequence of the crisis. Apart from possible budget constraints, the administrative capacity in these countries is too low for the programmes to automatically register new households falling into poverty as eligible recipients. Means tests would have to be administered at high frequency to keep pace with changing household circumstances, which is far from being the case due to cost and capacity constraints.[79] Besides, proxy means tests are geared towards indicators of chronic poverty and will not usually identify the newly poor, who may still fall outside the proxy means test but experience a sudden drop in household income and can no longer afford to buy medicines or pay school fees (World Bank, 2008). Although this is likely to result in less accurate targeting, it is nevertheless possible to rely on the knowledge of local authorities, such as in China, or on community-based assessments, to identify those who have suffered significant income losses and may have become poor due to the crisis.

3.4. Public works programmes

82. Compared with cash transfer schemes, public works programmes (PWPs, or public employment programmes, or workfares) can be more easily mobilized to provide support to the newly unemployed workers who are not covered by unemployment compensation schemes. PWPs have been extensively used in emerging and developing economies[80], and have in fact often been launched or scaled up during economic crises to tackle unemployment and poverty especially for the most disadvantaged groups (women, youth and the disabled).[81] They tend to have two objectives: i) provide a safety net to the poor

78. Source: answer by the Brazilian authorities to the OECD questionnaire.

79. They are done every 2 years in Chile (OECD, 2008), and every three years in Mexico (Grosh *et al.*, 2008). They should be in principle reviewed at least every two years by municipalities in Brazil (Lindert *et al.*, 2007).

80. They also have a long history in OECD countries, even if they have fallen somewhat out of function in recent years as a result of evaluations giving them a poor grade.

81. The emergency employment programmes were introduced in Chile in 1982 as a response to the crisis and were revived with the direct employment programme as a response to the 1999 crisis. Likewise, the Mexican Programa de Empleo Temporal (PET) was initiated at the time of the tequila crisis in 1995, and

segments of the population through (most often unskilled) labour-intensive public works; and ii) contribute to local development through infrastructure investment. [82] Both objectives imply that they differ from the PWP programmes generally used in advanced economies. First, they tend to be more a social policy tool aimed at providing temporary income support to disadvantaged groups than an active labour market measure aimed at improving the employability of participants. Second, the projects undertaken should not only create employment but also benefit the local community, *e.g.* through road construction and maintenance, drainage maintenance projects, public building maintenance, etc (Grosh *et al*, 2008).

Table 2.8. **Main features of PWPs**

	Name of programme	Year	Number of beneficiaries	Beneficiaries as % of labour force	Expenditure as a share of GDP (%)	Wage share in total expenditure (%)	Average duration (days)
Chile	Various programmes (PIC, PEE and PMU)	2003	16,161	0.3	0.06	..	..
India	NREGA	2006/07	21,016,099	4.7	0.21	68	43
Indonesia	Various programmes	2000	4,796,075	4.9	0.06	..	..
Mexico	Programa de Empleo Temporal (PET)	2003	817,000	2.3	0.02	79	87
South Africa	Expanded Public Works Programme	2006/07	316,814	1.82	0.10	11	80
OECD	(unweighted average)	2007		0.6	0.05	..	..
Chile	Various programmes (PIC and PEE)	2009	15,971	0.2	0.08	..	..
India	NREGA	2008/09	45,100,000	9.7	0.52	68	48
Mexico	Programa de Empleo Temporal (PET)	2009	699,000	1.6	0.02	..	55
Russia	Public and Temporary Works Programme	2009	792,000	1.0	0.02	..	50
South Africa	Expanded Public Works Programme	2008/09	570,000	3.4	0.25	11	80

Notes:

Chile: employment programmes include Programa de Inversiones en la Comunidad (PIC), Programa de Emergencia de Empleo (PEE) and Programa de Mejoramiento Urban (PMU); total beneficiaries do not include numbers for PMU; total beneficiaries in 2009 only include PIC and PEE; expenditure for 2009 only includes information from Proempleo and CONAF.

India: beneficiaries refer to number of households rather than persons; figure on wage share refers to 2007/2008; source: Chhibber *et al*., 2009.

Indonesia: beneficiaries include total of all employment creation programmes and PDM-DKE; expenditure refers to all productive employment generation programmes and PDM-DKE.

Mexico: PET (total=SEDESOL SEGARPA SCT SEMARNAT); expenditure in 2008 and 2009 only includes wages and some materials and tools, but no administration costs.

Russia: data refer to the period from January to October 2009; number of beneficiaries only includes the unemployed and excludes workers at risk of layoff and refers to those who have started and completed an assignment; average job duration refers to all beneficiaries; total expenditure for the two groups of beneficiaries is Rub.14.48 billion; the share of expenditure for the unemployed is estimated to 40% of the total.

South Africa: data for 2009 only refer to the period 1/4/2009-31/12/2009; the number of total beneficiaries is calculated on the basis of the number of persons-year and the average job duration; job duration is calculated as an average for the period between April 2004 and March 2009, for the four sectors.

Source: see Annex 2. A4.

83. As shown in Table 2.8, the cost and coverage of PWPs vary greatly across countries (for a description of the different programmes[83], see Annex 2. A4). Emerging economies spend a substantial amount of their GDP on PWPs. By far the largest programme, is the Indian Mahatma Gandhi National Rural Employment Guarantee (ex-Maharashtra Employment Guarantee Scheme/NREGA) (Box 2.4) with a

the Indonesian Padat Karya and PDM-DKE (Pemberdayaan Daerah Dalam Mengatasi Dampak Kekeringan dan Masalah Ketenagakerjaan, Regional Empowerment in Overcoming the Impact of Drought and Labour Problems) were also adopted at the time of the Asian crisis in 1997-1998.

82. See Grosh *et al* (2008) for an extensive review of public employment programmes.

83. Similarly to section 3.3, this section only covers the main PWPs.

spending of about 0.52% of GDP and a coverage of about 10% of the labour force in 2008/2009, against respectively 0.05% of GDP and 0.6% of the labour force on average in the OECD in 2007. South Africa also spends much more than the OECD average and the coverage of the Expanded Public Works Programme (EPWP) was about 3.5% of the labour force in 2008/2009. Chile and Indonesia[84] spend a slightly higher share of GDP on direct job creation programmes than the OECD countries on average. While coverage is low in Chile, it reached 5% of the labour force in Indonesia in 2000, which is significantly higher than in OECD countries such as Belgium, France and Ireland which operate direct employment programmes covering between 1.1 and 2.7% of the labour force.[85]

Getting the wage level right is crucial

84. The maximum duration of jobs, the type of work to be performed, the timing of the projects[86] offered, especially in rural areas, and the level of wages paid[87] to the participants are key design features of the programmes and determinants of their success (Subbarao, 1997). The average duration of a job in the programmes covered here ranges from 48 days in India to 120 days in Chile. Wage setting, is one of the most important elements of PWPs as it affects the selection of participants through (self-) selection and the composition of participants. A high wage, relative to the average market wage in the area and sector of work, can create job disincentives among those already employed and lead to job rationing (for a summary of evidence on this, see Subbarao, 1997). In contrast, a relatively low wage operates as a self-selection device encouraging the participation of those who are most in need. The wages offered by the Mexican PET and the Indian NREGA are equal to the minimum wage, which ensures correct targeting as minimum wages are fairly low in these countries. Evidence suggests that a low wage is sufficient to target those mostly those in need and to minimize disincentives to work (Paci *et al.* 2009). By contrast, evidence from the Indonesian Padat Karya programmes suggests that setting the wage above market levels to attract workers creates disincentives for work among those already in work (Sumarto *et al*., 2000; Betcherman and Islam, 2001). Similar evidence is found in the case of the PWP in Chile, where wages were equal to the minimum wage, which is fairly high by international standards (insert here reference on MW?). Nonetheless, the balance is difficult to find as setting the wage too low might go against the principal objective to provide a minimum income support to the poor.

85. PWPs have to find a balance between providing income support to the poorest and contributing to local development. The higher the labour intensity of the projects, the higher the probability of meeting the first objective and the lower the probability of meeting the second one. The higher the share of wages paid to participants in total expenditures, the larger is the impact of the programme in terms of income support provision. The wage share depends on the labour intensity of the programme, which, in turn, is determined by the type of work performed. Both the Indian NREGA and the Mexican PET spend a

84. The data on Indonesia date back to 2000, just after the launching of the PWPs to respond to the Asian crisis' impact on the labour market.

85. These are 2007 data from OECD (2009a).

86. The timing of the scheme can play an important role as for example the case of farmers that can rely on the PWP in the low season. Although the MEGS doubled the wage offered in 1988 (to follow the increase in minimum wage) to levels above market wages and hence led to job rationing, it still had a beneficial impact on income smoothing for the participants' households (Subbarao, 1997). A low-season-only employment scheme may be more efficient and effective than a programme that operates throughout the year if one takes into account its impact on income smoothing as well as its costs (Murgai and Ravallion, 2005).

87. Moreover, the mode of payment may have an impact on targeting and selection of participants. Subbarao (1997) argues that payments in-kind, such as in the Sampoorna Grameen Rozgar Yojana (Village Full Employment Programme- SGRY) programme in India, may attract more women than men.

substantial share on wages (79% and 68%, respectively). By contrast, in the EPWP, the wage share is only about 11% of total expenditure in 2008/2009, implying that the benefits participants derive in terms of income per Rand spent on the programme are rather limited. This is due to the high capital intensity of the projects in two of the sectors concerned (economic sector and infrastructure) (Box 2.4), and might also be related to the fact that the programme provides training to participants. However, this aggregate figure hides differences across the four sectors covered by the programme: in the social sector, despite the relatively low wages paid to participants, wages represent 43% of the total cost, while they represent only 9% of total expenditure in the more capital-intensive infrastructure sector.

Box.2.4. **The Indian and South African PWPs**

India. The National Rural Employment Guarantee Scheme (NREGA) is India's largest public works' scheme and possibly one of the largest in the world in terms of coverage (10% of the labour force in 2008/09). It was initially established in 1978 in the state of Maharashtra and was slowly extended to reach complete coverage of the country in 2008/2009. The scheme aims to provide to all rural households a guarantee of up to 100 days of unskilled manual wage employment (mainly in water conservation, land development and drought proofing) per year at the minimum wage for agricultural workers in the state. If no work offer is made 15 days after the demand is done, the claimant gains the right to receive an unemployment benefit of between 30 and 50% of the minimum wage. The scheme was significantly scaled-up in 2009, but this expansion is more likely to be linked to national elections than to the global economic downturn (information has been requested on this).

Although the NREGA can play an important role in reducing short-term poverty and smooth employment for rural labourers and income throughout the year, its enormous potential has not yet been fully explored (Chibber *et al*, 2009). Fund utilization remains low especially in poorer states, possibly due to the funding design of the scheme. Fund allocation is not pre-determined based on state income levels, but instead it is based on each State's Annual Work Plan and Budget Proposal submitted to the Ministry of Rural Development. As a result, low-income states with more households below the poverty line, and lower than average capacity to plan, manage and forecast labour demand, tend to receive on average less resources (Chakraborty, 2007). In addition, weak implementation capacity at the local level limits the benefits poor rural communities derive from the scheme. Average duration of jobs is only 50 days, possibly because rural labourers tend to participate in the scheme only in the lean season and in special drought conditions.

South Africa. The South African Expanded Public Works Programme (EPWP) was launched in 2004, as the new version of the National Public Works Programme (NPWP) and the Community Based Public Works Programme (CBPWP). It is the third-biggest infrastructure spending programme in the world and a key component of the South Africa's social protection strategy. The programme provides short-term work to the unemployed and to marginalized groups, mainly unskilled, poor and youth in four areas, with infrastructure being the largest among them. The scheme aims not only at providing a temporary job to poor, unemployed persons, but also at strengthening their skills through training and offering them "exit" strategies at the end of their participation in the programme.

However, the EPWP has been criticized on the ground of limited capacity to pursue both objectives at the same time (Hemson, 2007). As a result, the second phase of the scheme announced in April 2009, places more emphasis on employment generation relative to training provision in order to maximise the benefits from job creation. The quality of jobs offered by the EPWP is fairly low both in terms of job duration and wages. As in the Indian scheme, average job duration is shorter than initially stipulated, especially in areas with high unemployment rates because of the pressure to rotate jobs (Lieuw-Kie-Song, 2009) and wages are low (Hemson, 2008). In addition, low actual spending possibly due to unclear funding conditions at the moment that projects decisions are taken, in combination with weak implementing capacity further limit the effectiveness of the scheme. The second phase of the programme aims to address these challenges by improving coordination across governmental bodies and providing incentives to promote the programme expansion and increase in job duration.

Design and institutional setup determine the programme's success

86. The institutional framework and implementation design are key factors for the effectiveness of PWPs (Subbarao, 1997). Implementation of the programme by local communities and governments can be advantageous as they have a better knowledge of the needs of poor people in their areas and hence are in a

better position to target specific groups and monitor the programme. Involving local communities in the identification of projects for implementation ensures that such projects respond to their needs and the assets created are of use to them (Ravallion, 2008). Their involvement, as well as that of civil society groups, in the design, implementation and monitoring of the programmes is crucial and should start as early as possible. Furthermore, the programmes often involve various ministries and government departments as well as other institutions, and efficient coordination among those, although costly, is instrumental for the success of the programmes.[88] Examples of PWPs where the targeting and implementation are conducted at the local level are the NREGA in India and the PDM-DKE in Indonesia. In the former, the implementation by local governments has been seen as an improvement of the scheme compared to its predecessors (Chhibber *et al*., 2009). In the latter, funds were provided from the central government directly to the communities *via* local governments and were determined as a function of the number of poor and unemployed in the village. Targeting and monitoring were also conducted at the village level (Lubis, 1999). However, local-level implementation and monitoring entails the risk of corruption and nepotism. For example, the PDM-DKE was heavily criticized for being linked to national politics (1999 national elections) and associated to corruption.

87. Close monitoring of the operation and outcomes of the schemes as well as their management and financial situation are necessary for the evaluation of PWPs. The outcomes that are usually considered in the evaluations include the share of the unemployed and the poor among beneficiaries, their impact on participants' incomes and the reintegration of the participants into non-subsidised employment following their participation in the programme. The way infrastructure projects were selected in the Indonesian PWPs did not favour the poorest groups of the communities (Perdana and Maxwell, 2004). Moreover, the coverage of the programmes among disadvantaged groups such as women, ethnic minorities and scheduled castes and tribes (in India) are also important parameters of their success. The Indian programme has achieved an increase in the share of women's participation from 40% in 2006 to 49% in 2009 across the country (OECD, 2010b). In contrast, the employment programmes in Indonesia are characterized by low female coverage (Betcherman and Islam, 2001).

88. No single programme discussed in this section has been successful on all grounds. While the Chilean direct employment programmes have been quite successful in increasing the incomes of participants' households and the chances of employment for participants (Bravo *et al.* 2004), they are thought to have created disincentives for work among the old and increased school drop-out rates for the young (Chumacero and Paredes, 2007). Similarly, the Indian NREGA which is considered successful in terms of jobs creation, including for marginalized groups (Chhibber *et al*., 2009), has nonetheless been criticised for misuse of programme funds, ghost workers, and underpayment of wages and corruption (Ajwad (2007). In addition, high administrative costs and uncertain returns to infrastructure investment projects contribute to the debate on its effectiveness (Chhibber *et al*., 2009). Ajwad (2007) argues that guidelines are not always followed for the identification of workers and projects and days of work and wages are often lower than the ones stipulated in the programme (100 days and minimum wage, respectively). The padat karya (employment) programmes in Indonesia have also had rather poor effectiveness, covering only 8.3% of poor households in late 1998 and having non-poor participating at a rate of 70%, a result which can largely be attributed to the failure of the self-selection mechanism due to the high wage proposed to participants (Sumarto *et al*., 2001). Furthermore, limited long-term planning and weak capacity building reduced the effectiveness of those schemes (AusAID, 1998; URDI, 1999).

88. The Indonesian Padat Karya is an example often provided of a set of uncoordinated PWPs, ran by various government departments stretching administrative capacity. McCord (2007) argues that the management of the South African EPWP within the Department of Public Works is responsible for its institutional isolation from other components of the South African social safety-net system.

89. More generally, the effectiveness PWPs in combating poverty of relative to other safety nets is debated. For instance, Murgai and Ravallion (2005) argue that the Indian PWP is quite costly and that an unconditional cash transfer to all households in rural areas in India may be more successful in reducing poverty compared with an employment scheme that aims to attract poor individuals. A similar argument is made by Agarwala and Khan (2002) who question the effectiveness of the Indian NREGA in creating employment and reducing poverty, in comparison with general programmes to increase growth.

Scaling up existing PWPs can be useful in times of crises

90. While PWPs are not the most appropriate tools to tackle endemic poverty, they can nevertheless be quite useful instruments in times of crisis. Contrary to cash transfers programmes, a low wage ensures self-selection into PWP and hence minimizes targeting errors. Along the lines of OECD countries (OECD, 2009), Chile, Mexico and South Africa, extended the coverage of existing public employment programmes and increased the funds allocated to them to mitigate the effect of the global crisis. The expansion of the EPWP in South Africa led to a 20% increase in the number of jobs created between April and December 2009, relative to the same period in 2008. The authorities have announced a target of 4.9 million jobs from 2010 until 2014,[89] amounting almost to a tripling of the number of jobs created in the first five years of the programme's operation. It is not clear whether this increase was already planned before the crisis, but it was in any case brought forward to respond to the recent increase in unemployment. The Mexican Government scaled up the PET to cover about 700000 persons, implying an increase in coverage by about 90% and in expenditures by 71% relative to 2008. Chile has also scaled up the already operating public works schemes, such as the PEE, PIC and PMU, to tackle rising unemployment due to the crisis (comparative data have been requested on this), but these programmes remain substantially smaller than those in Mexico and South Africa.

91. Russia, for its part, launched a new programme. The Public and Temporary Works Programme (PTWP) launched in 2009, combines in fact two schemes: i) a short-time work scheme for workers at high risk of dismissal involving a minimum wage payment for works done by employees at their enterprises, and ii) a public works programme in municipalities for the unemployed, with no investment content.[90] As a result, only a small part of the scheme would qualify as a public works programme similar to the ones operating in the other countries covered in this section. The component of the programme for the unemployed covers about 1% of the labour force and its expenditure stands at 0.02% of GDP. The programme targets in priority unemployed not receiving unemployment benefits and those who have been unemployed for more than six months. Participation to the programme does not remove access to other benefits (unemployment benefits or social assistance). The main objective of the programme is to provide additional income support to participants.

92. The selection of projects to be undertaken is particularly important in times of crises: projects that entail high non-labour cost should be avoided, whereas labour-intensive ones would be more appropriate (Maloney, 2001). Comparing experiences during the 1990s crisis, Grosh *et al*. (2008) found that scaling-up the existing PWP as was the case in Mexico was more efficient than introducing a new one, as happened in Indonesia. Having schemes already in place avoids start-up costs and reduces implementation challenges, and this has allowed Chile, Mexico and South Africa to provide a quick, and easier to implement, response to the increase in the numbers of the unemployed resulting from the recent downturn.

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89. This corresponds to a total of just over two million full-time equivalent jobs opportunities. Source: answers to OECD crisis questionnaire.

90. Source: World Bank report (forthcoming).

Conclusions

93. All emerging economies in this chapter have been affected by the global economic crisis. However, its economic impact has been different across countries: while, for example, countries, such as Indonesia, largely managed to steer clear from the global crisis, others, such as Turkey and the Russian Federation, saw total output declining by about 10%. Fortunately, most of the emerging economies considered in this chapter now have made a full recovery in terms of their pre-crisis output growth (as of 2009Q3). Nevertheless, the labour market and social implications of the global crisis continue to affect the lives and welfare of many workers and households.

94. The way labour markets have adjusted to the global crisis differs strikingly across the emerging economies considered in this chapter. In the Russian Federation, most of the adjustment has taken the form of a cyclical reduction in real earnings, whereas in countries, such as South Africa and Turkey, this has taken the form of reductions in employment. However, while in Turkey, job losses have led to a large increase in unemployment, in South Africa the decline in employment has largely translated into higher inactivity. In Mexico, and to a lesser extent Brazil, the main risk is likely to be reduced job quality due to substantial increases in informal employment. All these risks may represent an important setback for the fight against poverty.

95. The employment and social policy challenges presented by the global crisis may be particularly daunting in emerging economies. In particular, most countries are facing the challenge of providing support to workers directly affected by job losses or earnings cuts while also helping poor households which may see their income falling further even if they were not directly affected by the crisis. The most important lesson from this chapter may be that in order to respond effectively to the sudden increase in social needs, it is crucial to already have social protection programmes in place. This obviously helps mitigating the social impact of the crisis through the existing mechanisms. However, it also allows governments to more easily and more effectively scale up or adjust such programmes to respond to the changing nature in needs. Perhaps then, the most effective response to the cyclical decline in aggregate demand may be to develop and improve structural employment and social policy frameworks.

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