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**Towards more inclusive employment
policy making: Process and role of
stakeholders in Indonesia, Nicaragua,
Moldova and Uganda**

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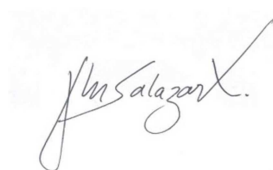
Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community. The integrated approach to do this was further reaffirmed by the 2010 Resolution concerning the recurrent discussion on employment².

In order to support member States and the social partners to reach this goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations and elaborations of this integrated approach and related challenges are contained in a number of key documents: in those explaining the concept of decent work,³ in the Employment Policy Convention, 1964 (No. 122), in the Global Employment Agenda and, as applied to crisis response, in the Global Jobs Pact adopted by the 2009 ILC in the aftermath of the 2008 global economic crisis.

The Employment Sector is fully engaged in supporting countries placing employment at the centre of their economic and social policies, using these complementary frameworks, and is doing so through a large range of technical support and capacity building activities, policy advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.



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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See http://www.ilo.org/public/libdoc/ilo/2010/110B09_108_engl.pdf

³ See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

⁴ See <http://www.ilo.org/employment>.

Foreword

The Employment Policy Convention, 1964 (No. 122) creates a basic obligation on ratifying States to make an explicit formal pronouncement of their employment policy. The Convention requires this employment policy to be positioned as a major goal within the national agenda and provides that “representatives of the persons affected by the measures to be taken, and in particular representatives of employers and workers, shall be consulted concerning employment policies, with a view to taking fully into account their experience and views and securing their full co-operation in formulating and enlisting support for such policies.” The Convention states that the scope of such consultations should not be limited to employment policy measures in a narrow sense, but should extend to all aspects of economic policy that affect employment. The social partners should therefore be consulted both on labour market or skills training programmes as well as on framing more general economic policies that have a bearing on employment promotion. The consultations should also be used as a mechanism to enlist the support of the persons affected for the implementation of the policy which is eventually adopted. It does not, however, create an obligation for such policies to be negotiated until a unanimous agreement is reached. Finally, this provision provides for a broad participatory approach to consultations, in that it does not limit consultations to the social partners, but refers to representatives of the persons affected by the employment measures. The consultations should thus include the views of other sectors of the economically active population, such as those working in the rural sector and the informal economy while balancing the need for inclusiveness with the obvious imperative of representivity.

Today, countries in all regions and at different levels of development formulate national employment policies that express their political will to promote full, productive and freely chosen employment. Experience has shown that a piecemeal approach to employment promotion does not work, and that a necessary step is to integrate employment goals and targets in national development frameworks, economic policies, and sectoral strategies. This needs to be supported by multi-component and coordinated employment policies that are adapted to local conditions and contexts, and negotiated by tripartite constituents. Experience also shows that sustained and concerted action, broad-based participation, and social dialogue facilitate stakeholder buy-in. The challenges in the way of a truly inclusive policy-making process are numerous and need to be better understood if they are to be overcome. Learning from national experiences, this research project attempts to document both the challenges and what works in which context. It also seeks to define what “real” participation in policy-making means in specific country environments and how to achieve it.

It is hoped that this working paper will facilitate a more inclusive and participatory approach to employment policy-making in the countries studied and elsewhere. This would greatly contribute to the development and implementation of employment policies having stakeholder ownership and, as a result, a greater chance of success.

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List of acronyms

AfDB	African Development Bank
ALBA	Alianza Bolivariana para los Pueblos de Nuestra America
ALMP	Active Labour Market Policies
APBN	Anggaran Pendapatan and Belanja Negara - State Budget of Indonesia
APEN	Asociación de Productores y Exportadores de Nicaragua
APINDO	Indonesian employer's association
ATC	Asociación de Trabajadores del Campo
AUSAID	Australian Agency for International Development
BAPPEDA	Provincial Development Planning Agency of Indonesia
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> - National Development Planning Agency
BCN	Banco Central de Nicaragua
BFP	Banco de Fomento a la Producción (Nicaragua)
BI	Bank Indonesia
BID	Banco Inter Americano de Desarrollo
BOU	Bank of Uganda
BPS	Central Statistical Agency of Indonesia
CAFTA-DR	Central American - Dominican Republic - United States Free Trade Agreement
CAMIPYME	Support Center for Micro, Small and Medium Enterprise (Nicaragua)
CAR	Central African Republic
CAUS	Confederación de Acción y Unidad Sindical
CBO	Community Based Organization
CCTN	Confederación Central de Trabajadores de Nicaragua
CEB	Chief Executive Board
CEI	Centro de Exportaciones Nicaragua
CES	Consejo Económico y Social
CDI	Centre for Development Initiatives
CDR	Centro de estudios para el Desarrollo Rural
C.G.T	Confederacion general de Trabajadores independientes
CIS	Commonwealth of Independent States
CNPM	National Confederation of Moldovan Employers
CNSM	National Confederation of Trade Union of Moldova
CNT	Consejo Nacional del Trabajo
COFTU	Central Organization of Free Trade Union
COMESA	Common Market for Eastern and Southern Africa
CONAPY	SME association in the field of wood and furniture
CONICYT	Nicaraguan Council on Science and Technology

CONPES	Consejo Nacional de Planificación Económica y Social
COPADES	Consultores para el Desarrollo Económico y Social
CPC	Consejos de Poder Ciudadano
CPI	Consumer Price Index
COSEP	Consejo Superior de la Empresa Privada
CSIS	Center for Strategic and International Studies
CSO	Civil Society Organization
CSOPNU	Civil Society Organization for Peace in Northern Uganda
CST	Confederación Sandinista de Trabajadores
CTN	Central de Trabajadores de Nicaragua
CUS	Confederacion de Unificación Sindical
CUTS	Consumer Unity and Trust Society
DANIDA	Danish International Development Agency
DEPNAKER	Kementerian Tenaga Kerja dan Transmigrasi
DFDI	United Kingdom Department for International Development
DGE	Dirección General de Empleo
DGIT	General Directorate of Industry and Technology
DPR	Dewan Perwakilan Rakyat
DRC	Democratic Republic of Congo
DWCP	Decent Work Country Program
EAC	East African Community
EABC	East African Business Council
EATUC	East African Trade Union Confederation
EBRD	European Bank for Reconstruction and Development
EEC	European Economic Community
EES	European Employment Strategy
EIIP	Employment Intensive Investment Program
EPRC	Economic Policy Research Centre
ERCERP	Estrategia Reforzada de Crecimiento y Reducción de la Pobreza
ETE	Effects of Trade on Employment
EU	European Union
FASERT	Foundation for Advancement of Small Enterprises and Rural Technologies
FBSI	Confederation of all Indonesian Trade Unions
FEUI	Facultas Ekonomi Universitas Indonesia
FDI	Foreign Direct Investment
FLSN	Frente Sandinista de Liberación Nacional
FTA	Free Trade Agreement
FUE	Federation of Uganda Employers

GAPRI	Gerakan Anti Permiskinan Rakyat Indonesia - Anti Impoverishment Movement for Indonesian Citizens
GBHN	Garis-Garis Besar Haluan Negara
GDP	Gross Domestic Product
GEA	Global Employment Agenda
GFC	Generalized System of Preferences
GOU	Government of Uganda
GRUN	Government of Reconciliation and National Unity
GSP	Generalized System of Preference
GTZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HDI	Human Development Index
HES	Health, Environment, Security
HIPC	Heavily Indebted Poor Countries
ICSP	Interministerial Committee for Strategic Planning
ICT	Information and Communication Technologies
IDP	Internally Displace Persons
IDR	Indonesian Rupiah
IDT	Inpres Desa Tertinggal - Presidential Instruction for Disadvantaged Villages
IJP	Indonesian Jobs Pact
ILC	International Labour Conference
ILO	International Labour Organization
ILO-JASPA	ILO - Jobs and Skills Program for Africa
ILO-EAMAT	ILO – East Africa Multidisciplinary Advisory Team
IMF	International Monetary Fund
INATEC	National Technological Institutes
INEC	Instituto nacional de Estadística y Censos
INFOCOOP	Institute for the promotion of Cooperatives
INIDE	Instituto Nacional de Información de Desarrollo
INJUVE	Instituto Nicaragüense de Juventud
INPYME	Nicaragua’s Small and Medium Enterprise Institute
INSS	Instituto Nicaragüense de Seguridad Social
IOE	International Organization of Employers
IOM	International Organization for Migration
IPEC	International Program on the Elimination of Child Labour
ISCO	International Standard Classification of Occupations
ISO	International Organization for Standardization
ITUC	Indonesian Trade Union Congress
IYEAP	Indonesian Youth Employment Action Plan
IYEN	Indonesian Youth Employment Network

JAMSOSTEK	Jaminan Sosial Tenaga Kerja - Social Security for Formal Worker in the Private Sector
KSBSI	Trade Union Confederation of Indonesia
KUR	Kredit Usaha Rakyat - People-based small-business loan
LARR	Latin America Research Review
LFPR	Labour Force Participation Rate
LIPI	Indonesian Institute for Sciences
LKS-Tripartite	Tripartite Cooperation Council
LPEM	Lembaga Penyelidikan Ekonomi dan Masyarakat
LRA	Lord's Resistance Army
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MGLSD	Ministry for Gender, Labour and Social Development
MIFIC	Ministerio de Fomento Industria y Comercio
MINED	Ministry of Education
MIPYME	Micro, Pequeña y Mediana Empresa
MITRAB	Ministry of Labour (Nicaragua)
MOES	Ministry Of Education and Sports
MOFPED	Ministry Of Finance, Planning and Economic Development
MOJCA	Ministries Of Justice and Constitutional Affairs
MOLG	Ministry Of Local Government
MOMT	Ministry Of Manpower and Transmigration
MSME	Micro, Small and Medium Enterprise
MTEF	Medium Term Expenditure Framework
MTTI	Ministry of Trade Tourism and Industry
NAADS	National Agricultural Advisory Services
NAPE	National Action Plan on Employment
NBS	National Bureau of Statistics
NCCCB	National Commission for Consultations and Collective Bargaining
NDP	National Development Plan
NDS	National Development Strategy
NEA	National Employment Agency
NEC	National Youth Employment Commission
NEP	National Employment Policy
NES	National Employment Strategy
NGO	Non-Governmental Organization
NHDP	National Human Development Plan
NHREP	National Human Resources and Employment Policy
NITLAPAN	Instituto de Investigación Aplicada y Promoción del Desarrollo Local

NORAD	Norwegian Agency for Development Co-operation
NOTU	National Organization of Trade Union
NPA	National Planning Agency
NPC	National Participation Council
NPEEY	National Program for the Economic Empowerment of Youth
NRA	National Resistance Army
NRM	National Resistance Movement
NSSF	National Social Security Fund
ODSME	Organization for Development of Small and Medium Enterprise
OECD	Organization for Economic Cooperation and Development
OSH	Occupational Safety and Health at Work
PEC	President's Economic Council
PDIP	Partai Demokrasi Indonesia Perjuangan - the Indonesian Democratic Party of Struggle
PDPCE	Programa de Defensa de la Producción, el Crecimiento y el Empleo
PEF	Programa Económico y Financiero
PES	Public Employment Services
PJP	Pembangunan Jangka Panjang
PKH	Program Keluarga Harapan
PME	Pequeña y Media Empresa
PNETD	Plan Nacional de Empleo y Trabajo Decente
PNPM	Program Nasional Pemberdayaan Masyarakat
PROLEGNAS	Program Legislasi Nasional
PROMIPYME	Program to Support Micro, Small and Medium Enterprise
PROPENAS	Program Pembangunan Nasional - National Development Program
PRSP	Poverty Reduction Strategy Paper
PSF	Private Sector Foundation
PSFU	Private Sector Foundation Uganda
PSPS	Public Service Pension Scheme
RCCN	Republican Commission for Collective Negotiations
Renja-KL	Rencana Kerja Kementeria/Lembaga – Work Plan of Ministries/Agencies
RECAP	Renforcer les Capacités pour la Production et l'Analyse des Indicateur du Travail Décent
REPELITA	Rencana Pembangunan Lima Tahun
RESPEK	Rencana Strategis Pembangunan Kampug
RKP	Rencana Kerja Pemerintah - Government Work Plan
ROU	Republic Of Uganda
ROSS	Republic Of South Sudan
RPJM	Rencana Pembangunan Jangka Menengah - Medium Term Development Plan

RPJP	Rencana Pembangunan Jangka Panjang - National Long-Term Development Plan
SAMASAMA	Fiscal Stimulus Package
SBY	Soesilo Bambang Yudhoyono
SBY-JK	Soesilo Bambang Yudhoyono - Jusuf Kalla
SIAL	Sistema de Información y Análisis Labora
SMA	General Upper Secondary Education
SME	Small and Medium Enterprise
SMK	Vocational Upper Secondary Education
SNBS	National Social Welfare System
SPAR	Agricultural and Livestock Sector
SPLA	Sudan People's Liberation Army
TKPK	Tim Koordinasi Penanggulangan Kemiskinan - Coordination Teams for Poverty Reduction
TNP2K	Tim Nasional Percepatan Penanggulangan Kemiskinan - National Team for the Acceleration of Poverty Reduction
UBOS	Uganda Bureau Of Statistics
UIA	Uganda Investment Authority
UNCC	Uganda National Chamber of Commerce and Industry
UNFF	Uganda National Farmers' Federation
UNFFE	Uganda National Farmers Federation
UNFPA	United Nations Population Fund
UNHS	Uganda National Household Survey
USSIA	Uganda Small Scale Industries Association
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
UNIFEM	United Nations Entity for Gender Equality and the Empowerment of Women (now UN Women)
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

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Introduction

Full, productive and freely chosen employment can and should be a central goal of economic and social policies that promote equity and reduce poverty. Decent work is an engine of growth and development by contributing to the enhancement of productive capacities, improved competitiveness and higher consumption. And indeed, the promotion of full, productive and freely chosen employment has been recognized as an important means to achieve the UN Millennium Development Goals (MDGs). It has also been recognized that decent employment does not automatically result from economic growth and that poor and vulnerable groups do not automatically benefit from good economic performance. The recent global economic and financial crisis has shown how workers remain vulnerable and has clearly brought out the structural employment issues that conducted to the crisis in the first place. A decreasing share of wages in total income, a consumption-led model alimented by personal credit in a context of weakening global demand, profits not being re-invested and instead a rising share of profits emanating from global finance are all elements that bring back to the fore the need to put employment and wages at the center of development strategies. This calls for comprehensive, well designed and effectively implemented national employment policies within the context of the larger development policy, through consultative processes involving all the stakeholders.

The complexity of the employment challenges that countries face – lack of jobs, poor quality of available jobs, persistent informal arrangements, inequalities, etc. - requires multidimensional responses that cut across various policy spheres. This in turn calls for integrated policy objectives across these various policy spheres, addressing both macro and micro dimensions, both labour demand and supply and fostering both the quantity and the quality of employment. However, in many countries, employment policies are still limited to supply side interventions delivered by the Ministry responsible for labour. Efforts to develop comprehensive national employment policies are needed if broad employment objectives and targets are to be integrated into overall development frameworks. How to achieve this? It is not simply an issue of getting a well-written statement included in a National Development Framework. It goes well beyond, to the dynamics influencing policy choices and budget allocations. A national employment policy embodies not simply regulative rules, but also constitutive rules, which address questions about why it exists, what purpose it aims to serve, what roles its actors are expected to play and so on. These issues fall into the sphere of political economy. Unlike the economics or the law of employment promotion, the political economy of employment has not been studied and understood enough, particularly in developing countries.

To document this issue and kick off a discussion, the Employment Policy Department of the ILO has undertaken to study employment policy-making processes in four countries: Indonesia, Moldova, Nicaragua and Uganda. These four countries have gone through a process of employment policy formulation between 2005 and 2010 and have either adopted a National Employment Policy or have integrated employment objectives in their National Development Framework. What are the challenges? What works and what does not? What is “real participation”: to validate a document or to be involved in all phases of the process? How to achieve this objective?

This paper attempts to answer these questions. It includes an overview chapter and four country-specific studies. The main objectives of the country studies include:

1. To analyze and assess the countries' employment performance during the period 2004-10 within the broader development and economic strategies;
2. To understand the political economy landscape of the countries so that future employment related work can focus on key actors and processes;
3. To collect and collate information and analyse this information to delineate the main groups of stakeholders and their respective roles as well as the consultative processes and mechanisms in the countries;
4. To draw lessons that can help in taking targeted actions by governments, social partners and other stakeholders in the countries to improve domestic buy-in for national employment policies and, as a result, the sustainability of these policies.

The country case studies start with an introduction to the economic context and recent employment performance in the country. This provides a general context and background to understand better the subsequent analysis. The studies then focus on employment policy-making processes and the participation of various stakeholders in these processes. The four country studies are based on stakeholders' interviews undertaken during 2-week country visits and on thorough reviews of the literature and policy documents of the four countries. Lists with references and people interviewed are placed at the end of each country study.

Useful comparisons between countries can be made and cross-country lessons can be drawn from the four country studies. The overview chapter thus attempts to present key points from the country studies and to identify the similarities as well as differences between these country experiences. It first comparatively reviews the economic and social environment and the employment situations of the four countries. It then presents the various development frameworks and employment policy documents and objectives of the four countries and analyses the roles of key stakeholders and functioning of consultative mechanisms in arriving at these policies and their implementation. Finally, the chapter draws the main conclusions and recommendations emanating from the four country studies.

Every effort has been made to present the most recent relevant data, but in some cases such data is not yet available. The data used for cross-country comparisons is mostly from international sources that are in the public domain. However, the country studies also provide data from national sources.

Chapter I. Overview

A national employment policy (NEP) is an operational document that refers to a set of multidimensional interventions adopted on the basis of a common agreement reached by all interested parties. It is pursued by a government to address clearly identified challenges and opportunities and achieve specific quantitative and qualitative employment objectives. It includes a course of action, selected from among alternatives and in light of given conditions. Broad-based participation and social dialogue are a necessary condition for formulating a NEP as a broad range of actors is involved in the policy space: social partners, civil society organisations, the media, intellectuals, think tanks or policy research institutes, corporations, lobbyists, etc. This broad participative process should not be about consultations for the sake of consultations. The ILO advocates for an integrated and comprehensive approach to employment policies for which it is crucial to think about the adequate institutional framework to successfully implement those policies and avoid that they remain limited to traditional employment programmes. It is this conception of comprehensive national employment policies that imposes new thinking about the issues of the inclusive policy-making processes and of effective coordination mechanisms.

A national employment policy is not a series of delinked activities or projects implemented by the ministry in charge of employment. An employment policy provides an overall vision spanning at least 3 or 4 years, building on a comprehensive analysis of the country's employment situation and a broad discussion of the options available to create decent employment. An employment policy cannot, therefore, be implemented by the ministry in charge of employment alone. It is the responsibility of a diverse set of actors, from the key employment-generating line ministries to local governments and workers' and employers' organisations. The ministry in charge of employment plays a central coordination role, advocates for the promotion of decent employment and ensures the good functioning of the labour market. This broad conception of NEPs hence implies a new role for Ministries in charge of employment as well as for other actors.

Making the process of employment policy-making more inclusive and ensuring coordination mechanisms are in place are therefore crucial if comprehensive policies are to be adopted and implemented. What are the challenges? What works and what does not? How to achieve this objective? The results of in-depth country studies provide some answers to those questions.

The four countries included in this research project – Indonesia, Moldova, Nicaragua and Uganda – share some similarities in their political, economic and social situation, employment performance as well as their employment policy-making processes. However, it is also clear that each country has its own unique context and over-simplified comparisons across countries should be avoided. At the same time, examining the similarities and differences as have come out in the country studies can be quite instructive. This can help in learning from the experience of each other, to better understand the underlying factors and facilitate further actions and interventions by the policy-makers as well as by their development partners. Therefore, the main objectives of this overview are the following:

- To summarise the main features of the four countries related to their economic background, employment performance and employment policy-making processes, including main stakeholders and consultative mechanisms;
- To identify the main differences and similarities among the four countries, particularly related to employment policy-making processes; and

- To draw lessons that can assist stakeholders in each country, including policy-makers and development partners, in taking appropriate actions to improve the inclusiveness of employment policy-making processes to ensure local buy-in and ownership, which is critical for the success of employment policy as an important instrument of overall development policy.

The information and analysis in this overview have been taken from the country studies where full references to the sources have been provided.

1. Summary background to economic outlook and main features

The four countries belong to four different continents: Asia, Europe, Latin America and Sub-Saharan Africa. Three of the countries – Indonesia, Moldova and Nicaragua – are lower middle income countries, whereas one – Uganda – is a lower income country. Table 1.1 presents some relevant economic data for the four countries and table 1.2 provides information regarding sectoral contribution to gross domestic product (GDP) and employment over time.

Information in tables 1.1 and 1.2 points to several interesting features. First, except for Nicaragua, all countries have registered high rates of real GDP per capita growth in the last five years, with Indonesia leading the others in this respect. However, there are still wide differences in the nominal GDP per capita across countries, which range from US\$509 in Uganda to US\$2,946 in Indonesia. Second, poverty is widespread with at least 1 in 5 persons living below the national poverty line in all countries except Indonesia. The situation is particularly severe in Uganda and Nicaragua with 25 and 43 per cent of the population living below national poverty lines respectively. Similarly, a very high percentage of the non-agricultural labour force in these two countries is employed in the informal economy – 68.5 per cent in Uganda and 66 per cent in Nicaragua.

Table 1.1: Main economic indicators

	GDP per capita (current US\$, 2010)	Per capita GDP growth (annual %, 2010)	Average annual per capita GDP growth (%), 2005-2010)	Poverty headcount ratio at national poverty line (% of population, 2010)	Poverty headcount ratio at \$1.25 a day (PPP) (% of population, 2010)	Population living in rural areas (% of population, 2010)	Persons in informal employment (% of non-agricultural employment, 2010)
Indonesia	2945.6	5.0	4.6	13.3	18.1	46.3	n.a.
Moldova	1630.7	7.1	4.2	21.9	0.4	58.8	15.9*
Nicaragua	1131.8	6.1	2.4	42.5*	5.5*	42.7	65.7*
Uganda	508.9	1.9	4.3	24.5*	37.7	86.7	68.5

*2009

Source: World Bank (World Development Indicators), ILO (Statistical update on employment in the informal economy), IMF

Table 1.2: GDP and employment sectoral distribution over time (%)

	Primary sector				Secondary sector				Tertiary sector			
	GDP		Employment		GDP		Employment		GDP		Employment	
	1990	2008	1990	2008	1990	2008	1990	2008	1990	2008	1990	2008
Indonesia	19.4	14.5	55.9	40.3	39.1	48.1	13.7	18.8	41.5	37.5	30.2	40.8
Moldova	36.1	10.7	33.8	31.1	36.7	14.3	29.0	19.7	27.2	75.0	33.9	49.2
Nicaragua	22.1**	20.2	39.3	29.5*	27.2**	29.3	12.9	20.2*	50.7**	50.5	38.2	49.8*
Uganda	56.6	22.7	n.a.	65.6°	11.1	27.4	n.a.	6.0°	32.4	49.9	n.a.	28.4°

*2007; **1994; °2009

Source: World Bank (World Development Indicators), ILO (Key Indicators of the Labour Market)

Third, while at least 4 in 10 persons continue to live in rural areas in all four countries, the primary sector contributes less than a quarter of GDP. This share has decreased dramatically in Uganda (from 56.6 to 22.7) and in Moldova (from 36.1 to 10.7) between 1990 and 2008. The share of agriculture in GDP has also decreased in Indonesia and Nicaragua over the same period though more marginally. However, in all four countries, employment in the primary sector represents at least one third of total employment. This points to the low productivity of this sector and can be linked to the high levels of poverty and informality. Fourth, the share of services in GDP has substantially increased in Moldova (from 27.2 to 75) and in Uganda (from 32.4 to 49.9) between 1990 and 2008, whereas it decreased in Indonesia and remained stable in Nicaragua. As a result, in all countries except Indonesia, services are now the largest contributor to GDP and the main provider of employment in Moldova and Nicaragua. Fifth, the share of industry in GDP has decreased substantially in Moldova and has increased in the other three countries between 1990 and 2008. Industry now contributes to about a quarter of GDP in Nicaragua and Uganda, but almost half in Indonesia and employs about a fifth of the employed population, except in Uganda where the employment share of industry is very low at 6 per cent in 2009.

As is clear from the above, all four countries confront the challenge of poverty. The structure of their economy and their employment situation, however, differ in important ways. Uganda is still predominantly rural, Moldova and Nicaragua are moving quickly into services, while Indonesia has a highly segmented labour market with low productivity agriculture and services and capital-intensive industries. Their policy responses need, therefore, to be calibrated to respond to these specific conditions in respective countries, and employment policies have to be designed taking into account the specific circumstances. No “one-size-fits-all” approach will work.

2. Employment: performance and related developments

This section takes a brief look at the employment performance in the four countries. Table 1.3 looks at the employment performance in terms of labour force participation, employment, unemployment, labour productivity, vulnerable employment and working poverty.

Table 1.3: Main employment indicators

	Labour force participation rate (%)		Employment to population ratio (%)	Unemployment rate (%)	Labour productivity (GDP per person engaged, constant 1990 US\$ at PPP)	Vulnerable employment (% of total employment)		Working poor at US\$1.25 a day (% of total employment)
	2000	2011	2011	2009	2010	2000	2009	2005
Indonesia	67.8	67.5	62.7	7.9	10,587	64.9	63.7	19.8
Moldova	59.4	41.5	38.7	6.7°	11,807	36.5	28.7°	1.3**
Nicaragua	61.4	62.9	59.8	5.0*	n.a.	46.4	44.7*	12.8
Uganda	85.0	77.7	74.7	4.2	2,622	85.5***	80.6°°	34.5****

*2007; **2008; ***2002; ****2010; °2011; °°2005.

Source: ILO (Key Indicators of the Labour Market).

Several observations can be made based on the information in table 1.3. First, except in Moldova, labour force participation rates (LFPR) are high denoting that the relative size of the supply of labour available to engage in the production of goods and services is significant in these countries.⁵ In Moldova, however, the LFPR is much lower and has decreased significantly between 2000 and 2011. Second, the employment-to-population ratios show that a large proportion of these countries' population, except Moldova and to some extent Nicaragua, is employed. This is particularly significant for Uganda. In Moldova on the contrary, a large share of the population (almost two thirds) is not employed. Third, a high employment-to-population ratio is not necessarily a positive thing – for example, where education options are limited so that young people take up any work available rather than staying in school to build their human capital.

Looking at the other indicators in the table shows that levels of labour productivity, measured as GDP per person engaged, vary greatly from a low US\$2,622 in Uganda to a high US\$11,807 in Moldova. This shows that the high employment-to-population ratio in Uganda hides widespread underemployment and low income levels in the country. Information provided on vulnerable employment⁶ further shows that levels are very high in Uganda. Vulnerable employment is also widespread in Indonesia and to some extent in Nicaragua. Fourth, the working poverty rate (persons who do not earn enough to bring

⁵ The labour force participation rate is a measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work.

⁶ Vulnerable employment is the sum of own-account workers and contributing family workers. These workers have a lower likelihood of having formal work arrangements and are therefore more likely to lack elements associated with decent employment, such as adequate social security and a voice at work. Conversely, wage and salaried workers, as well as employers, are more likely to benefit from these elements.

themselves and their families above the US\$1.25 a day poverty line) is high in Uganda where over one in three working person is poor. It is also high in Indonesia despite high levels of labour productivity.

This brief synopsis shows certain similarities as well as important differences in employment performance of the four project countries. The employment challenges clearly differ in many respects and will call for tailored policy responses.

3. Overall development planning framework and employment policy objectives

This section is devoted to a brief portrayal of the policy framework in the four countries. This snapshot looks at the overall development framework, the main employment policy documents and the main objectives of current employment policies. Table 1.4 provides a brief summary of these points in respect of the four countries.

The overall development policy documents and planning frameworks in the four countries have a similar pattern. The overall planning is guided by a Vision document: Moldova has its Vision 2020, Indonesia and Uganda have their respective RPJP 2025 and Vision 2025. These documents provide a long-term vision for national development and can also lead to more coherent sectoral policies to achieve that vision. However, their regular updating and effective implementation by all governmental agencies remain a challenge. Moreover, they do not always accord a universally prominent position and importance to employment. The long-term objectives under the vision documents are to be achieved through national development plans. Generally of medium-term duration, these plans are often based on the PRSP. However, countries are moving away from the PRSP framework in an effort to develop more home-grown medium-term development plans. The four countries are good examples of this trend.

Table 1.4: Development policy framework and employment policies

Country	Overall development policy documents	Current employment policy and related policy documents	Overall objectives of current employment policy
Indonesia	National Long-term Development Plan (RPJP) 2005-2025 Five-year Medium-term Development Plan (RPJM) 2010-2014	No comprehensive national employment policy Medium-term Strategic Plan of the Ministry of Manpower and Transmigration	Promote Decent Work by enhancing the creation of productive employment with adequate social protection and social security Employment creation is a by-product of the growth strategy Main target is the reduction of the unemployment rate
Moldova	Moldova 2020: National Development Strategy of the Republic of Moldova for 2012-2020 Rethink Moldova - Priorities for Medium Term Development (2010) Programme for the stabilization and recovery of the economy 2009-11	National Employment Strategy of Moldova 2007-2015 Annual action plan on employment 2009 National programme for youth 2008-2010	To ensure full and productive employment, social cohesion and an inclusive labour market Improve targeting of employment services and programmes Promote self-employment and reduce emigration Promotion of human capital development and continuous learning Increase of the labour supply and encouragement of active ageing Provision of equal opportunities and prevention of labour discrimination Transition from informal to formal employment Reduction of regional employment and wage differences
Nicaragua	National Human Development Plan 2008-2012, October 2008 Government's Programme to defend Production, growth and employment (PDPCE), January 2009 Updated National Human Development Plan 2009-2011 (to deal with the international economic crisis), September 2009	Políticas para el fomento del empleo y el trabajo decente 2005 (Decreto del Ejecutivo No. 30-2006 Política Nacional de Empleo, aprobado el 1 de Mayo del 2006 y Publicado en La Gaceta No. 96 del 18 de Mayo del 2006) Plan nacional de Empleo y trabajo digno 2008 Plan Nacional de Empleo y Trabajo Decente (PNETD) contextualizado a la actual crisis mundial (2009) Plan nacional de empleo juvenil (in preparation) Law for the promotion of SMEs: " Ley MIPYME" 2010-2014 PRORURAL INCLUYENTE Sectoral Plan National Industrial Development Policy 2007-11 and its Implementation Plan updated for 2010-14	Create and promote decent jobs to improve the quality of life and the welfare of the Nicaraguan labour force Increase public and private investment in productive sectors to reduce the impact of the economic crisis on employment Ensure that the social partners (trade unions, employers and government) assume their responsibilities and work through social dialogue and tripartism Increase the quantity and the quality of employment, move toward the reduction in informality and underemployment levels and consequently, poverty and inequality Promote employment intensive sectors with low relative development (for example, rural employment). Stimulate the creation of employment through the promotion of SMEs in rural areas using programs directed at self-employment and entrepreneurship. Strengthen labor institutions for a better functioning of the labor market.
Uganda	Vision 2025 National Development Plan 2010/11-2014/15 "Growth, employment and socio-economic transformation for prosperity"	National Employment Policy 2011-15 National Industrial Policy (2008) National Oil and Gas Policy of Uganda (2008) Agriculture Investment Policy (2010)	Provide productive and decent employment for all women and men, in conditions of freedom, equity, security and human dignity Comprehensive and up-to-date labour market information system Adequate enforcement of the labour law Improved productivity through skills training Clusters for supply chain demands for SMEs Promotion of youth employment Employment-intensive growth Promotion of agriculture and rural employment Improving informal sector, micro and small-scale enterprises Externalisation of Labour Employment of vulnerable groups and promotion of gender equality

Source: compiled from country policy documents, country studies and ILO Global Knowledge Base on Employment Policies.

Similarities across countries decrease when employment policies and related policy documents are examined. Indonesia does not have a stand-alone comprehensive employment policy document. In Nicaragua, the last such document was developed and adopted in 2005 (though work is on-going on a youth employment plan). Moldova developed this document in 2007, but only one action plan was formulated in 2009 and Uganda developed and adopted a comprehensive employment policy only in 2011.

Three types of documents seem to govern the operation of employment policy in the four countries. First, some countries, as mentioned in the above paragraph, have comprehensive employment policy documents. Formulating a national employment policy can serve many purposes. One of them is to propose a vision and a coherent framework for all the interventions and the actors concerned by employment in the country. It can be a means to get the main local and central government actors together, to raise public awareness of certain critical issues, to agree on priority action and to assign responsibilities. It can also be a means to take into account the views of workers and employers' organisations and to enlist their support.

Second, there are what can be called supporting documents that inform certain aspects of employment policy, for example youth employment action plans (in Nicaragua and Moldova) or sectoral strategies and policies, such as the strategy for tourism 2005-2015 in Moldova, which include some elements on employment. These documents are often very operational and quite broad in scope. They, however, focus on a specific group or sector, hence they are not national. When they exist in parallel to a national policy, they can be good complements to delve deeper into the issue and are especially useful when addressing a key national challenge: they provide a course of action to implement an objective of the policy, including a work plan with clear distribution of responsibilities and a detailed budget.

Third, there are employment plans and strategies being implemented by the ministries responsible for employment alone, for example the Medium-term Strategic Plan of the Ministry of Manpower and Transmigration in Indonesia. This third type of document is more a Ministerial work plan than a policy document providing a vision and a concerted and coherent framework linking all the employment interventions and stakeholders. It usually isn't formulated in consultation with stakeholders and is not discussed in Parliament. In a sense, it is a purely administrative document. When it is the only document available in a country, integration of employment objectives in overall development planning can be a challenge. In Nicaragua for example, the Labour Ministry has been initiating since 2006 a large number of projects and seeking finance for them. It has stopped short of making a comprehensive analysis of the overall employment situation and the different options available to create employment and reduce un- and underemployment. A clear strategy is lacking.

It is not possible to draw conclusions regarding the impact of lack of comprehensive employment policy documents on the actual employment performance of a country. What can be said though, particularly based on the feedback obtained from various stakeholders during the study process, is that the presence and general availability of such a document greatly helps stakeholders (i) to better understand the issues at stake and (ii) to voice their concerns through their participation in the formulation process - the sense of ownership of a Policy increases with the number of people and institutions that is being consulted during its preparation. This in turn leads to better multi-stakeholder buy-in for the adoption and implementation of the policy. In Nicaragua, the two Policies that in their preparation consulted the broadest range of groups were also the best known among the people (the 2005 NEP and – to a lesser extent - the Youth Employment Plan).

The vision documents, medium-term development plans and employment policy documents articulate objectives for the employment policies of the country concerned. The last column in table 1.4 presents only the overall objectives. While they have been couched in different ways, certain similarities cannot escape notice. For example, all of them emphasize the creation of productive employment and decent work. The reasons for these similarities are difficult to find as the documents were developed independently. Two can tentatively be advanced: one, these objectives are in line with policy orientations of recent times; two, these documents were drafted by external consultants hired using donor grants (often ILO); these consultants, with the assistance of ILO experts, may well be informed by certain terminology and approaches, which then get translated into the national documents. However, certain objectives are clearly country specific, such as encouragement of active ageing in Moldova or the promotion of rural employment in Uganda and Nicaragua. The acquisition of skills, targeted measures for SMEs or the promotion of employment-intensive sectors also appear in at least two of the four countries. These objectives clearly respond to the employment challenges and priorities of the countries concerned. In general, it seems that the diagnostic of the employment situation has informed well the choice of objectives of the various policy documents of the four countries.

4. Employment policy making: key stakeholders and consultative mechanisms

The importance of a national employment policy for overall growth and development as well as the need for stakeholder consultations to develop and implement employment policies in line with the national situation and aspirations is increasingly recognized in all the four project countries. All of them have a government ministry responsible for the development and monitoring of implementation of an employment policy and have also established various consultative mechanisms to confer with relevant stakeholders. This section is devoted to the brief examination of various groups of stakeholders as well as the consultative mechanisms related to employment policy in the four countries. Table 1.5 presents information regarding the main relevant stakeholders and table 1.6 on the consultative mechanisms established and functioning.

4.1 Key stakeholders

For the purpose of this study, relevant stakeholders have been divided into four broad groups. These are: i) government; ii) social partners; iii) private sector; and iv) Civil Society Organisations (CSOs).

An examination of the functioning of the government in relation to employment policy making shows that its role falls into three broad categories. First, the ministries/government offices providing direction and guidance for employment policy making; second, the ministries that are responsible for employment policy formulation/providing inputs for employment policy formulation; and third, the ministries including local offices that are primarily concerned with the implementation of employment policy in their respective areas of jurisdiction. There is a certain overlap of functions in this categorization. For example, the ministry primarily responsible for employment policy making also contributes to the process of general policy guidance and direction and is also responsible for monitoring its overall implementation.

The social partners are considered key stakeholders in employment policy-making in the four countries. The employers are usually represented by their umbrella organization that strives

to represent the interests of the private employers as a whole (e.g. the Federation of Ugandan Employers). There are also umbrella organisations that represent one particular sector/economic activity (e.g. the national Federation of Employers in Agriculture and Food Processing Industries in Moldova). While multi-sector umbrella organisations are useful for representing the interests of all employers – for example in relation to taxation policy – more specific sectoral interests are generally better served by sector-specific umbrella organisations. Workers are rarely represented by a single umbrella organization, but rather by several trade unions, which often poses the challenge of coordination of the workers' view point and of a common representation of the workers' interests. There are three trade unions confederations in Indonesia, seven in Nicaragua and two in Uganda.

The private sector is also a key stakeholder in employment policy making. In some instances, the private sector has recognized this opportunity and has organized itself to play an active role in the consultation process. Here too we find multi-sector umbrella organisations (e.g. National Chamber of Commerce and Industry, private sector foundations) and sector-specific umbrella organisations (e.g. manufacturers association, small scale industries association, etc.). There are also private sector actors that have a role to play in implementing national employment policies, such as vocational training centers, private banks, technological institutes, etc.

Civil society organisations (CSOs) also play an important role. In the four countries studied, there are a number of active CSOs, although only a few of them have the capacity and/or resources to work on employment issues. CSOs can be divided in three broad categories. First, there are a number of local non-governmental organisations (NGOs) in each country. Second, there are also several institutes that, recognizing the need for evidence-based advocacy, focus on research and analysis. Their output is used by all stakeholders. In Uganda for example, Innovations for Poverty Action (IPA) partnered with researchers and the Ugandan government to evaluate the effectiveness of the Youth Opportunities Program⁷. Third, given the limited resources of individual NGOs and the need to launch effective advocacy efforts, CSOs have formed networks. These networks can be either issue-specific (e.g. youth, cooperatives, etc.) or more general.

⁷ This programme was introduced in 2006 to raise incomes and employment among young adults aged 16 to 35 in the country's Northern Region.

Box 1. Policy-making process at Provincial level - the case of Indonesia

Indonesia's 33 provinces have an extensive mandate to undertake their own development planning within the framework of Indonesia's overall development strategy, which has employment as a strategic objective. Under the leadership of the provincial Development Planning Agencies (BAPPEDA), a series of workshops on employment diagnostic analysis were organized in three provinces in Indonesia (Nusa Tenggara Timur, East Java and Maluku) to develop regional development strategies that have employment creation as a central objective. The participants included senior government officials at the provincial and district levels, employer and trade union representatives, as well as representatives from Bank of Indonesia and local academia.

The three-day workshops were highly interactive exercises where the participants themselves assumed the lead role in a joint structured analysis leading up to an agreement on the main challenges that need to be addressed in order to increase productive employment and put the respective province on a path of job-rich and inclusive economic development. The analytical exercises were based on a methodology, which has as a core principle that those responsible for designing and implementing policies must themselves be actively involved in the analyses that inform policy-making.¹

The activities undertaken in the three provinces fully bore out the merits of this participatory approach to employment policy-making. The combination of the in-depth context-specific knowledge of the participants with a robust method for structuring the analysis ensured that the results and conclusions of the analysis were both relevant and of a high quality. It also provided a very effective learning experience for everybody involved and a common understanding and broad consensus that augur well for effective subsequent policy implementation.

¹ Employment Diagnostic Analysis; a methodological guide (2012) (Geneva: ILO Employment Sector).

Table 1.5: Key stakeholders⁸

Country	Government			Social partners	Private sector	Civil Society Organisations
	Policy direction	Policy formulation	Policy implementation			
Indonesia	<p>President</p> <p>Parliament</p> <p>National Development Planning Agency (BAPPENAS)</p> <p>National Team for the Acceleration of Poverty Eradication (TNP2K)</p>	<p>Ministry of Manpower and Transmigration (MOMT)</p> <p>Manpower Directorate of BAPPENAS</p>	<p>MOMT</p> <p>Coordinating Ministry for Economic Affairs</p> <p>Coordinating Ministry for Social Welfare</p> <p>Coordinating Ministry of Women's Empowerment</p> <p>Ministry of National Education</p> <p>Other line ministries/agencies</p> <p>Central Statistical Agency (BPS)</p>	<p><u>Trade unions</u></p> <p>Confederation of All Indonesian Trade Unions (FBSI)</p> <p>Confederation of Indonesian Trade Union Congress (ITUC)</p> <p>Confederation of Indonesian Prosperity Trade Union</p> <p><u>Employers' associations</u></p> <p>Indonesian Employers' Association (APINDO)</p>	<p>Bank Indonesia</p> <p>Bank Mandiri</p> <p>Vocational Training Centre (BLK)</p>	<p><u>Local NGOs</u></p> <p>Nahdatul Ulama</p> <p>Muhammadiyah</p> <p><u>CSOs networks</u></p> <p>Anti-impoverishment movement for Indonesian citizens (GAPRI)</p> <p>Indonesian Youth Employment Network (I-YEN)</p> <p><u>Research Institutes</u></p> <p>The University of Indonesia</p> <p>Padjajaran University</p> <p>Center for Strategic and International Studies (CSIS)</p>
Moldova	<p>President</p> <p>Parliament</p>	<p>Ministry of Economy and Trade</p> <p>Ministry of Labour, Social Protection and Family</p> <p>National Employment Agency</p>	<p>Ministry of Economy</p> <p>Ministry of Labour,</p> <p>Social Protection and Family</p> <p>National Employment Agency</p> <p>National Bureau of Statistics</p> <p>National Bank of Moldova</p> <p>Tourism Agency</p> <p>Other line ministries/agencies</p>	<p><u>Trade unions</u></p> <p>National Trade Union Confederation of Moldova (CNSM)</p> <p><u>Employers' associations</u></p> <p>National Confederation of Moldovan Employers (CNPM)</p> <p>National Federation of Employers in Agriculture and Food Processing Industries</p>	<p>Republican Club for Business People "Timpul"</p>	<p><u>Local NGOs</u></p> <p>Association for rural tourism</p> <p><u>Research CSOs</u></p> <p>Expert Grup</p>
Nicaragua	<p>President</p>	<p>Ministry of Labour (MITRAB)</p>	<p>MITRAB</p>	<p><u>Trade unions</u></p> <p>Confederación de unificación</p>	<p>CONAPY (pequeñas empresas de maderas y</p>	<p>Local NGOs</p> <p>Regional/international NGOs</p>

⁸ The listings of government ministries, private sector organisations and civil society organisations in this table are only illustrative and not comprehensive.

Country	Government		Social partners	Private sector	Civil Society Organisations	
	National Assembly		<p>Ministry of Education (MINED)</p> <p>General Directorate of Industry and Technology (DGIT)</p> <p>Banco Produzcamos</p> <p>Municipal Roundtables on Youth Employment</p> <p>PRONicaragua, (investment promotion agency of Nicaragua)</p>	<p>sindical (C.U.S.)</p> <p>Central de trabajadores de Nicaragua (C.T.N.)</p> <p>Confederación central de trabajadores de Nicaragua (CCTN)</p> <p>Central sandinista de trabajadores (C.S.T.)</p> <p>Confederación general de trabajadores independientes (C.G.T.)</p> <p>Asociación de trabajadores del campo (A.T.C.)</p> <p>Confederación de acción y unidad sindical (CAUS)</p> <p><u>Employers' associations</u></p> <p>Consejo Superior de la Empresa Privada (COSEP)</p>	<p>muebles)</p> <p>Support Center for Micro, Small, and Medium Enterprise (CAMIPYME)</p> <p>National Technological Institutes (INATEC and INTECNA)</p> <p>Nicaraguan-American Chamber of Commerce (AMCHAM)</p> <p>Nicaraguan Foundation for Economic and Social Development (FUNIDES)</p> <p>Association of Producers and Exporters of Nicaragua (APEN)</p>	<p>Research CSOs</p> <p><u>CSOs networks</u></p> <p>Institute for the promotion of cooperatives (INFOCOOP)</p> <p>Small and Medium Enterprise Institute (INPYME)</p> <p>Rural Workers Association</p>
Uganda	<p>President</p> <p>Cabinet</p> <p>Parliament</p> <p>Office of the Prime Minister</p> <p>Ministry of Finance, Planning and Economic Development (MOFPED)</p> <p>National Planning Agency (NPA)</p>	<p>Ministry for Gender, Labour and Social Development (MGLSD)</p> <p>Ministries of Justice and Constitutional Affairs (MOJCA), Education and Sports (MOES), Public Service, local government (MOLG), tourism trade and industry, agriculture and Fisheries</p> <p>Investment Authority</p> <p>NPA</p>	<p>MGLSD</p> <p>MOJCA</p> <p>MOLG</p> <p>MOES</p> <p>Other line ministries and agencies</p> <p>District labour offices</p> <p>Uganda Bureau of Statistics (UBOS)</p> <p>Investment Authority</p>	<p><u>Trade unions</u></p> <p>National Organisation of Trade Unions (NOTU)</p> <p>Central Organisation of Free Trade Unions (COFTU)</p> <p><u>Employers' associations</u></p> <p>Federation of Ugandan Employers (FUE)</p>	<p>Uganda National Chamber of Commerce and Industry (UNCCI)</p> <p>Private Sector Foundation (PSF)</p> <p>Uganda Manufacturers Association</p> <p>Uganda Small Scale Industries Association (USSIA)</p> <p>Private employment agencies</p> <p>DFCU Bank</p> <p>Enterprise Uganda (Ltd)</p> <p>Foundation for advancement of small enterprises and rural technologies (FASERT)</p> <p>Nakawa Vocational Training Institute</p> <p>National Curriculum Development Centre</p>	<p><u>Local NGOs</u></p> <p>National Farmers' Federation (UNFF)</p> <p>Wagagai Farms</p> <p><u>Research CSOs</u></p> <p>Economic Policy Research Centre (EPRC) at Makerere University</p> <p>Centre for Development Initiatives (CDI)</p> <p>Innovations for Poverty Action - Uganda (IPA)</p> <p><u>CSOs networks</u></p> <p>Platform for labour action</p> <p>Uganda National Farmers Federation (UNFFE)</p>

The information and analysis of key stakeholders in the country studies, a brief summary of which is presented in table 1.5, brings out several important points. Employment policy making in all four countries is the preserve of the executive. This also means a more limited role for the Parliament and parliamentarians who come into the picture only when a bill has to be passed, e.g. adoption of the national employment policy. However, parliamentarians also have the opportunity to debate policy issues through questions and hearings of relevant parliamentary committees, a consultation channel that has not been used in any of the four countries studied.

In all countries, the Ministry responsible for employment has been strengthened. This means it has been given a new role as the lead government agency on employment issues and often given the responsibility for coordinating the implementation of the policy (as in Nicaragua and Uganda). For the co-ordinating agency to be successful, it needs to have a certain standing among its peers or be placed above them. The agency must be seen to have both the power to enforce participation and the intellectual and technical resources to steer the Policy's execution in the desired direction. In Nicaragua the responsibility that the Presidency laid in the hands of the Labour Ministry may not have been matched by the perception of other government agencies –not to mention the private sector- that the Labour Ministry was sufficiently equipped to turn that co-ordination responsibility into a success.

The President's office and ministries of Finance and national planning continue to play important roles in setting overall policy direction. It is thus critical that they are involved in employment policy-making to ensure that employment policy is organically linked to overall development policy as well as other sectoral policies. This has clearly been the case in Indonesia, where the National Development Planning Board and the Ministry of Manpower and Transmigration worked closely together and in Uganda where the president's office played a key role in finally pushing the document through to adoption. It has been much less the case in Moldova and Nicaragua. Similarly, Ministries responsible for employment in Indonesia and Uganda, while formulating their national policies, sought the inputs of other relevant ministries, most important being the ministries dealing with agriculture, education and infrastructure, but also industry and trade.

This is important to ensure that employment policy and other sectoral policies are well aligned and expert inputs are fed into areas of employment policy requiring such inputs, e.g. vocation education and training.

Therefore, an even closer collaboration with relevant ministries is desirable. While the ministry responsible for employment policy has a responsibility in implementing it, a number of other line ministries and agencies have to play an active role to ensure that the policy is implemented effectively. This is an area where further efforts are clearly needed as most of the other line ministries and agencies are not in direct and regular contact with the ministry responsible for employment policy.

A final comment in regard to government ministries pertains to the issue of frequent restructuring of the ministries. This process may be important for improving the efficiency and functioning of the ministries, but it also creates uncertainty and confusion among the staff of the ministries as well as other stakeholders who have to re-identify their interlocutor every now and then.

In all countries, the social partners are in a position to voice their concerns and social dialogue is maturing. All four countries have indeed gone through a political transition that has brought increased freedom of speech, of association and devolution of powers. In

Indonesia and in Uganda, a favourable environment now exists for social partners and CSOs to participate in policy-making. Uganda did not operate a party political system until 2005 and its political space was consequently restricted. The change to a multi-party system allows for mechanisms holding the State to account as well as for a political space to discuss alternative policy options.⁹ In Indonesia, the regime change and democratization that took place in 1998, followed soon after that by a radical big-bang decentralization programme, led to a completely new process of drafting and adopting the medium-term development plan. The drafting took place through a series of public consultations involving line ministries, local governments, social partners, academia and civil society, both in Jakarta and in the provincial capitals, followed by a debate in Parliament.

Box 2. Social partners and the Poverty Reduction Strategy in Uganda

The Ugandan Government provides adequate channels for social partners to raise their concerns. The participation mechanism seems to work well. The results of the social partners' consultations have been incorporated into the first, second and third revisions of the National Development Plan (NDP) in 2000, 2004 and 2007. Social partners feel they have been able to influence the setting of priorities and the drafting of content of the NDP. The social partners – NOTU, COFTU, FUE and other stakeholders – worked closely together in regular small group meetings, plenary sessions and consultation workshops facilitated by the National Planning Agency. The validated NDP includes social partners' main concerns with regard to the Decent Work Agenda on key issues of youth employment and productivity, improved industrial relations through the promotion of rights at work, the incidence of child labour and HIV/AIDS at the workplace. Productive employment is implicitly incorporated in the overall theme of the NDP, "Growth, employment and socio-economic transformation for prosperity". Furthermore, the implementation of a national youth employment policy is given high priority, and other employment-related areas feature prominently, such as strengthening labour market information systems, introducing a minimum wage to ensure decent incomes for workers, and establishing an industrial court. The main actors who influenced these issues were the MOGLSD, FUE, COFTU and NOTU.

Source: D'Achon E. (2011), *Social partners and their engagement in national development plans; lessons learnt from a decade of implementation of poverty reduction strategies*, International Labour Office: Geneva. Pp. 64-68

Frictions exist between the government and the trade unions (in Indonesia for example) or the employers' organisations (as in Nicaragua). Sometimes, a given social partner has a high influence in his country while the other finds it difficult to be heard. In Nicaragua, the employers had a "particularly complex relationship" with the *Sandinistas* before 1990. There was much confrontation. However, since 2009 a new relationship has developed. The Employers Organisation, COSEP, says that they have a better policy dialogue with the current than with the previous government. In particular, they have good contacts with the Presidency and with the "production ministries" i.e. industry and agriculture. Relations with the Labour Ministry are the exception because that Ministry is seen as very partisan.

4.2 Consultative mechanisms

Information in table 1.6 provides a summary of various consultative mechanisms related to employment in the four countries. It is clear that a number of consultative mechanisms have been established and are often functioning. These consultative mechanisms can be categorized either on the basis of their composition or their respective mandates.

⁹ D'Achon E. (2011), *Social partners and their engagement in national development plans; lessons learnt from a decade of implementation of poverty reduction strategies*, International Labour Office: Geneva. Pp 68-69.

Table 1.6: Consultative mechanisms

Country	Consultative mechanisms	Composition	Role
Indonesia	National Team for the Acceleration of Poverty Reduction (TNP2K)	Chaired by the Vice-President, coordinating ministers for economic affairs and for social welfare serve as deputies; executive secretary is the deputy secretary of the Vice-President in charge of welfare affairs Members: 23 ministers, 3 head of Bureau, other non-governmental members	Formulate the poverty reduction policy and programme, make poverty reduction activities more synergic between ministries and institutions, monitor and evaluate the poverty reduction policy and programmes.
	Regional Teams for Poverty Reduction (TKPK)	Reports to the Governor	Identical but at regional/local level
	Parliamentary committee on employment	Parlementarians	Discusses and votes legislation
	Tripartite Cooperation Council (LKS Tripartite)	MOMT, Trade Union confederations, Employers' association	Consultative body on all the issues covered by the MOMT; discusses industrial relations, employment issues, migration issues, provides opinion on draft ministerial decrees and labour regulations
	National Social Security Council	Chaired by the Deputy Coordinating Minister of Social Welfare - MENKOKESRA 15 members representing the Government, social security experts and employers' and workers' organisations	formulate the policies and provide supervision for the implementation of the National Social Security System
Moldova	Interministerial Committee for Strategic Planning (ICSP)	Cabinet members	oversee the implementation of the National Development Strategy 2012-20, review progress and resolve problems emerged in the process
	National Participation Council (NPC)	representatives of civil society	Monitor the implementation of the Strategy "Moldova 2020". The Government communicates to civil society through the NPC the progress achieved and discusses ways of joint involvement for a successful implementation of the Strategy
	National Commission for Consultancy and Collective Bargaining (NCCCB)	Lead: Ministry of Labour, Social Protection and Family Other governmental members: Ministry of Economy, Ministry of Education, Ministry of Agriculture and Food Industry, Ministry of Construction and Regional Development National Trade Union Confederation of Moldova (CNSM) National Confederation of Moldovan Employers (CNPM)	Discuss and promote relevant issues regarding economic growth, consensus building around economic and social matters, labour laws and legal approval of draft laws

Country	Consultative mechanisms	Composition	Role
	Administrative Board of the National Employment Agency	Vice-Minister of Labour, Vice-Minister of Economy, Budget Director of the Ministry of Finance, CNSM (2), Trade Union Confederation of automobile, agricultural machinery and car repair industries, CNPM (2) +	Preparation, implementation and monitoring of national employment policies and programmes
	Regional Tripartite Advisory Councils	Local public authorities, local representatives of workers and employers' organisations	Support to and coordination of the regional employment agencies, counsel to local agencies
Nicaragua	National Planning, Investment, Budget and Cooperation Council, 2010		Coordinate planning; organize, allocate and and programme financial resources; public management
	National Council for economic and social planning (Consejo Nacional de Planificación Económica Social - CONPES), 1999 Reorganised in 2005°	The President chairs the Council, which consists of: the members of government responsible for the following sectors: production, infrastructures, social, governance and economy A representative of each of the civil society organizations representing women, youth, indigenous people, academia and communication means Representatives of trade unions, employers' organisations, cooperatives and communities. A representative of each of the 15 Departmental Development Councils provided for in the Law on Citizen Power. A representative of each of the Regional Councils for economic and social planning (CORPES), the representatives of the Autonomous regions of the south Atlantic and of the North Atlantic as provided for in the Law on Citizen Power.	Advisory body to the President in the conduct of economic policy and social development CONPES had a permanent commission on labour issues (Comisión Laboral del CONPES) until 2005
	National Employment Council (Consejo Nacional del Trabajo - CNT), 2005	Ministry of Labour, the private sector, trade unions (1 delegate per confederation and union legally	institutionalize dialogue and promote consultations between the partners in the world of work, participating in the development, implementation and decisions on national socio-economic and employment policies,

Country	Consultative mechanisms	Composition	Role
		recognised in equitable conditions based on the number of members).*	formulate analyses, evaluations, conclusions and recommendations on the level of employers' and workers' participation in the formulation and implementation of national development plans, periodically review the basis for guidance and implementation of national development plans and discussing them with representatives of the agencies responsible for these plans The NEC has a National Youth Employment Commission (Comisión Nacional de Empleo Juvenil)
	National Minimum Wage Commission (Comisión Nacional de Salario Mínimo), 1991	Tripartite: Ministry responsible for labour, employers, workers	Sets the minimum wage
Uganda	President's Economic Council (PEC)	Headed by the President, includes ministers and high level government technocrats dealing with economic policy issues and the representatives of private sector	To consider problems that constrain economic growth and development. These include poor investment climate; underdeveloped export potential; weak financial sector; poor tax administration and tax policy regime.
	National Employment Council (established 2011)	Chaired by the Ministry responsible for Labour Members at the permanent secretary or chief executive officer level are drawn from: The Ministry responsible for Finance, Planning and Economic Development; The Ministry responsible for Public Service; The Ministry responsible for Agriculture, Animal Industry and Fisheries; The Ministry responsible for Tourism, Trade and Industry; The Ministry responsible for Works and Transport; The Ministry responsible for Education and Sports; The Ministry responsible for Local Governments The Ministry responsible for Health; The Ministry responsible for Foreign Affairs; The Ministry responsible for Lands, Housing and Urban Development; The Ministry responsible for Internal Affairs and Immigration; The Ministry responsible for Energy and Mineral Development; The Ministry responsible for Information, Communication and	Guide and monitor efforts towards the implementation of the NEP. More specifically, the NEC identifies priority areas for action; suggests ways for integrating the employment objective into all sectors of the economy; helps raise awareness of different dimensions of the employment challenge; suggests guidelines and set employment targets.

Country	Consultative mechanisms	Composition	Role
		Technology; The Ministry responsible for East African Community; The National Planning Authority; The Uganda Bureau of Statistics; The Uganda Investment Authority; The Federation of Uganda Employers (FUE); The National Organisation of Trade Unions (NOTU); The Central Organisation of Free Trade Unions (COFTU); Enterprise Uganda (Ltd)	
	Labour Advisory Board (established 2006)	Chairperson appointed by the Ministry responsible for Labour 2 representatives of FUE and 2 of the trade unions 1 representative each of Min. resp. for public service, finance, education, local government, trade and industry, justice 1 representative of people with disabilities 1 representative of the government agency responsible for environmental protection	Advise the minister on all labour and employment matters; oversee the operations of the labour officers or inspectors; monitor the environment in and around workplaces; oversee the implementation of the NEP, the HIV/AIDS at work policy, the national child labour policy and monitor and review implementation of the labour policies, laws and regulations; regulate employment agencies and bureaus; mediate disputes between the FUE and the trade unions; review and monitor the implementation of collective bargaining agreements; monitor and oversee the implementation of the dispute settlement process; review and monitor the status of migrant labour.

* <http://www.anofm.md/en/node/14>;

* [http://legislacion.asamblea.gob.ni/Normaweb.nsf/%28\\$All%29/667BFA2A94A7EA2F0625723C0056BE9B?OpenDocument](http://legislacion.asamblea.gob.ni/Normaweb.nsf/%28$All%29/667BFA2A94A7EA2F0625723C0056BE9B?OpenDocument)

°http://www.ccer.org.ni/files/doc/1187365728_Decreto2076-2005Creaci%C3%B3n_del_Conpes.pdf

Based on composition, the consultative mechanisms fall into three categories. First, there are fora consisting of representatives of only the public and private sector. This is the case of the President's Economic Council in Uganda. The anecdotal evidence collected during the country study suggest that this forum is quite active and has the ears of the President and the government. Second, there are fora devoted to tripartite social dialogue only. These have slightly different names (e.g. NCCCB in Moldova, NEC in Nicaragua and Uganda). These councils are a standard feature in all four countries, but their composition can differ as to the representation of the government. In Nicaragua, the government is represented by the Ministry of Labour only, whereas in Moldova and in Uganda, it is represented by a number of line ministries. Third, there are fora that bring together all relevant stakeholders, including from the relevant ministries, social partners and civil society, such as the National Council for economic and social planning in Nicaragua. These fora allow for broad stakeholder participation in the policy making process.

Alternatively, the existing consultative mechanisms can be categorized based on their respective mandates. First, there are fora for stakeholder consultations on multiple issues that can include employment as well. In this category can be included the committees for inter-ministerial coordination on poverty and economic growth issues, such as the Interministerial Committee for Strategic Planning in Moldova. Second, there are fora that have the mandate to deal with all employment issues. These exist in Moldova (National Commission for Consultations and Collective bargaining), Uganda (National Employment Council) and Nicaragua (National Employment Council). Third, there are some other consultative mechanisms that are mandated to discuss on a particular sub-set of employment issues. For example, the Administrative Board of the National Employment Agency of Moldova is mandated to discuss active labour market policies.

Some further observations on consultative mechanisms based on the information and analysis of country studies are in order. Ministries responsible for employment are generally tasked with coordinating the functioning of consultative fora dealing with employment. Given their limited human and financial resources, this can be quite an uphill assignment (see preceding section). Further, these fora are seldom used for regular dialogue and coordination on all employment policy issues. The recent experience of the development of comprehensive employment policy in Uganda is quite illustrative in this regard. Efforts were made for broad stakeholder consultations, but through ad hoc arrangements and not by designating the existing Labour Advisory Board for the purpose.

In the four countries, there is not a single consultation mechanism that has a clear legal mandate that ensures that its views are taken on board by the government. Their role is generally of a discussion forum. They are also asked to provide inputs and advice regarding the country position on employment matters. However, they are often not informed whether and how these views and advice were taken on board. This is a serious weakness, which often frustrates the non-governmental stakeholders and discourages their continued, whole-hearted participation in the consultative mechanisms. In Indonesia, the tripartite consultation body has only functioned primarily as a fire-brigade. It is needed when an emergency situation emerges as in the case of labour unrests/strikes or problems related to dismissals, while its role as a meeting point for dialogue between the government and the social partners in dealing with more substantive issues, such as the revision of the manpower law, has been very limited.

In Nicaragua, the employers referred to the parallel consultation structure set up by the Ortega II government (since 2006). Parallel to the open consultation process in the parliament, the National Labour Council, and at different levels of local government the Ortega II government, is organising consultations (*Dialogo con la Base*) with *Frente Sandinista de Liberación Nacional* (FSLN)-related Citizen Power Councils. The Citizen Power Councils (CPCs) were initially billed as boosting citizen participation but

subsequently transformed into an extension of the executive by presidential decree in November 2007.

Another possible reason for lack of sustained participation by non-governmental stakeholders is the multiplicity of consultative fora. These mechanisms often establish sub-committees and working groups on sectoral issues that convene their own respective meetings. This makes it difficult for social partners and CSO representatives to participate in all meetings as they often have only one or two persons dealing with employment policy. There is certainly merit in rationalising the number, composition and mandates of the consultative fora on labour and employment issues.

Finally, it is obvious that neither all the relevant stakeholders are included in the consultative mechanisms nor do they have equal number of opportunities to consult with the government. As mentioned earlier, the role of Parliament and parliamentarians is quite limited. Moreover, representatives of small businesses, the informal sector, farmers, etc. are not members of consultative mechanisms. It is also clear from the country studies that certain groups, either employers' organisations or workers' organisations, depending on the countries, have many more institutional mechanisms to interact with the government, including on employment issues. Hence the general impression among stakeholders that certain groups have substantial influence on government employment policy-making. This situation and perception does not augur well for the formulation and implementation of an employment policy that has a broad stakeholder buy-in. A broad stakeholder buy-in will facilitate smooth and effective implementation of the employment policy to achieve the shared objectives.

4.3 Main challenges faced by stakeholders

There are several challenges that are faced by specific groups of stakeholders in the four countries. They can be summarized into three broad categories. First, there are the constraints related to limited human, technical and financial capacities. All stakeholders face this challenge to varying degrees. However, their specific needs for capacity-building may be different. For example, the ministries responsible for employment issues need more resources to establish and ensure effective functioning of stakeholder consultative mechanisms. For other relevant government ministries a primary need is to have adequate and trained human resources to deal with employment-related issues, which are not their main mandate; for the workers' and employers' organisations, a primary need may be to have adequately staffed secretariats that can ensure two-way exchanges between the government and their members; for civil society organizations, a primary need may be to develop better advocacy skills that are based on research evidence. The lesson should be that despite the efforts and commitment of resources for employment-related technical assistance and capacity-building in the past, much more still needs to be done.

Second, there are challenges related to institutional and structural issues. In Uganda for example, it is up to the Ministry in charge of labour, as the coordinating agent, to bring on board the other line ministries and the social partners to implement the NEP. The fact that there is no separate labour Ministry makes this task difficult. Does the Ministry for Gender, Labour and Social Development (MGLSD) have the necessary political weight? The country study shows that the Finance minister receives more resources to tackle the country's employment challenges than the Ministry in charge of employment.

Third, there are some challenges that are specific to each group of stakeholders. For example, for the social partners the need to balance the interests of all the umbrella organisations' members and for the CSOs the need to build better links with the grassroots. Another challenge relates to the lack of adequate and timely coordination among government ministries on employment issues. This lack of coordination is probably not specific to employment issues: this seems to be an institutional weakness in governments' machinery that needs to be urgently addressed. Here the responsibility for action lies with the particular group of stakeholders. It is essential that the stakeholders be conscious of these "internal"

challenges so as to be able to take meaningful action to rectify the weaknesses and to improve on them.

5. Conclusions and recommendations

The country studies offer several conclusions and recommendations based on the research and analysis in each study. There are some important differences based on the situation in each country. However, one cannot avoid noticing some important similarities as well. Accordingly, this section presents a summary of those conclusions and recommendations that can be relevant for the four countries. These can be regarded as the gist of country-specific conclusions and recommendations.

5.1 Main conclusions

The main conclusions from the four country studies include the following:

- All four countries have experienced relatively high economic growth rates in recent years, but without making a significant dent on underemployment and vulnerable employment. The framework to deal with these in a comprehensive manner has been put in place. This includes a long-term development framework – called a vision – medium-term development plans and employment plans and strategies. The issue often is sustained and effective implementation of these plans that require substantial human, technical and financial resources as well as sustained political and bureaucratic commitment.
- The importance of employment and employment policy as key tools for growth and development is not generally recognized. Only one out of the four countries has adopted a comprehensive employment policy. The ministries responsible for employment have not been sufficiently strengthened, even when responsibility was given to them to coordinate employment policies across ministries and agencies. Their primary role on all issues related to labour is established, but their role on employment issues at large is insufficiently recognized by other stakeholders. The organic link between employment policy and other sectoral policies, in the context of the overall development policy, remains weak. Further, the human and financial resources of Ministries responsible for employment are not being augmented. They need more human and financial resources to effectively discharge their mandate, including ensuring the smooth functioning of an inclusive process for employment policy-making and implementation. The necessary move towards comprehensive and inclusive NEPs cannot take place without a strong ministry in charge of employment capable of playing his new role.
- The importance of having inclusive and participatory policy-making processes is increasingly recognized. The social partners are pushing for social concertation and civil society has become more visible and assertive. A number of consultative mechanisms exist for multi-stakeholder consultations on employment-related issues, but they are still too often limited to the traditional tripartite structures. Further efforts are needed to open consultations to a larger group of stakeholders.
- Tripartite consultative mechanisms on employment-related issues, such as economic and social councils, national employment councils, tripartite cooperation councils, etc. are in place, contributing to a mature relationship between the government and the social partners. However, a number of issues come in the way of the regular and effective functioning of these mechanisms. First, they often do not have clear legal mandates to offer analysis and advice that the government is required to consider. They often remain a forum for dialogue only. Second, by definition some important stakeholders are not represented in these tripartite fora, for example small informal businesses, youth groups, farmers' associations, etc. Third, not all the consultative mechanisms are functioning regularly. They are sometimes seen as being needed only when an issue has to be dealt with in an emergency, such as reported in the Indonesian country study for cases of labour unrests and strikes. Finally, the NEP tripartite

consultative mechanism needs to be strategic so that the NEP is taken into account by other important stakeholders beyond the social partners, such as sectoral ministries and Ministries of finance.

- Stakeholders' participation in employment policy-making has generally improved. However, not all of them seem to have equal opportunities and capacity/interest to regularly participate and truly contribute. Relevant government ministries and agencies, other than the ministry responsible for employment, participate in employment policy consultations in varying degrees with ministries responsible for finance/economy/planning and education often actively involved. The less-than-satisfactory participation by other relevant government ministries is due to (i) lack of human resources and interest as employment is not their primary function, and (ii) lack of opportunities as not all of them are regularly invited to consultative meetings or asked to provide inputs and feedback. The social partners also participate in employment policy consultations and are usually widely consulted. However, they often feel their views are not taken into account in the final document. CSOs participate a lot less because of the less number of consultative fora opened to them as compared with the social partners and key government ministries. Lack of their own capacity and occasional tensions in their relationship with the government as they are often more critical of governmental positions also explain the low participation by CSOs.
- A number of challenges must be faced to have more inclusive and participatory employment policy-making processes in the four countries. These challenges fall into three categories: i) challenges related to limited human, technical and financial capacities of the stakeholders. This was highlighted in the country studies of Moldova, Nicaragua and Uganda; ii) challenges related to institutional and structural issues of the design and functioning of consultative mechanisms as highlighted for example in the Nicaragua study; and iii) challenges that are specific to each group of stakeholders, for example the need to develop better advocacy approaches. These difficult challenges need to be overcome to ensure buy-in from all stakeholders, which is critical for the success of employment policy as an important contributor to growth and development.

5.2 Key recommendations

A number of recommendations have been made in each country study, based on the information collected and analysis made. Following is a summary of key recommendations.

Identification and involvement of remaining stakeholders. In each country, some important stakeholders are either not included in consultative mechanisms or not regularly consulted in the employment policy-making process. These often include: parliament and parliamentarians, representatives of farmers, informal workers, youth groups, microcredit institutions, women' groups and people with disabilities. Governments, particularly the ministries in charge of employment, should include them in the membership of regular consultative mechanisms and/or consult them regularly through other means, for example regular briefings to the Parliament, public notices, etc.

Dissemination of Information and organization of awareness-raising activities on employment issues. Improving general awareness on employment issues is important. All stakeholders should organize these activities. A particular target can be the stakeholders that have been on the margins of employment policy-making processes. Information technology and print and electronic media can be harnessed for this purpose.

Box 3. Stakeholders' involvement and dissemination of information

Some interesting practices are worth highlighting. In India, the draft national employment Policy was posted on the websites of the Ministry of Labour and Employment and of the ILO for two months so that anyone could post comments. It was also posted on Community Groups' sites.

In Uruguay, the national dialogue on employment policies has a dedicated website as well as a Facebook account.

The Sri Lankan government created a dedicated website to communicate about its National Human Resources and Employment Policy. The website presents the NHREP's objectives, its main policy areas as well as the committees created for its formulation. The website also has a page for public comments and all the draft documents are available for download. Finally, links to other ministries and to all the necessary contacts in the Secretariat for Senior Ministers are provided for anyone to seek additional information.

Improving regular information flows to key stakeholders. Distinct from the general information flow to the public as mentioned above, there is also a need to ensure regular information flow to main groups of stakeholders on important employment issues. The primary responsibility for this lies with the ministry in charge of employment, which should institute mechanisms including those based on information technology for this purpose. This also means that the ministries in charge of employment need to set up a modern labour market information system.

Rationalization and strengthening of consultative mechanisms. Governments should rationalize the mandates and number of consultative mechanisms so that while the number is reduced where possible, their mandates are broadened to cover all employment issues. It is also advisable to vest the consultative mechanism with legal powers to advise the government on selected employment issues. This will go a long way in establishing the credibility of the consultative mechanisms. Ministries responsible for employment should also be provided with adequate human and financial resources to ensure regular functioning of the consultative mechanisms.

Improving coordination among relevant government ministries and agencies on employment issues. Governments, through the ministries in charge of employment as well as ministries/agencies responsible for overall development planning, should take steps to improve regular two-way information flow and feedback between the ministries in charge of employment on the one hand and other relevant ministries and agencies on the other. This may require improving the rules of procedures, current inter-ministerial coordination mechanisms and provision of human and financial resources.

Improving the participation opportunities for CSOs. It would be fair to accord as much as possible similar opportunities to all groups of stakeholders. For example, CSOs and private actors should be accorded similar access to various consultative mechanisms as is given to the social partners. This should be done while balancing the need for inclusiveness with the obvious imperative of representativity.

Improving the feedback to and from constituencies represented by the social partners and CSOs. The social partners and the CSOs need to make more effort to ensure that there is a better two-way information and feedback flow between them on the one hand and the constituencies they represent on the other. For example, the employers' federations are often in a privileged position with regard to the government, but their relationship with other smaller employers' associations, particularly those representing SMEs and informal enterprises is often weak. Similarly, CSOs links with grassroots are often limited.

Building knowledge and expertise of all stakeholders on priority employment issues. With the help of the ILO, many stakeholders have acquired useful knowledge and expertise on many employment-related issues. However, given the complex and evolving nature of the issues involved, many knowledge gaps still exist in all four groups of stakeholders included in the analysis. Building capacity on selected employment issues - for example pro-employment macroeconomic policies, labour market regulations, productivity and wages, underemployment, informality, linkages between employment and social protection, youth employment, vulnerable groups, rural employment - deserves high priority.

Strengthening the culture of dialogue and inclusiveness. Different stakeholders have different agendas and interests - this should not hinder their working together to find a common platform where possible.

Governmental and non-governmental stakeholders, despite the differences in their roles and perceptions need not view each other as adversaries. Building a spirit of constructive dialogue has always been at the heart of the ILO's mandate. A culture based on a sense of common destiny and importance of inclusiveness is taking roots, albeit at different paces, in all four project countries as evidenced by the frequency and maturity of interaction among various groups of stakeholders (meetings, workshops, seminars where participants representing the government, the social partners and civil society get together and debate various policy issues). Such a culture of dialogue and inclusiveness is the best guarantee for long-term success and sustainability of inclusive and participatory employment policy-making processes.

Chapter II. National Employment Policy Making: Lessons from Indonesia¹⁰

National Employment Policy is a key element of a country's overall development policy. It has a specific feature due to the requirement of involving and considering the concern of three key stakeholders: the government, employers and worker organizations. The way the policy is formulated and implemented evolves following the changing nature of the political landscape of a particular country; and Indonesia is no exception. The country embarked on democratic transition in 1998 and soon after that, embraced a radical decentralization program. These changes have provided room for an increasing role for workers' organizations as well as decentralised government units.

This study examines the making of national employment policies in Indonesia. It proceeds as follows: Section 1 discusses recent employment trends; Section 2 assesses employment policy and its implementation in light of the ILO's decent work agenda, A discussion on the ILO country office support strategy and lessons learned are offered in section 3; and the final section provides a summary of findings and details some recommendations.

1. Recent employment performance

1.1 *The economic context*

At the end of 2004, when President Soesilo Bambang Yudhoyono (SBY) assumed power for the first time, he set an ambitious target of halving both the unemployment rate and the poverty rate by the end of his five year term in office. The target was to achieve 5.1% unemployment rate and to reduce the poverty rate to 8.2% by 2009 were included in the Indonesian Medium Term Development Plan 2004-2009 – *Rencana Pembangunan Jangka Menengah (RPJM)*. GDP growth was planned to continuously increase and achieve 7.6% in 2009, with an average GDP growth of 6.6% during 2004-09.

The targets, however, were not achieved. In 2009, the open unemployment rate stood at 7.9%, while the poverty rate was 14.1%, i.e. around 60% higher than the targeted levels. GDP growth averaged only 5.6%. When the national development planning agency (BAPPENAS – *Badan Perencanaan Pembangunan Nasional*) was drafting the RPJM 2004-2009, the internal circle within the BAPPENAS already viewed that the unemployment target was very much unrealistic.¹¹ However, the target could not be changed for political reasons as it was part of the SBY-JK vision and mission statement, and a key development promise during the presidential campaign¹².

¹⁰ The full version of this report was written in June 2011 by Zulfan Tadjoeeddin, School of Economics and Finance, University of Western Sydney, Australia. Email: z.tadjoeeddin@uws.edu.au. It is based on a two week mission to Jakarta in April 2011, facilitated by Mr. Peter van Rooij and Mr. Kazutoshi Chatani of the ILO Jakarta office.

¹¹ Interview, Jakarta, April 2011. It had been estimated that GDP would have to grow at an average 7.2% annually over 2007-2009 to achieve the 2009 unemployment target.

¹² All development targets outlined in the SBY-JK vision and mission statement were fully adopted in the RPJM 2004-2009.

Even though the development target in terms of economic growth, poverty eradication and unemployment reduction were not achieved, Indonesia managed to achieve quite remarkable socio-economic progress during 2005-2009. It is worth noting that the northern part of Sumatra island (Aceh) was devastated by the Indian Ocean tsunami in December 2004 leaving around 160,000 dead and more than 1.5 million people homeless. In 2005, different parts of the country were also hit by a series of natural disasters, mainly in the forms of earthquake, landslide and flooding. Just as GDP resumed rapid growth for two to three years in the mid-2000s, the country succumbed to the global financial turmoil in mid-2008. The stock market lost two-thirds of its value between January and September 2008. The rupiah lost a third of its value against the US dollar in just two months, during October and November 2008, and the economy slowed down considerably in 2009 as a result of falling commodity prices and declining demand for Indonesian exports, leading to a prediction of significant job losses. However, in 2009, Indonesia still documented 4.6% GDP growth and 2.3% employment growth. Indonesia's ability to cushion the impact of the crisis is mainly explained by its large domestic market and having better managed its domestic banking and financial system (compared with its banking system during the 1997 crisis) as the GFC impact was transmitted through external trade and ailing global financial systems.

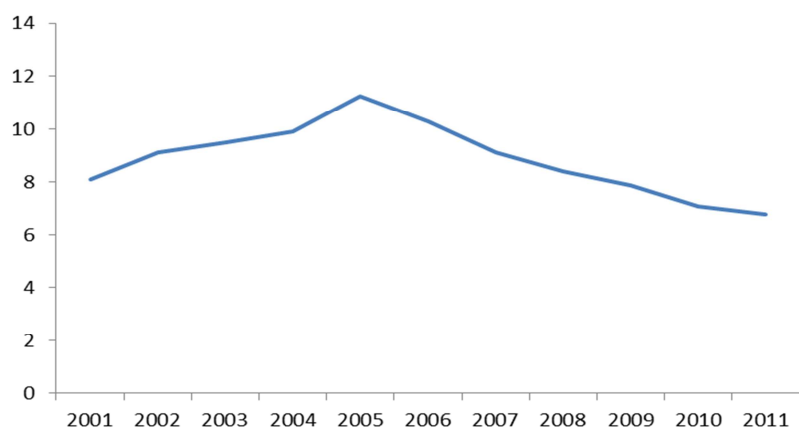
When running for his second term as president in 2009, SBY set much less ambitious and more realistic development targets for 2014: to achieve 5-6% unemployment rate, 8-10% poverty rate, with GDP growth expected to reach 7% (an average GDP growth of 6.3% to 6.8% between 2009 and 2014). After the slowing down of GDP growth in 2009 to 4.6%, primarily due to the GFC, from the peak of 6.3% in 2007 (the highest GDP growth since the 1997/98 Asian financial crisis), Indonesia's GDP grew at respectable 6.1% in 2010 and projected growth for 2011 and 2012 have been upgraded to 6.4% and 6.7% respectively (World Bank, 2011). Given these projections, the targeted unemployment rate of 5-6% by 2014 seems achievable. The ILO (2011) estimates that the required average annual GDP growth required to achieve an unemployment rate of 5.5% in 2014 is 6.6%.¹³ The latest unemployment figure, based on February 2011 *Sakernas*, of 6.8% has further strengthened the optimism.¹⁴

Although the unemployment rate deteriorated at the beginning of the first term of SBY presidency, later on the figures steadily improved. Unemployment was on an upward trend between 2001 and 2005, reaching its peak at 11.2% in August 2005. Since then, unemployment rates have been steadily declining to reach 6.8% in February 2011 (Figure 1).

¹³ The estimate is based on a descriptive approach of using employment elasticity for the overall economy, calculated from ILO (2011:22, Table 1.10).

¹⁴ A new sectoral employment projection based on the growth and employment performances of the first SBY term in office (2005-09) offers further optimism. Using the 2005-09 average GDP growth record of 5.6% and respective sectoral employment elasticities during the period as the benchmarks, the open unemployment rate in 2014 is projected to be at 5.3%, which is very much within the targeted level of 5-6%. With the targeted GDP growth of 6.3-6.8% for the second SBY term, the optimistic target of 5% unemployment rate by 2014 is achievable. The estimates are based on employment function for Indonesia from Tadjoeddin and Chowdhury (2011).

Figure 1. Unemployment rate, 2001-2010 (% of labour force)



Note: The sharp rise in the unemployment rate since 2001 is due to definitional change. The unemployed now includes those who are not working, but (a) actively looking for jobs, (b) NOT actively looking for jobs, (c) have jobs to start later, or (d) preparing a business. Adjustment for definitional changes by Aaron et. al. (2004) yields an unemployment rate of 5.1% in 2001 and 5.8% in 2002. Using the same adjustment factor, the unemployment rate in 2007 would be around 6.0% as it was in 2000.

Source: BPS, all data refer to August Sakernas, except for 2011 (February).

Indonesia's macroeconomic framework

The expansion of the economy in the first quarter of 2011 stood at 6.5% (year-on-year basis). This is supported particularly by strong export performance and accelerating investments. Indonesia has maintained a strong fiscal position. The Government budget deficit for 2010 was only 0.6% of GDP (well below the approved level of 2.1%), declining from 1.6% in 2009. The debt-to-GDP ratio was steadily on the decline between 2005 and 2010. The approved budget deficit for 2011 is 1.8% of GDP, which is around three times the outturn deficit in 2010; however World Bank's (2011) projected budget deficit for 2011 is only 0.9% of GDP. The reasons are higher projected tax revenues combined with an assumption that disbursement rates remain below 100%. In 2011, the Government has increased the budget allocated to infrastructure and social assistance.

Indonesia has formally adopted the inflation targeting framework of monetary policy since 2005 and the Bank Indonesia (BI) rate has been used as a tool to control inflation. For 2010 and 2011 the target inflation rate is 5% with a plus and minus margin of one percentage point, while for 2012, the target is set at 4.5% with a margin of one percentage point. The CPI inflation in April 2011 was 6.2% (y-o-y) and, as of May 2011, the current BI rate is 6.75%.¹⁵ During 2009, Bank Indonesia lowered the BI rate from 9.25% in December 2008 to 6.5% in August 2009 to mitigate the impact of the crisis on the Indonesian economy; however the rate was kept high in the pre-crisis period. While the inflation-target-based monetary policy was ineffective in taming cost-push inflation, the high interest rates associated with the BI rate might have affected the real sector of the economy in terms of lower output and employment (Dhanani, Islam and Chowdhury, 2009).

¹⁵ *Monetary Policy Review*, May 2011, Bank Indonesia.

Indonesia has recently introduced some capital control measures that may assist with macro-financial stability. In March 2011, the reserve requirement ratio for foreign currency deposits was raised from 1% to 5%, which is proposed to increase to 8% in June 2011. In January 2011, a 30% cap on lenders' short-term overseas borrowing was reintroduced (UN, 2011).

Table 1. Key macroeconomic data, 2001-2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP growth	3.8	4.4	4.9	5.0	5.7	5.5	6.3	6.0	4.6	6.1
Inflation	12.5	10.0	5.1	6.4	17.1	6.6	6.6	11.1	2.8	7.0
IDR/USD (nominal) ^{*)}	10,266	9,261	8,571	8,985	9,751	9,141	9,164	9,757	10,356	9,078
Poverty rate	18.4	18.2	17.4	16.7	16.0	17.7	16.6	15.4	14.1	13.3
Unemployment	8.1	9.1	9.5	9.9	11.2	10.3	9.1	8.4	7.9	7.1

^{*)} average monthly exchange rate

Source: BPS and BI data

1.2 Unemployment profile: urban, young and educated

Since 1990, the unemployed have predominantly been urban, young people with senior secondary education (Table 2). While the global open unemployment rate in 2005 was 11.2%, urban areas recorded 14.2% and youths (15-24 years old) a staggering 33.4%. The unemployment rate among upper secondary school graduates was close to 20%.

Table 2. Unemployment profile, 1990-2010 (% of labour force)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Open unemployment	9.1	9.7	9.9	11.2	10.3	9.1	8.4	7.9	7.1
Male	7.5	7.6	8.1	9.3	8.5	8.1	7.6	7.5	6.1
Female	11.8	13.0	12.9	14.7	13.4	10.8	9.7	8.5	8.7
Urban	11.0	12.0	12.7	14.2	12.9	12.4	10.9	10.7	9.4
Rural	6.1	7.0	7.9	9.1	8.4	6.8	6.5	5.8	5.5
15-24	27.9	28.1	29.6	33.4	30.6	25.1	23.3	22.2	21.4
25-49	4.5	4.6	4.7	5.7	5.5	6.1	6.0	5.4	4.7
50+	3.1	5.8	5.1	4.3	3.2	1.6	1.4	1.9	2.6
Primary or less	5.5	6.3	5.8	6.6	6.1	4.6	4.6	3.8	3.8
Lower secondary	12.3	11.7	12.7	14.1	12.9	10.7	9.4	8.4	7.5
Upper secondary	16.8	16.9	17.6	19.9	17.8	18.0	15.3	14.5	11.9
Tertiary	10.6	9.7	10.7	11.9	10.2	13.5	12.0	13.3	12.2
Ratio of unemployment rate									
Urban to total	1.8	1.7	1.6	1.6	1.5	1.8	1.7	1.8	1.7
Youth (15-24) to total	3.1	2.9	3.0	3.0	3.0	2.8	2.8	2.8	3.0
Tertiary edu to total	1.2	1.0	1.1	1.1	1.0	1.5	1.4	1.7	1.7

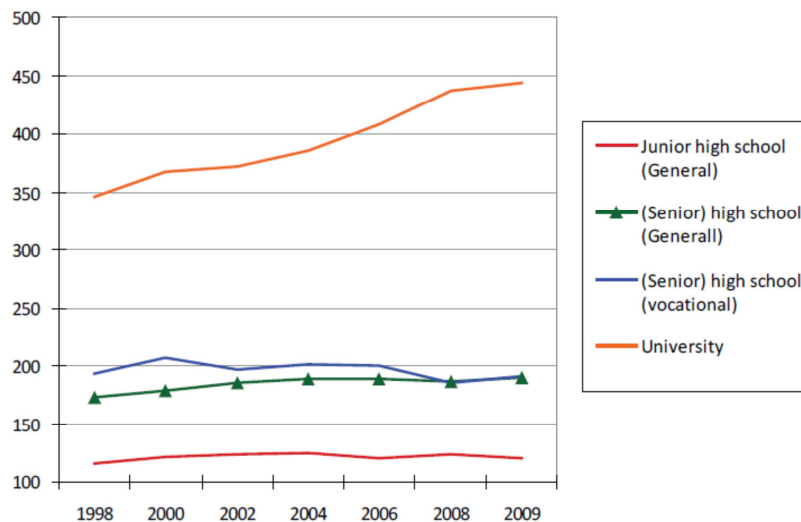
Source: Calculated from BPS data, Sakernas (August)

Data since 2005, however, show two changes. First, although the unemployment rate among the youths (15-24) is still the highest, it has been on a downward trend. Between 2005 and 2010, the unemployment rate among the youth declined sharply from 33.4% to 21.4%, which is faster than the decline in the unemployment rate among the mature age of

25-49. This might be attributed to the specific programs targeted to improve the employability of young people since the early 2000s.¹⁶

Second, the unemployment rate among people with tertiary education is not declining, while for people with upper secondary education it is declining significantly. This is an indication of the success of the youth employment programs targeting specifically on upper secondary school graduates¹⁷. In 2010, the unemployment rate among those with university education stood at 12.2%, while the overall unemployment rate stood at 7.1% (on a steady downward trend since 2005). Between 2005 and 2010, the ratio of the unemployment rate among university graduates to the overall unemployment rate rose from 1.1 to 1.7. This can be partly explained by the increase in labour supply of university graduates looking for work not being matched by an equivalent increase in demand for workers with these skills and qualifications. In fact, the share of young workers (aged 25-30) with university education has been increasing, especially among women (ILO, 2011). This trend is the result of a higher attraction for the youths to enrol in higher education that can be explained by increasing salaries attributable to higher education. Figure 2 depicts the increasing wage gaps between workers with university education relative to those with only primary school background.

Figure 2. Wage gap by educational attainment (Workers with primary education = 100)



Source: BPS, Sakernas, quoted from ILO (2011: 18)

The consistent declining trend of the open unemployment rate looks very good and, with three more years to go, Indonesia seems to be on track to achieve its unemployment

¹⁶ In 2002, Indonesia volunteered to be one of the ten 'lead' countries of the Youth Employment Network. The Indonesia Youth Employment Network (I-YEN) was established and a national Youth Employment Action Plan was developed and launched in 2004. Preliminary work on youth employment in Indonesia started in 2001 with three main studies (i) a national youth employment report, financed by the Japanese Government; (ii) a survey on youth aspirations looking at 10 youth focus groups with different educational backgrounds, employment status, and locations (in big and small cities), financed by ILO Jakarta, and (iii) a case study of MOMT experience in youth entrepreneurship programmes, financed by SEAPAT. The ILO has been actively and consistently supporting Indonesia with projects related to youth employment since 2002.

¹⁷ This might be attributed to the government program on boosting the coverage of vocational upper secondary education (SMK) relative to the general upper secondary education (SMA) and other related programs improving the employability of young people, like the functions of the government-run Vocational Training Centre (BLK - *Balai Latihan Kerja*).

target of 5-6% by 2014. However, it has been well-known since at least the 1960's, that the open unemployment rate is not a good measure of employment progress in developing countries. As Indonesia has graduated to the group of middle income countries, the focus should be shifted to the quality of employment, rather than on open unemployment *per se*. This would be more consistent with the ILO's decent work agenda that emphasizes the quality of employment.

1.3 Beyond open unemployment: the quality of employment

Underemployment

Underemployment is defined as those working for less than 35 hours a week. There has been virtually no improvement in the level of underemployment between 2004 and 2010, its share in total employment remaining around 33%. In fact, the proportion of full time employment (working for more than 35 hours per week) declined slightly from 67.4% in 2004 to 67.0% in 2010 (Table 3). Furthermore, two other trends are also noticeable during the period. The underemployed can be divided into two: those who are severely underemployed with less 20 hours of work in a week and those who work between 20 and 34 hours a week. One trend relates to the slight increase in the percentage of underemployment with less than 20 working hours per week (Table 3). The other is the slight shift from involuntary underemployment to voluntary underemployment (Table 4).

Table 3. Under employment, 2004 – 2010 (% of total employment)

	2004	2005	2006	2007	2008	2009	2010
<i>Working hours per week</i>							
< 20 hours	9.2	10.5	11.3	11.5	9.4	12.7	11.7
20 - 34 hours	23.4	22.5	24.2	21.3	20.9	23.2	21.4
Total under-employment	32.6	33.0	35.5	32.7	30.3	35.9	33.0
Fulltime employment	67.4	67.0	64.5	67.3	69.7	64.1	67.0

Source: Calculated from BPS data (Sakernas, August)

Table 4. Voluntary and involuntary underemployment 2004-2010 (% of underemployment)

	2004	2005	2006	2007	2008	2009	2010
Involuntary	48	48	47	49	48	49	46
Voluntary	52	52	53	51	52	51	54
Total underemployment	100	100	100	100	100	100	100

Source: Calculated from BPS data (Sakernas, August)

Employment in the informal economy

Despite the fact that the RPJM 2004-2009 put a strong emphasize on expanding formal employment, the proportion of informal employment in total employment only declined slightly during 2004-2010 (Table 5).¹⁸ The decline is primarily due to the slight decline in

¹⁸ This is based on the traditional definition of formal-informal employment that is based only on the status of employment (self-employed, employer, regular wage employee, casual wage labourer and unpaid family worker). The wider definition of formal-informal employment is based on a combination of two indicators, the status of employment and the types of employment. Types of

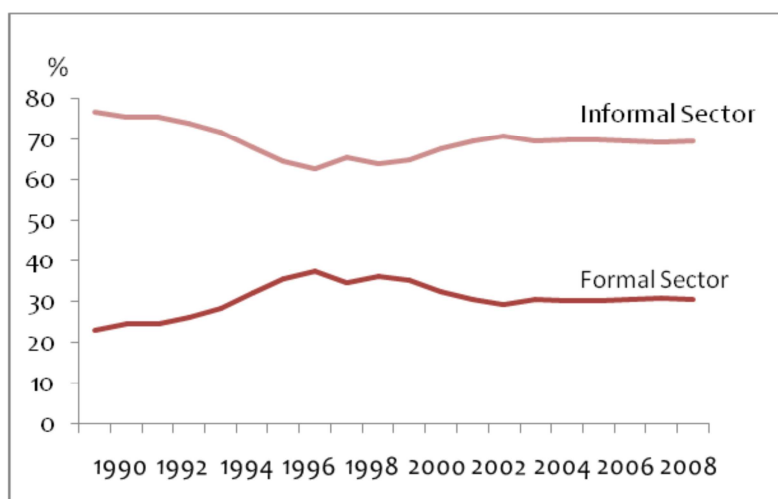
the proportions of the self-employed and unpaid family workers. The informal employment figure in 2010 is no better than the situation before the 1997/8 Asian financial crisis (Figure 3). The stagnant growth of formal employment during 2004-2010 is in contrast to the rapid expansion of the formal employment during the heydays of the New Order in the first half of the 1990s (Figure 3).

Table 5. Formal and informal employment, 2001-2010 (as % of total employment)

	2001	2004	2005	2006	2007	2008	2009	2010
1. self employed	41.6	42.5	40.7	41.3	41.3	41.6	41.0	39.5
2. employers	3.1	3.2	3.0	3.0	2.9	2.9	2.9	3.0
3. regular wage employees	29.3	27.2	27.7	28.1	28.1	27.5	27.8	30.1
4. casual wage laborer	6.7	8.7	10.5	10.6	10.4	11.0	11.0	10.1
5. unpaid family worker	19.4	18.5	18.0	16.9	17.3	16.9	17.3	17.3
Informal (1+4+5)	67.7	69.7	69.3	68.9	69.1	69.6	69.3	66.9
Formal (2+3)	32.3	30.3	30.7	31.1	30.9	30.4	30.7	33.1

Source: BPS, Sakernas

Figure 3. Formal and informal employment, 1990-2008 (% of total employment)



Source: Nazara (2010: 19)

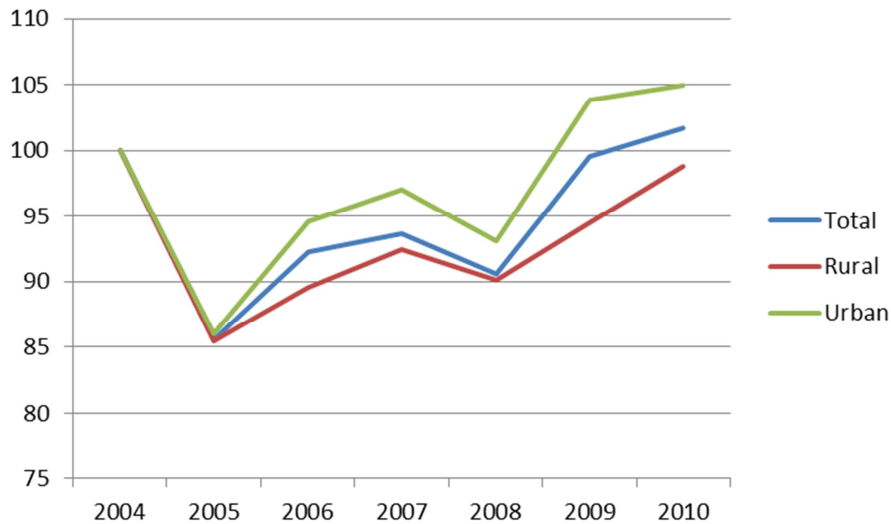
Real wages

Despite experiencing sustained economic growth and steadily declining unemployment rates during 2004-2010, the real wage was declining or stagnant at best during the period (Figure 4). Two points are worth mentioning. *First*, there was a sharp decline in the overall real wage in 2005 due to high inflation after the significant cut in fuel subsidies. *Second*, the drop in real wage in 2008 could be attributed to the negative impact of the GFC on wages across the board. The overall real wage in 2009 was still lower than it was in 2004 and it only fully recovered in 2010. In 2010, the real wage in rural areas, has still not recovered to its 2004 level. The stagnation of real wages is even more apparent for ordinary workers

employment includes: (1) professional, technical and related worker, (2) administrative and managerial workers, (3) clerical and related workers, (4) sales workers, (5) services workers, (6) agriculture, animal husbandry, forestry workers, fishermen and hunters and (7) production and related workers, transport equipment operators and labourers. The share of the wider definition of formal employment is a bit higher than the traditional definition, however, both show similar trends overtime, see Nazara (2010) for details.

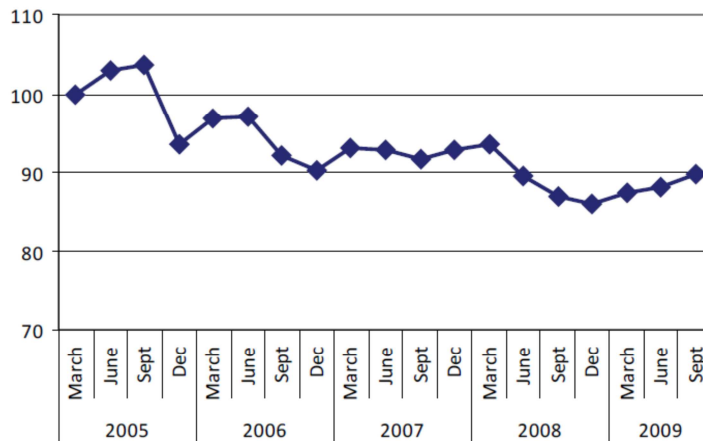
(Figure 5); their real wage in September 2009 was still 10% lower than the situation back in March 2005. More worryingly, Indonesia showed a steep decline in youth earnings between 2004 and 2009 (Figure 6),¹⁹ a trend that is also found in Egypt. This may create a sense of relative deprivation among the youths which can potentially lead to political and social instability.

Figure 4. Average real wage of waged or salaried worker (2004 = 100)



Source: Calculated from BPS data (Sakernas, August)

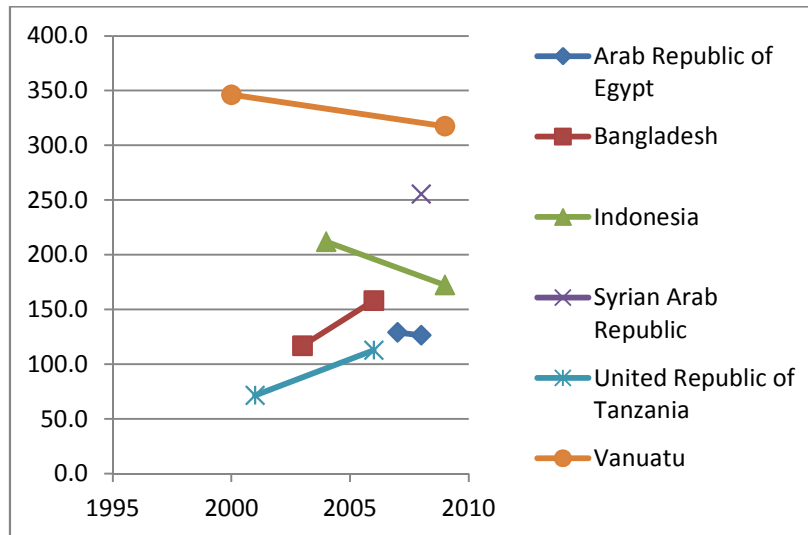
Figure 5. Real wage index for production worker below supervisory level (March 2005 = 100)



Source: BPS, Quarterly Wage Statistics, as quoted from ILO (2011: 17)

¹⁹ I am grateful to Patrick Daru of the ILO Jakarta office for pointing me to this figure.

Figure 6. Median earnings for wage or salaried young workers (USD 2005 PPP)



Source: YEN, Benchmarks for youth employment 2010

Social security coverage and vulnerability

One important element of decent work is social security of the workers, and Indonesia is very much behind from this perspective. According to the latest data available (ILO, 2008), out of 36 million formal sector workers, only 16.8 million workers, or 47%, are actually contributing to *Jamsostek*, *Taspen* and *Asabri* schemes.²⁰ This means that only about 17% of the employed population is currently covered by formal social security schemes. This percentage has been declining as employment has shifted towards the informal economy or due to non-complying small business enterprises, especially during the economic crisis. This social security coverage is unlikely to change dramatically in coming years as the shift from informal to formal sectors has been shown to be very slow or stagnant. This means that the social security coverage of the employed population will remain unchanged at a very low level.²¹

In addition to the formal social security scheme, the government has been providing targeted social assistance for the poor. The most notable progress in social assistance is related to two new initiatives: health insurance and the cash transfer scheme for the poor. These new initiatives took place against a background of the inflation shock in 2005 following fuel price increases due to significant removal of fuel subsidies. A number of observations are offered below.

²⁰ There are four existing social security schemes available in Indonesia. (1) *Jamsostek* is the social insurance fund for private sector employers and their employees. It provides four programmes: Employment Injury, Death, Health Insurance, and a provident fund type Old Age Benefit. (2) *Taspen* is the fund for civil servants. It provides a retirement lump-sum, and a pension programme. (3) *Askes* provides Health Insurance cover for public sector employees and some others. (4) *Asabri* is the counterpart fund for the armed forces and police. It provides similar lump-sum retirement benefits and pensions. The Armed forces also have some hospitals of their own (ILO, 2008).

²¹ ILO (2008:14) assessed that ‘there has been little visible progress in respect of social insurance for workers in the formal employment sector’.

First, the health insurance for the poor, called *Jamkesmas (Jaminan Kesehatan Masyarakat – health insurance for the poor)*, is the extension of coverage of the previous health insurance for the poor (*Askeskin – Asuransi Kesehatan Masyarakat Miskin*), which entitles health card holders to free treatment in public health centre (*Puskesmas – Pusat Kesehatan Masyarakat*) and hospitals. In 2009, 76.4 million people were covered by this program,²² representing around 35 per cent of Indonesia’s 220 million population. The target coverage of the *Jamkesmas* does not change for the 2012 budget.²³

Second, an unconditional cash transfer program was initially targeted at 15 million households, later expanded to 19.2 million households, assessed to be in poverty or near-poor. This program provides grants of Rp. 100,000 (US\$10) per month to the designated households. Since 2007, the unconditional cash transfer program has been converted into a conditional cash transfer program; that is cash transfer with conditions of sending children to school and attending health centres. The target groups are poor households with pregnant women and children between 0 and 15 years of age. These households receive cash for a maximum period of six years. According to BPS, 6.5 million households are estimated to be in this category. In 2010, the coverage of the conditional cash transfer program (*PKH – Program Keluarga Harapan*) was 815,000 poor households and targeted to cover 4.5 million households by 2014 with an allocated total budget of IDR 9 trillion (USD 1 billion).²⁴

The above clearly indicates the absence of coverage of any provisions of social security for the majority of Indonesian population located in the middle income strata. On the one hand, the formal social security schemes covers 17% of employed population. This group can also be assumed to be located in the top 17% of the income strata. On the other hand, although they are not comparable (in their coverage) to the formal social security schemes, social assistance schemes targeting the poor cover 35% of the population located in the bottom income strata.²⁵ These figures make the remaining majority (52%) of Indonesians, located in the middle income strata, left totally uncovered by any forms of social security. This figure is unlikely to change significantly in the near future.

On the vulnerability of employment, the following two groups may be highlighted: migrant and domestic worker, and child labour. The ILO has been very active in supporting the government of Indonesia in dealing with these two issues.

There are around 4.5 million documented Indonesian migrant workers working overseas, while the undocumented figures are estimated to be 2-4 times larger. Approximately 75% of them are women, and the majority work as domestic workers. Overseas migrant domestic workers are vulnerable, lacking in legal protection both in Indonesia and abroad. They are exposed to trafficking and forced labour practices

Indonesia has not ratified the UN Convention on the Protection of the Rights of Migrant Workers and Their Families (1990). The concern was that the ratification will only benefit migrant workers working in Indonesia and not necessarily Indonesian migrant workers working overseas since none of the main destination countries of Indonesian overseas migrant workers have ratified the UN convention. Indonesia passed a law on the Placement and Protection of Migrant Worker (Law no. 39/2004) and its revision is now being scheduled. A law on domestic workers has also been initiated and scheduled to be debated in the parliament this year (2011).

²² President SBY’s speech to the Parliament, 16 August 2010.

²³ Presentation of the Coordinating Ministry for Social Welfare at MUSRENBANGNAS, Jakarta, 28 April 2011).

²⁴ RPJM 2010-2014.

²⁵ This is by assuming that the coverage of these two social assistance programs for the poor to have much overlaps, which is likely to be the case.

throughout the entire migration cycle. Furthermore, In Indonesia alone, there are approximately 2.6 million Indonesians, predominantly women, who are engaged as domestic workers. Around 72% of them receive less than IDR 300,000 monthly salary, far below the legal minimum wage of IDR 800,000-1,000,000. They work long hours, mostly without appropriate days off, and are prone to abuse without any access to complaints and mediation mechanisms.

In 2009, out of the total 58.8 million children aged 5-17, about 4.05 million or 6.9% were working children. Out of the total working children, 1.8 million or 43.3% % were child labour, defined as all persons aged 5 to 17 years who, during a specified time period, were engaged in one or more of the following categories of activities: (1) worst forms of child labour, and (2) employment below the minimum age for employment or work (BPS and ILO, 2010). The RPJM 2010-14 has a target of pulling out 28,000 children from the worst forms of work by 2014.²⁶

Declining employment elasticity

The above discussion suggests that Indonesia should move beyond the open unemployment rate as one of its main development targets. Instead, the focus should be on the quality of employment. This argument is supported by the fact that sectoral employment elasticities with respect to output have been continuously declining, as can be gleaned from Table 6, where employment elasticities are presented for three periods: pre-crisis, post crisis, and the first SBY presidency. The decline in output elasticities of employment is not necessarily bad news. In fact it is inevitable, as the effect of further growth will be more on employment quality and less on unemployment reduction, and economic growth will be more driven by productivity improvements. Technological change would tend to reduce employment elasticities.

Table 6. Output elasticities of employment by sectors

Sectors	Pre crisis 1993-97	Post crisis 2000-06	Sectors	SBY- 1st term 2005-09
Agriculture, fisheries and forestry	1.576	1.132	Agriculture	0.653
Mining, quarrying, electricity, gas, water	0	0.492	Mining, quarrying	0.287
Manufacturing	2.488	0.408	Manufacturing	0.000
			Electricity, gas, water	0.825
Construction	0.931	0.563	Construction	0.753
Trade, hotel, restaurant	1.345	0.874	Trade, hotel, restaurant	0.524
Transportation, communication	1.16	0.703	Transportation, communication	0.000
Finance	1.008	0.632	Finance	0.000
Services	0.411	0.316	Services	0.460

Note: pre- and post-crisis estimates are taken from Tadjoeiddin and Chowdhury (2011).

²⁶ In 2001, the Government of Indonesia established a National Action Committee on the Elimination of the Worst Forms of Child Labour, which prepared a National Action Plan.

2. National employment policy in Indonesia

2.1 The context: Indonesia's development plan

Indonesia has never had a stand-alone National Employment Policy or a white paper on employment policy at the national level. A section on employment is part of the overall national development planning documents.

Significant progress with respect to economic development only started when the military backed and centralistic New Order regime led by President General Suharto came to power after the failed communist coup in the mid-1960s. After the stabilization program in the late 1960s, the first 25-year long-term development plan (PJP – *Pembangunan Jangka Panjang*) was set for 1969-1994. The long-term plan was divided into five-year medium-term development plans (REPELITA – *Rencana Pembangunan Lima Tahun*). The socio-economic outcomes of the New Order were remarkable, and Indonesia was applauded as part of the East Asian economic miracle (World Bank, 1993). The second long-term development plan was set for 1994-2019; however, it was interrupted by the 1997/98 Asian financial crisis and subsequent regime change and democratization in 1998. The New Order regime collapsed in the last year of its sixth medium-term development plan (REPELITA). Soon after that, the country also embarked on a radical big-bang decentralization program.

The sixth REPELITA was the first medium-term development plan of the New Order's second long-term development (PJP). It was adopted in March 1994 by presidential decree. The document consisted of four volumes. The first one dealt with the macro picture regarding economic outlook, development objectives and targets, and macroeconomic framework. The second and the third volumes detailed sectoral development policies in a total of 39 chapters including a chapter on 'manpower and the expansion of employment opportunities'. The fourth volume outlined regional development plans for each of the country's 27 provinces (sub-national administrative units).

In its opening paragraph, the manpower chapter made a specific reference to the 1945 Constitution, article 27, clause 2: '*Setiap warga negara berhak atas pekerjaan dan penghidupan yang layak bagi kemanusiaan*' (every citizen has the right to have **decent work** and decent life for humanity). This was a reminder of the nation's visionary goal set by its founding fathers; however, the chapter did not elaborate on what was actually meant by decent work, nor did it articulate the steps required to achieve the grand vision. The chapter's sections on employment objectives and targets made no specific reference to decent work although they touched on some elements of it.

In May 1998, after 32 years in office, President Suharto was removed from power and following the constitution, vice-President Habibie was elevated as a new president leading a transitional government. The Habibie presidency was pre-occupied with the democratization agenda, macroeconomic stabilization after Indonesia was hit by the 1997/98 economic crisis and dealing with the impacts of the crisis. Indonesia was without any medium term development plan during this period.

In October 1999, the new general session of people assembly (MPR) elected Abdurrahman Wahid as the first democratically elected President of Indonesia. The general session also issued a decree on a state guideline (GBHN – *Garis-Garis Besar Haluan Negara*) for the next five years (1999-2004). Based on the new state guideline, the national planning agency (BAPPENAS) took an initiative in drafting a national medium-term development plan called PROPENAS (*Program Pembangunan Nasional* – National Development Program) for 2000-2004. The PROPENAS was adopted as a law agreed by the parliament (and the government) in November 2000.

PROPENAS was essentially similar in stance to the previous REPELITA as a national document of medium-term development plan. BAPPENAS was the key institution in drafting both documents. The key difference was in the process of drafting and adopting

them. REPELITA was purely technocratic and centrally drafted planning document issued in the form of a presidential decree. Although PROPENAS was also a technocratic document, the drafting process was done through series of public consultations involving line ministries, local government units, academia and civil society organizations in the national capital, Jakarta, as well as in selected provincial capitals. Then, the draft was debated in the parliament (DPR – *Dewan Perwakilan Rakyat*) before it was adopted as a law.

PROPENAS 2000-2004 consisted of 12 chapters,²⁷ where economic development was one of them. The economic chapter contained seven development programs and the first covered 'poverty alleviation and the fulfilment of people's basic needs'. The development of manpower and social security system were covered within this poverty alleviation program. The manpower component made a reference to the decent work and decent life visions of the constitution. The document stated: "Manpower development is aimed at providing job and business opportunities for every workforce, so that they can enjoy decent work and decent life as outlined in the 1945 Constitution, article 27, clause 2". Furthermore, "manpower development is directed to enhance the competencies of the labour force, improve wages, guarantee welfare, protect workers and ensure union rights". The program on the development of a social security system culminated in the passing of the law on National Social Security System in October 2004.²⁸

2.2 Forms of national employment policy

National employment policy in Indonesia can be located in two places. First, it relates to employment regulations in the form of laws, government regulations, presidential decrees, etc. Second, it relates to the employment policy component of the medium-term national planning documents.

Employment regulations

Five major pieces of labour-related regulations have been enacted since 1998 and the collapse of the New Order regime: the manpower law (Law no. 13/2003), the law on trade union (Law no. 21/2000), the law on industrial disputes settlement (Law no. 2/2004), the law on national social security system (Law no. 40/2004) and the law on placement and protection of overseas migrant worker (Law no. 39/2004).

The law on manpower represents comprehensive legislation on labour relations. The law was proposed to the parliament on behalf of the government by the ministry of manpower that was headed by a minister from the winning party in the 1999 parliamentary elections, PDIP (*Partai Demokrasi Indonesia Perjuangan* – the Indonesian Democratic Party of Struggle). The party constituents are mainly coming from poorer Indonesians, including labour. In fact, the minister at that time (Mr. Jacob Nuawea) was also the chairman of the largest labour union in the country while serving as a minister of manpower. There was an accusation that the passing of the law had the agenda of gaining popularity for political parties in the 2004 parliamentary elections.²⁹

²⁷ The 12 chapters were: (1) introduction, (2) national development priorities, (3) law, (4) economy, (5) politics, (6) religion, (7) education, (8) socio-cultural, (9) regional development, (10) natural resources and environment, (11) defence and security and (12) conclusion.

²⁸ Law no. 40/2004 on *Sistem Jaminan Sosial Nasional* (National Social Security System).

²⁹ Interview, Jakarta, April 2011.

The manpower law is very controversial in Indonesia. It is seen to be very protective of labour (in the formal sector), especially in terms of regulations related to severance pay rates and dismissals, short-term contracts and outsourcing and minimum wages. The employers feel that they are on the losing side.³⁰ For some, Indonesia is viewed to have the most rigid labour market regulations in the region (World Bank, 2010). On the one hand, the labour market rigidity has been blamed for the dismal performance of the labour market, especially the stagnant growth of formal sector employment due to its effect on business climate (World Bank, 2010; Manning and Roesad, 2007). On the other hand, some believe such regulations are necessary to protect workers and labour rights. They could also promote productivity and growth in the long run (Dhanani, Islam and Chowdhury, 2009). Furthermore, ILO (2010) argues that the claim of labour market rigidity resulting in poor investment climate that reduces employment creation is not supported by empirical evidence. The declining trend of the unemployment rate during 2005-2010 indicates that the Manpower Law cannot be blamed for poor labour market outcomes.³¹ The World Bank's Doing Business survey enlisted labour market regulations as only one of the ten factors affecting the overall index of 'ease of doing business' in which Indonesia ranked 122 out of 183 economies in 2010. More importantly, the values of rigidity indices related to different components of employing workers were virtually constant during 2003-2007 (Table 7). Furthermore, according to an executive opinion survey by the World Economic Forum, labour rigidity was not among the top-five obstacles in operating a business in Indonesia.³² An investment climate survey in 2007 by the University of Indonesia listed macroeconomic instability, transport and corruption as the top three constraints while labour regulation ranked eleventh (LPEM-FEUI, 2007).

Table 7. Indices related to employing workers in Indonesia, 2003-2007

	2003	2004	2005	2006	2007
Difficulty of hiring index	72	61	72	72	72
Rigidity of hours	0	0	0	0	0
Difficulty of firing index	60	60	60	60	60
Rigidity of employment index	44	44	40	44	44
Firinf cost as % of salary	10	10	10	10	10

Source: World Bank's Doing Business Survey, cited in Dhanani, et al (2009: 161)

The first SBY administration had an agenda of rewriting the manpower law to create a more flexible labour market as explicitly stated in the RPJM 2004-2009 (expanding formal sector employment through improving labour market flexibility) and the revision of the 2003 manpower law was high on the political agenda. In early 2006, the government circulated a list of proposals to revise it, mainly focusing on severance pay, fixed term contracting, minimum wages and outsourcing issues. The union movement resisted these changes and initiated large-scale demonstrations, prompting the government to stop its reform attempt.

It is often argued that while Indonesia's high *de jure* severance rates deter foreign investment and discourage entrepreneurs from creating new businesses, the severance pay provisions - seen by the workers as a social protection when facing job termination or

³⁰ Interview, Jakarta April 2011.

³¹ Dhanani, Islam and Chowdhury (2009) also make a similar point based on their analysis of labour market outcomes during 2000-2007.

³² World Economic Forum, *The Global Competitiveness Report 2009-2010*.

unemployment in the absence of unemployment benefits schemes - have not been effective in protecting workers. According to 2008 data, only 34% of all eligible workers who separated from a job actually received severance pay. Of those workers who actually received severance pay, 78% collected less than the amount to which they were legally entitled (World Bank 2010). On paper, the regulations will only benefit workers with a permanent contract (less than 3% of the workforce) and unionized employees (11% of wage employees). Regulations, however, are largely irrelevant for the 92% of all workers who are either employed without a contract or work in the informal sector.

It seems that the manpower law could only be reformed in the presence of clear social security provisions. The rigid severance conditions of the manpower law are indeed seen as substitutes for the lack of a comprehensive social security system. From this perspective, the strong objections to the planned revision of the manpower law in 2006 could be understood. More recently, the second attempt to revise the law has been soon muted, although the Indonesian Institute for Sciences (LIPI) had been requested by the tripartite institutions to conduct a study for the revision. The leak of a fake draft quickly sparked demonstrations by trade unions.

Much progress on the revision of the manpower law is very unlikely to happen in the near future. The government seems to be a bit nervous on this issue as they do not want to see a new huge labour demonstration re-emerge like the one that occurred in 2006. The government proposal to include the revision of manpower law in the 2011 PROLEGNAS (*Program Legislasi Nasional*) was rejected by the parliament in 2011. Internal reactions within the ministry of manpower, the department responsible for the revision of the manpower law on the government side, had indicated that they would be unwilling to start any initiatives unless the trade union and employer association have come to agreements on crucial articles of the law. However, the government has listed the revision of manpower law (especially articles related to severance pay, outsourcing and contract agreement) as a top priority to support the newly initiated Indonesia long-term economic master plan.³³ The process of the revision is scheduled to start by the end of 2011.

The focus in 2011 is to pass the law on the Social Security Agency (*Badan Penyelenggara Jaminan Sosial*) as mandated by the 2004 law on national social security system. But opinions are divided. One side says that the law on social security implementing agency can proceed by referring to the already seven-year-old law on social security system. The other side believes that it can only be done after the revision of the law on social security system due to weaknesses and inconsistencies of the law.³⁴

There is also another opinion, mainly voiced by trade unions, calling for a more comprehensive approach. According to this view, the revision of manpower law should be done in one package with the revision of the 1992 law on JAMSOSTEK (*Jaminan Sosial Tenaga Kerja*) – social security for formal worker in the private sector) to ensure harmonization, so that the less rigid manpower law is subject to clearer provisions of social security. Both laws are mainly concerned with formal workers in the private sector.³⁵ This

³³ Presentation of the Coordinating Minister for Economic Affairs at the MUSRENBANGNAS, 28 April 2011 (*Musyawah Rencana Pembangunan Nasional* – National Development Plan Meeting). MUSREBANGNAS is an annual national meeting of central and regional governments on national development plan.

³⁴ See also ILO (2008).

³⁵ Trade unions only represent a tiny fraction of the Indonesian labour market. They represent less than 10% of formal sector employees, or approximately 3% of the total workforce in Indonesia.

implies that all kinds of social security should not be placed together in the 2004 law on social security system due to the labour market segmentation.³⁶

Against this backdrop, it seems that substantial mutual distrust between workers and employers are very much still present. On the one hand, workers say that they will be ready for a more flexible manpower law only after they have seen a clear provision of social security from the development of a comprehensive social security system. They would not be willing to relax the current rigidity of manpower law before social security provisions are made clear. On the other hand, employers are cautious on this condition as there is no guarantee that workers would not resist the revisions of manpower law after the provisions of social security are made clear.³⁷ As the trade unions and employers' federation are mainly representing the formal sector of the economy, and given such mutual distrusts, there are grounds for the argument of handling the two laws in one coordinated package. However, this alternative is unlikely to happen as the political mood now is on the passing of the law on the social security implementing agency.

Employment policy components of the Medium-Term Development Plans since 2004

Since 2004, elements of a national employment policy can be found in the Medium Term Development Plan (RPJM). The National Long-term Development Plan (RPJP) 2005-2025 was adopted as a law in 2007 (Law no 17/2007). The RPJP is based on the vision enshrined in the Constitution in the form while the RPJM is based on the presidential vision and issued as a presidential decree. Under this new mechanism of national development planning, the first RPJM was developed for the period of 2004-2009 and the current one covers the period 2010-2014. RPJM is essentially the continuation of PROPENAS and REPELITA, where the BAPPENAS serves as the drafting team.

As Indonesia has been consolidating its democracy for more than a decade and praised by the international community for such achievement,³⁸ it is most likely that the current system of RPJM will continue in the future. It has a strong basis in the 2004 law on national development planning system and the 2007 law on national long term development plan 2005-2025.

RPJM 2004-2009

How did employment get into the RPJM in the first place? By default, the national medium term development planning documents always contain chapters on employment as can be seen in the six REPELITAs (1968-98) of the New Order and the PROPENAS 2000-

³⁶ Interview, Jakarta, April 2011.

³⁷ This is parallel to the idea of the grand bargain on regulatory reform proposed by the World Bank (2010). On the one hand, the rigid manpower law needs to be made more flexible and at the same time workers are provided with social security provisions through the national social security system. Therefore, the current stalemate of lose-lose positions between workers and employers could be transformed into win-win outcomes.

³⁸ Indonesia is seen as the most stable democracy in Southeast Asia and has been a key reference as a democratic transition success story (Mietzner, 2010). The Indonesian case has been much referred in discussing prospects for democratisation in the autocratic developing world as in Myanmar and the current worldwide headlines on the Arab spring.

04.³⁹ Furthermore, the SBY-JK vision and mission document for presidency in 2004, which served as the basis for the RPJM 2004-09, explicitly laid down two main development strategies: (1) the fulfilment of peoples' basic rights, and (2) the creation of a strong foundation for development. The first of the basic rights listed is peoples' right to decent jobs. The basic rights or entitlement approach is in line with the poverty reduction approach adopted by the 2004 PRSP document.⁴⁰ It should be noted that Jusuf Kalla, who was SBY's running-mate as Vice President in 2004, was serving as the Coordinating Minister for Social Welfare while the ministry was in charge of the PRSP process. The ILO Jakarta played a very active role during the PRSP formulation process and advocated, among other, for the entitlements approach.⁴¹ In addition, with funding from DFID, a coalition of Indonesian NGOs called GAPRI (*Gerakan Anti Pemiskinan Rakyat Indonesia - Anti Impoverishment Movement for Indonesian Citizens*) also strongly advocated for the rights based approach to poverty reduction.⁴² The Manpower Directorate of the BAPPENAS consulted each of the general directorates within the Ministry of Manpower in preparing the manpower section of the RPJM. The Ministry in charge of employment was thus given a possibility to inform and influence the employment component of the RPJM.

The RPJM 2004-2009 defined three objectives: (1) to create a secure and peaceful Indonesia, (2) to create a just and democratic Indonesia, and (3) to improve the welfare of the Indonesian people. On the last one, the key development targets were to reduce poverty and unemployment rates to 8.2% and 5.1% respectively by 2009 and average annual GDP growth was targeted at 6.6% for 2005-2009. Nine priorities were defined to achieve these targets:

1. Poverty reduction
2. The enhancement of investment and non-oil and gas exports
3. Improvement of manufacturing competitiveness
4. Agricultural revitalization
5. The empowerment of co-operatives and micro-small-medium enterprises
6. Improvement in the management of state-owned enterprises
7. Improvement in science and technology
8. Improvement in manpower climate
9. Improvement in macroeconomic stability

The priority on improving the manpower climate was focused on (a) expanding the formal (modern) economy and (b) enhancing workers' productivity. The key intervention to expand formal employment was to make the labour market more flexible. The manpower section of the RPJM 2004-2009 made no reference to the decent work agenda.

³⁹ These five year medium term development plan documents always contained chapters on 'expanding employment opportunities and 'manpower'. It should be noted that the New Order development was strongly characterized by sectoral and centralistic approaches and manpower was treated as one of the development sectors.

⁴⁰ Government of Indonesia (2004), *Strategi Nasional Penanggulangan Kemiskinan* (National Poverty Reduction Strategy), or Indonesian PRSP.

⁴¹ The ILO's conceptual framework on decent work and poverty in Indonesia stated, 'the conceptual framework for taking forward the ILO's work on poverty reduction is grounded in the twin concepts of entitlement and equity and the fact that for poor people, work is the main and often only way to get out and stay out of poverty' (ILO, 2004: 1).

⁴² Bahagijo (2005).

The employment component was also found in the priority on poverty reduction. As already mentioned, poverty was seen to be rooted in the failure in the fulfilment of the poor's basic rights. Basic rights include right to health, education, housing, food, clean water, land, participation and employment. Therefore, one strategy for poverty reduction in the 2004-09 RPJM was the fulfilment of citizen rights to full and productive employment.

In February 2005, President SBY laid out his vision for a 'triple-track strategy' of pro-growth, pro-poor and pro-jobs.⁴³ The coordinating minister for economic affairs also referred to the triple-track strategy in his July 2005 speech.⁴⁴ The RPJM 2004-2009 was already formulated and the approach came to be viewed merely as a political jargon.⁴⁵ However, the strategy was pushed forward. In December 2006, the President led a coordination meeting with 12 ministers within the economic portfolio and 6 governors of Java on the key agenda of tackling poverty and unemployment that attracted considerable media coverage.

RPJM 2010-2014

The RPJM 2010-14 consists of 11 main national priorities.⁴⁶ To achieve these priorities, the development plan is categorized into 9 development fields⁴⁷ elaborated in 9 chapters and economics is one of them. The economics chapter contains, among others, sections on 'manpower competitiveness' and 'social security'.⁴⁸

The manpower section in the economics chapter recognizes that the main problem of employment is the limited opportunities for the labour force to obtain decent work (*terbatasnya kesempatan untuk memperoleh pekerjaan yang baik*). This is due to (i) the segmented nature of the Indonesian labour market, where around 70% of employment is still in the informal sector and (ii) the relatively low education level of the workforce, where around 70% of workforce is only equipped with junior secondary education qualification or less. Therefore, the first directive of the manpower development is to "enhance the creation of decent work, which is productive employment with the adequate protection and social security" (*Mendorong terciptanya kesempatan kerja yang baik (decent work), yaitu lapangan kerja produktif serta adanya perlindungan dan jaminan sosial yang memadai*). It

⁴³ S.B. Yudhoyono (2005), 'Indonesia: The Challenge of Change', The Singapore Lecture, Institute for South East Asian Studies, February 16. At the time the speech was delivered, the Presidency of SBY was three months old. See also *Business Week* 4 July 2005 http://www.businessweek.com/magazine/content/05_27/b3941065.htm.

⁴⁴ *Bisnis Indonesia*, 7 Juli 2005, "Triple track strategy untuk genjot pertumbuhan".

⁴⁵ Interview, Jakarta, April 2011.

⁴⁶ The 11 main priorities are (1) bureaucratic reform, (2) education, (3) health, (4) poverty reduction, (5) food security, (6) infrastructure, (7) investment and business climate, (8) energy, (9) environment and management of natural disasters, (10) left-behind, frontier, outermost, and post-conflict areas, (11) culture, creativity, and technological innovation.

⁴⁷ The 9 fields are: (1) Social culture and religion, (2) economics, (3) Science and technology, (4) infrastructure, (5) politics, (6) defence and security, (7) law and state apparatus, (8) regional and spatial planning and (9) natural resources and the environment.

⁴⁸ The complete list of development strategies within the economic chapter are: (1) investment enhancement, (2) exports enhancement, (3) improving tourism competitiveness, (4) improving people purchasing power, (5) state finance, (6) monetary stabilisation, (7) financial sector stabilisation, (8) industrial revitalization, (9) manpower competitiveness, (10) empowerment of cooperative and micro-small-medium enterprises, and (11) social security.

is said that the adoption of such visionary directive on decent work was inspired by the ILO's decent work agenda.⁴⁹ In fact, the vision of having decent work and decent life for each and every Indonesians is written in the Indonesian 1945 Constitution;⁵⁰ however, the employment section of the RPJM 2010-2014 makes no reference to this particular article of the Constitution. It has to be recognized that, compared to the previous RPJM 2004-2009 or to PROPENAS 2000-2004, the RPJM 2010-2014's adoption of the 'decent work' phrase literally in English is a major indicator of progress in light of the ILO's decent work agenda.

The RPJM 2010-2014 also stresses the triple-track strategy of *pro-growth*, *pro-poor* and *pro-job*, but now with a new additional track, namely *pro-environment* as Indonesia's response to the climate change agenda. So, it is now a four-track strategy. However, one cannot really observe the articulation of the *pro-job* component, as in the case of the other two (*pro-growth* and *pro-poor*). It seems that the *pro-job* agenda has not been mainstreamed and treated on an equal footing with the other two strategies. *Pro-job* is very much assumed to be a by-product of the other two: *pro-growth* strategy and *pro-poor* policy, as the combination of *pro-growth* and *pro-poor* is seen as an inclusive growth strategy.

The mainstreaming of *pro-growth* and *pro-poor* has been evident. By default, the Indonesian development plan has always been *pro-growth* since the New Order's REPELITAs. All development efforts were to support the achievement of high economic growth. During the New Order, even political rights were suppressed in the name of stability to ensure high economic growth.

Box 1. Infrastructure development and the new economic master-plan

It is estimated that the total funding required to finance infrastructure development for 2010-2014 is IDR 1,924 trillion (USD 214 billion) or around 5% of GDP; where IDR 560 trillion is from the central government budget, IDR 355 trillion from regional governments (provinces and districts) budgets, IDR 685 trillion is expected from private sector and state own enterprises and the rest is the gap that needs to be otherwise funded. In January 2009, Indonesia formulated a IDR 73 trillion fiscal stimulus package (1.4 per cent of GDP) to respond to the GFC. The package included tax cuts, tax subsidies and a substantial increase in infrastructure investment. The infrastructure component was worth IDR 12 trillion, which was estimated to have created at least 1.2 million new jobs.

Recently, on 27 May 2011, President SBY launched the Master Plan for the Acceleration and Expansion of Indonesian Economic Growth 2011-2025. The master plan is to complement the Indonesian long term development plan of 2005-2025. The new master plan adopts three main strategies; (1) the development of six economic corridors with the main objective being to create new growth centres in the outer islands, (2) the strengthening of national connectivity, and (3) the acceleration of human resource and science capabilities. During the launching, President SBY announced 17 new infrastructure projects in four regions worth IDR 190 trillion (USD 21 billion). The projects include nation-wide Internet broadband access, hydropower and solar power plants, a modern steel mill, a palm oil industry zone, access roads, toll roads, airports, dams, reservoirs, as well as nickel, cobalt and aluminium facilities throughout the four economic corridors of Sumatra, Java, West Nusatenggara-Bali and Maluku-Papua.

Concerns and commitments to poverty reduction have been increasingly strengthened. It was probably in 1994 that the issue of poverty reduction made a significant headline for the first time. It was at the end of the first 25-year long-term development plan (1969-1994) of the New Order regime. Despite the poverty rate having been reduced from 60% to 14% during the period, the absolute number of poor people was still at 27 million. A new

⁴⁹ Interview, Jakarta, April 2011.

⁵⁰ Article 27, clause 2.

commitment for poverty reduction was manifested mainly in the program called *Inpres Desa Tertinggal* (IDT – Presidential Instruction for Disadvantaged Villages) that provided a block grant for each poor village all over the country. The government responded to the significant increase in the poverty rate due to the 1997/98 economic crisis with a range of social safety net programs.

In 2001, the Committee for Poverty Alleviation (*Komite Penanggulangan Kemiskinan*) was established with a presidential decree.⁵¹ The committee was headed by the Coordinating Minister for social welfare. The committee was tasked to provide policy advice, produce the Poverty Reduction Strategy paper (PRSP), and to monitor and report on poverty alleviation directly to the President. The anti-poverty program was further strengthened with the completion of the national PRSP in 2004 that was later fully adopted in the RPJM 2004-2009. In 2005, the committee was replaced by the Coordination Team for Poverty Eradication (TKPK - *Tim Koordinasi Penanggulagn Kemiskinan*), also headed by the Coordinating Minister for social welfare, with wider involvement of line ministries.⁵² In 2010, the coordinating team was elevated to be the National Team for the Acceleration of Poverty Eradication (TNP2K – *Tim Nasional Percepatan Penanggulangan Kemiskinan*), chaired by the Vice-President, while coordinating ministers for economic affairs and social welfare affairs serve as deputies to the chairman.⁵³ Donor supports on poverty reduction has also been evident; recently, in support of the work of the TNP2K and responding to the Vice-President's request for assistance to his office for poverty coordination, AusAID has put a proposal for a Poverty Reduction Support Facility in Indonesia.⁵⁴

⁵¹ Presidential Decree no. 124/2001.

⁵² Presidential Regulation no. 54/2005.

⁵³ See also Suryahadi, et al (2010).

⁵⁴ AusAID (2010). Before, in December 2007, Indonesian President SBY and World Bank President Robert B. Zoellick launched a USD 33 million Multidonor Support Facility, which provided key technical assistance and strategic oversight for the country's main poverty alleviation program, the National Community Empowerment Program (PNPM).

Box 2. Employment guarantee scheme

In 2005, a proposal for a national employment guarantee scheme was put forward by the ILO and BAPPENAS. The program aimed at helping to alleviate situations of poverty and un/underemployment, and creating productive assets and services for the economy. The program rests on three pillars: (1) employment creation for the poor, particularly in rural areas and the hinterland, for a maximum of three months in a year, (2) productive asset formation in the local economy, (3) extension of human development options to the workers and their households. The program proposes to target about 15 million poor households with an annual budget of about IDR 31.9 trillion (USD 3.2bn); however, given the fact that not all poor households will have able-bodied workers available, and those who have might not offer themselves for all the three months, the estimate of expense might not exceed IDR. 20-24 trillion.

Even though the country has had long standing *Padat Karya* (labour intensive) programmes, it seems that the employment guarantee has not been adopted.

However, the social assistance component of the poverty reduction strategy of the RPJM 2010-2014 has an anti-poverty *Padat Karya* program,* which is aimed at providing temporary work for the unemployed while building community infrastructures. This program is managed by the Ministry of Manpower. By 2014, the target is to provide temporary employment for 384,000 people in 360 districts with a total budget of IDR 857

billion (USD 95 million).

* The poverty reduction programmes are clustered into three groups: social assistance, community empowerment and micro-small enterprises.

While recognizing the progress on how the current RPJM treats employment policy, the following cautionary notes are worth listing. First, it seems that the RPJM 2010-2014 agenda on decent work is still quite ‘soft’. It needs to be more precise, as the Indonesian Constitution clearly puts a grand vision for ‘decent work and decent life for all Indonesians’. ‘Decent work’ could be seen as the main road to achieve a ‘decent life’. Second, although decent work is mentioned in the Constitution, the 20-year national long term development plan (RPJP 2005-2025) that was adopted as a law in 2007 does not make any reference to decent work. Third, there is a potential problem in articulating the RPJM’s decent work objective as the government tends to be overwhelmed by the main target of reducing the open unemployment rate, alongside with poverty reduction. Changing someone’s status from ‘unemployed’ to ‘employed’ does not necessarily mean that newly created employment is decent as in the case of most of employment in the informal economy. The strategy of pro-jobs might be seen as a priority to reduce the open employment rate only. This could be problematic as the notion of ‘achieving productive and full employment and decent work for all Indonesians’ has a much deeper meaning than what might be implied by the pro-job strategy as the notion lies at the heart of development itself.

The Strategic Plan of the Ministry of Manpower and Transmigration

Another planning document that is relevant for employment policy in Indonesia is the medium term strategic planning document of the Ministry of Manpower and Transmigration (MOMT). As stated in the 2004 law on national development planning system, referring to the RPJM, each central government ministry develops their own strategic plan for the same duration. BAPPENAS is mandated to monitor the elaboration of RPJM into strategic plans of line ministries and agencies, as well as regional governments. In line with RPJM 2009-2014, the MOMT strategic plan 2009-2014 literally adopts the nine policy directives on manpower, in which the first policy directive is to “enhance the creation of decent work,

which is productive employment with the adequate protection and social security”.⁵⁵ However, the role of the MOMT is limited in scope as the ministry mainly deals with industrial relations in the formal sector.

The ministry has four directorate generals dealing with manpower issues: (1) training and productivity, (2) manpower placement, (3) industrial relation and workers’ social security, and (4) labour inspection. It can be said that the role of the MOMT is limited to the supply side of the labour market, mainly in the formal sector, while the ministry virtually has no influence on the demand side of the labour market.⁵⁶

Box 3. Micro, small and medium enterprises program

Supporting and empowering the micro-small-medium enterprises is a key component of the poverty reduction strategy. The program has three objectives: (1) providing access to finance for micro-small enterprises with collateral from the government, (2) opening market access, and (3) improving business skills and management. Chief among the three is the provision of KUR (*Kredit Usaha Rakyat* – People-based small-business loan), launched in 2007. KUR is aimed at (i) accelerating the development of real sector and micro, small and medium enterprises (MSMEs), (ii) improving the MSMEs and cooperatives’ access to financing, and (iii) combatting poverty and expanding work opportunities. During 2007-2009, the total amount of loans made by the KUR program was IDR 16.4 (USD 1.8 billion) given to 2.3 million creditors, as many as 96% of which were micro creditors with loan value of less than IDR 5 million (USD 550) each.

Source: RPJM 2010-2014.

Youth employment

The Indonesian Youth Employment Network (IYEN) and the resulting Indonesia Youth Employment Action Plan (IYEAP). Youth employment has been strongly highlighted at the RPJM 2010-2014. Recently President SBY made a call for a global coalition to tackle youth employment in an address to a special session of the 100th International Labour Conference (ILC) in Geneva. Before that, in early 2011, the ILO country office was requested by the vice-President’s office to give a presentation on youth employment. These encouraging signs cannot be separated and should be viewed as the outcomes of the ILO country office advocacy on the issue. Not only that, policy advocacy is strengthened by and strongly related to the presence of ILO projects on the ground on youth employment that is aimed at improving the employability and capacity for entrepreneurship among the youths through improved access to high quality, relevant educational and training opportunities.

2.3 The Policy Making Process

The national development planning agency, BAPPENAS, always serves as the drafting team of any national development planning documents. As mentioned earlier, the way the REPELITA, including its employment section, was drafted during the New Order was very technocratic and centralistic in nature. This is not surprising given the authoritarian and

⁵⁵ The other eight policy directives are: (1) to enhance the creation of employment opportunities in all development sectors, (2) to enhance the condition and the mechanisms of industrial relation in order to enhance employment opportunities, (3) to improve employment regulations, (4) to develop social security and labour empowerment, (5) to improve worker competency and productivity, (6) to create employment opportunities through government programs, (7) to improve migration and development policy and (8) to improve labour market information.

⁵⁶ This point is also found during field interview in Jakarta, April 2011.

centralistic political system of that era. As noted before, the technocratic process of the drafting of PROPENAS 2000-2004, the first medium term planning document after Indonesia embarked on democratisation, was complemented with a range of public consultations held in Jakarta as well in several provincial capitals. Then the draft was discussed in the parliament before it was adopted as a law.

Since 2004, the next medium term development planning document, RPJM, is enacted in the form of Presidential Regulation (Peraturan Presiden). However, the RPJM is based on the law on national Long-Term Development Planning 2005-2025 (RPJP 2005-2015 – Rencana Pembangunan Jangka Panjang) and the agenda of the directly elected president. The elected president is mandated to produce the medium term planning document within the first three months of his/her presidency. Therefore, the schedule of medium term planning document is matched with the national political cycle.⁵⁷ The long-term development plan, RPJP 2005-2007, was also drafted by the BAPPENAS and discussed in the parliament before it was adopted as a law in 2007 (Law no. 17/2007). The RPJP elaborates the goals of the republic in the form of 20 years development, therefore, the RPJP 2005-2025 is the reference document of four 5-year medium term development plans.

A two-day national summit was organized in late October 2009 to gather feedback on President SBY and Vice-President Boediono's development program for the next five years or the draft of the RPJM 2010-2014. The summit was held in Jakarta and attended by some 1400 participants from high ranking government officials (central governments ministries as well as provincials' and districts' government units), chambers of commerce, NGO's, financial institutions and academia. The theme of the summit was 'to create a prosperous, fair and democratic Indonesia'; however, such a big gathering was seen as largely ceremonial.⁵⁸

The manpower section of the RPJM is drafted by the manpower directorate of the BAPPENAS. A small drafting team assisted by consultants was set up within the directorate. The directorate already started the drafting process of the employment section of the RPJM 2010-2014 in early 2009. Initially the BAPPENAS' manpower directorate consulted the four directorate-generals of the Ministry of Manpower and Transmigration (MOMT) that deals with manpower issues. During 2009, the directorate organized around 70 workshops or focus group discussions to discuss the employment section of the RPJM. The workshops were organized according to issues and targeted participants. The targeted participants were from line ministries, trade unions, employer association, universities, NGOs, think tanks and research institutions and donor agencies. These kinds of events are rarely attended by key persons of the targeted institutions; therefore, leading figures from the trade unions and employer association expressed concern that they were not involved in the drafting process relating to the employment components of the national medium term development plan.

It was recognized that the decent work objective in the RPJM 2010-2014 was adopted from the ILO's agenda;⁵⁹ however, the meaning and interpretation of RPJM's decent work might not have an exactly similar meaning as that of ILO, as the ILO has developed a structured interpretation of decent work that is defined as 'productive work in conditions of

⁵⁷ SBY was inaugurated as a newly elected Indonesian president in October 2004 and the RPJM 2004-2009 was issued as a presidential regulation (PERPRES no. 7/2005) in January 2005. SBY was inaugurated as the president for a second term in October 2009 and the RPJM 2010-2014 was issued as presidential regulation (PERPRES no. 5/2010) in January 2010.

⁵⁸ Interview, Jakarta, April 2011.

⁵⁹ Interview, Jakarta, April 2011.

freedom, equity, security and human dignity'.⁶⁰ RPJM's decent work (pekerjaan yang baik) is defined as employment in the formal sector of the economy as it only constitutes a small proportion of total employment in Indonesia.

In drafting the RPJM's employment section, the BAPPENAS employment directorate benefitted from a range of ILO studies and analytical research on employment. The directorate specifically requested the ILO to coordinate a study on labour-intensive manufacturing sectors, where the study was conducted by three respected national institutions (The University of Indonesia, Padjajaran University and the Jakarta-based Centre for Strategic and International Studies - CSIS). The World Bank contributed with a study on the Malaysia-Indonesia remittance corridor. In addition, USAID provided assistance to BAPPENAS in a study related to the reform of the 2003 manpower law.

Box 4. ILO's support strategy on national employment policies

In August 2008, the ILO country office organized a policy dialogue on a strategy for creating decent and productive employment in Indonesia, and launched a major study entitled 'Enunciating a national employment strategy for Indonesia: what do we know and what should we do?' Although, the ILO country office made no official submissions/recommendations for the formulation of the RPJM 2009-2014, it seems that the ILO studies and policy papers were widely consulted.

Before that, in 2003-2004, the ILO country office was very active in contributing to the Indonesian PRSP process in which it made a formal submission, complemented with a series of technical briefing notes covering wide-ranging issues (ILO, 2004).¹ In addition, the ILO country office actively supported trade unions and employers' associations to participate in the PRSP process.

The ILO Jakarta through European Union (EU) funding facilitated the establishment of a Policy working group to make the government more aware of the importance of coherence in policies on trade and employment. This is a timely development in line with the implementation of the free trade agreements that Indonesia has established. A number of capacity building events to raise the awareness of ILO constituents regarding the linkages between trade and employment have also been conducted.

The ILO country office has been running youth employment related projects since 2002 as well as employment-intensive and livelihood programs for crisis-affected areas such as Aceh, Maluku and Papua. Lessons learned from the EAST project on youth employment were translated into policy recommendations for various policy documents both at national and local levels (RPJM 2010-04, the strategic plans of ministries of education and manpower, provincial medium development plans of Papua and South Sulawesi, and also district regulations on child labour in Medan, Sukabumi and Takalar).

Advocating for employment policy both at national and sub-national levels is a new development in ILO activities in Indonesia, as most donor policy advocacy focuses on the national level. Indonesia is a very diverse country, not only from the point of view of its ethnic diversity, but also because of the country's different socio-economic characteristics. For example, the western part of Java is the most industrialized region in Indonesia with the highest share of formal sector employment; in contrast, East Nusatenggara is the least industrialized Indonesian's province where more than 83% of total employment is in the informal economy, the highest in the country. Therefore, the aggregate indicators for Indonesia as a whole only give a partial guide for advocating decent work at the sub-national level. In this regard, the ILO employment diagnostic methodology applied in several provinces is a step in the right direction.

⁶⁰ Therefore, ILO's decent work consists of four key elements: employment creation, social security, rights at work and social dialogue.

Implementation, Monitoring and Evaluation Frameworks of RPJM

In addition to the macro development targets such as growth, inflation and the reduction of poverty and unemployment rates, the RPJM 2010-2014 is equipped with matrixes for each priority programs that detail specific outcomes as well as indicators and annual targets to achieve. Each program details the respective responsible line ministries/agencies and is complemented with an indicative total budget for the five year period. The RPJM document has 1,289 pages of such matrixes. In addition, a 587 page matrix on a detailed action plan for each line ministries/agencies is also provided. This was not the case for the previous RPJM 2004-2009 as well as PROPENAS 2000-2004, which only listed key macro targets such as growth, inflation, and poverty and unemployment reduction. This is one dimension of improvements in development planning since Indonesia's democratic transition of the late 1990s that is instrumental for monitoring and evaluation purposes.

Each of the development programs is implemented by line ministries/agencies, as well as regional government units with related budget. The RPJM only contains indicative budget for the five year period for each program, while detailed budgeting is elaborated on a yearly basis in the central government budget, APBN (*Anggaran Pendapatan and Belanja Negara* – State Budget). Then the budget is distributed to line ministries/agencies that in turn are responsible for implementing the development programs, where the MOMT is one of them.

However, employment related development agenda cannot simply be narrowed down to the role of MOMT as it is about the demand as well as the supply side of the labour market. As mentioned earlier, the role of the MOMT is rather limited to the supply side of the labour market, mainly in the formal sector. Much of labour market outcomes, in fact, depend on the demand side, which are more influenced by the works of other line ministries/agencies such as ministries of agriculture, industry, trade, public works, finance as well as the investment board, and most of them fall under the coordinating ministry for economic affairs. In addition, the Indonesian central bank (BI – Bank Indonesia) also plays a key role in overseeing the economy through its monetary policy. This is very much in line with the conviction that employment is the outcome of economic activities. The role of the government budget in creating direct employment is very limited.⁶¹ Furthermore, unlike the government's active and much coordinated programs on poverty reduction, the scope for affirmative action on employment creation is seen to be limited.⁶² However, the government could play an indispensable role in providing an enabling environment for employment creation. Therefore, when it comes to budgeting issue, employment related budget cannot be simply reduced to the budget allocated to the MOMT.⁶³

In this connection, although employment has been placed high on the agenda as a key component of the triple-track strategy, unfortunately, coordinated actions and planning on employment across sectoral line ministries/agencies remain relatively absent. It seems that an inter-ministerial committee to foster coordination among key sectoral ministries on employment issues has not been set in place. The conviction that employment is a by-

⁶¹ As common in developing countries, note that the size of government in Indonesia, in terms of the relative size of government budget to GDP, is only around 18-20%, which is much smaller in that of developed countries.

⁶² Interview, Jakarta, April 2011.

⁶³ In case of affirmative action on poverty reduction, the RPJM 2010-2014 shows coordinated actions across line ministries with a much clearer coordination arrangement in place. The RPJM matrix clearly identifies budget on poverty reduction related programs spread across several ministries.

product of economic growth and activities, especially of inclusive and pro-poor growth still appears to be dominant.⁶⁴

Making macroeconomic policies employment friendly is a key challenge if Indonesia were to mainstream pro-job in its development planning. Such initiatives should be located at least at the level of coordinating minister; and this would be a potential area for ILO support. The first important step would be to have a clear assessment on the employment effects of the sectoral development program. ILO projects on employment effect of the infrastructure component of the 2009 fiscal stimulus package (SAMASAMA), on Employment Intensive Investment Program (EIIP) and on Assessing and Addressing the Effects of Trade on Employment (ETE), and the introduction of the use of the CEB (Chief Executive Board) Toolkit for Mainstreaming Employment and Decent work to the UN agencies and the government (MOMT), all are steps in the right direction.

In the case of RPJM 2004-2009, while it specifically stressed the target of achieving unemployment rate of 5.1% by 2009, other employment related targets were not provided. For example, while the employment section of RPJM 2004-2009 placed the expansion of formal sector employment high on the employment policy directives, it did not have a specific target on the increase in the relative size of formal sector employment or a decline in the relative size of informal employment. In fact, as shown in Chapter 2, the shares of formal and informal employments were relatively stagnant during 2004-2009.

RPJM 2010-2014 has made significant improvements in employment related development targets, beyond the flagship target of lowering unemployment rate to 5-6% by 2014. Several examples are in order. On the elimination of child labour, it has a specific target of pulling 28,000 children out from child labour and to return all of them (100%) back to education by 2014, with an indicative budget of IDR 212 billion under the responsibility of the MOMT. On expanding work opportunity, there is a target of providing temporary work for 384,000 unemployed people while providing public infrastructure for the community in 360 districts by 2014, with an indicative total budget of IDR 857 billion managed by the MOMT. This is essentially similar to the proposal on the unemployment guarantee scheme discussed in Box 2 *albeit* on a much smaller scale. On productivity improvement, with a total budget of IDR 163 billion, the MOMT is responsible to achieve the targets of improving the productivity of 47,500 workers and 110 districts that conduct productivity measurements by 2014.

The five-year coverage of RPJM is implemented on a yearly basis through annual development plans called RKP (*Rencana Kerja Pemerintah* – Government Work Plan). Each RKP contains an annual detailed state budget framework for the respective fiscal year. The budget is agreed between the government and the parliament (DPR). Parallel with RKP, each line ministries/institution has its own annual work plan called Renja-KL (*Rencana Kerja Kementerian/Lembaga* – Work Plan of Ministries/Agencies) with detail budgets. However, an assessment of RPJM 2004-09 conducted by BAPPENAS's directorate for the evaluation of sectoral development concludes that the links between RPJM targets and indicators and those of yearly RKPs are weak and rather unclear. Furthermore, according to the assessment, the sustainability of targets and indicators across annual RKPs within the duration of the RPJM is also found to be weak.⁶⁵

⁶⁴ Interview, Jakarta, April 2011.

⁶⁵ BAPPENAS (2008).

According to a government regulation issued in 2006,⁶⁶ evaluations of RKP and Renja-KL are conducted on a yearly basis and evaluation of RPJM is completed four months before the period of the respective RPJM ending. Each ministries/agencies are set to implement quarterly monitoring and reporting. However, in April 2009, the BAPPENAS' deputy for development evaluation published a major report on evaluation of four years implementation of RPJM 2004-2009.⁶⁷ Within the framework of the current RPJM 2010-2014, BAPPENAS recently signed a memorandum of understanding with 33 universities to evaluate the development progress in 2011 in all 33 Indonesian provinces.⁶⁸

In this regard, the European Union funded the ILO project on Monitoring and Assessing Progress on Decent Work (MAP), which provides an instrumental technical assistance to the monitoring of the RPJM employment related components. The project facilitates the identification of decent work indicators that are relevant at the national level, support data collection, and use the collected data for an integrated policy analysis of decent work in order to make them relevant for policy-making. The ILO country office is in close collaboration with BAPPENAS, BPS-Statistics Indonesia and MOMT in undertaking the project.

The BAPPENAS is responsible for monitoring of the implementation of the RPJM and relies for information on regular monitoring reports provided by the executing agencies. BAPPENAS has a deputy (echelon 1) for evaluation of development performance that coordinates three directorates, namely: (1) Directorate for evaluation of regional development, (2) Directorate for evaluation of sectoral development and (3) Directorate for system and reporting of development evaluation. The statistical systems in place in Indonesia are generally robust, and can be rated as excellent by developing country standards, and will allow for solid monitoring of RPJM progress.

2.4 Assessment of the employment agenda

The employment agenda has never been a top priority of the national level planning documents. As mentioned earlier, employment was treated as a section that is generally merged within the economics chapter, where employment is assumed to be simply a product of economic growth. This situation is applicable to all medium-term development planning documents (REPELITA, PROPENAS and RPJM). The main agenda is to reduce the unemployment rate only; therefore, such an approach would be insufficient in improving the quality of employment. Indonesia has already had the decent work vision in its constitution. Although the REPELITA and PROPENAS did make reference to the constitution's decent work vision, articulation of the vision was virtually not available. Facing an increasing unemployment rate since 2001, the RPJM 2004-2009 set an ambitious target to reduce the unemployment rate, but it did not have any reference to decent work. Later on, the triple track strategy of pro-growth, pro-poor and pro-jobs were emphasized, but it lacked in balanced articulations. The RPJM 2010-2014 has listed the decent work agenda as the first policy direction of the manpower section and the triple track strategy is formally mentioned in the mid-term planning; however, the articulation of the pro-job component of the triple track strategy is still very much unidentifiable.

⁶⁶ Government Regulation no 39/2006 on monitoring and evaluation of the implementation of development plans.

⁶⁷ BAPPENAS (2009).

⁶⁸ <http://bappenas.go.id/node/165/3042/evaluasi-kinerja-pembangunan-tahun-2011/>.

The current steady trend of a declining unemployment rate is a good starting point, but being employed does not necessarily mean having a decent job. Therefore, decent work should be the key employment agenda, instead of simple reductions of the unemployment rate to a specified level. This is supported by the fact that around 70% of employment are in the informal economy, which has the following characteristics: lower income/wage (as the size of informal economy positively correlates with the poverty rate); lacking in income sustainability, job security and social protection; voiceless as no mechanism of social dialogue in place and some are prone to experience the worst form of employment as in the case of women domestic worker and child labour. Employment with such characteristics is not decent. Even for the 30% in formal employment, not all can be categorized as decent, mainly due to low compliance to labour regulations.

Against this backdrop, Indonesia needs to mainstream employment as a key and leading element of macroeconomic and sectoral policies if it were to achieve 'productive, full and decent employment'. The following two next steps might be identified for mainstreaming decent work and employment policy. Firstly, from the policy arrangement perspective, employment and decent work agenda needs to be mainstreamed and treated as cross cutting issues similarly to how poverty has been treated in the RJPM. Secondly, viewed from the institutional arrangement perspective, a higher level government body would be required to guard the employment and decent work agenda, at least at the level of a coordinating minister, if not higher. This second point will be very much dependent on the clarity of the first point. Currently, the employment policy component of development planning is under the responsibility of the directorate for manpower (an echelon 2 level) of the BAPPENAS and manpower policy implementation is very much depended on the role of the Ministry of Manpower and Transmigration (MOMT). This ministry is not a key government department, like ministries of finance or education. This ministry is likely to have a limited role in implementing the broader employment policy and decent work agenda as it is more concerned with formal employment and its influence is mainly confined to the supply-side of the labour market.⁶⁹ Furthermore, Indonesia has not yet ratified the ILO convention no. 122 on employment policy adopted at the International Labour Conference in 1964.

Despite these deficiencies in mainstreaming decent work agenda, there is an encouraging development relating to the newly adopted Indonesian Jobs Pact (IJP). The Indonesian Jobs Pact was officially agreed and signed in mid April 2011 by tripartite elements consisting of the government, trade unions and employer associations in the presence of the President of Republic of Indonesia, Susilo Bambang Yudhoyono. The government was represented by the BAPPENAS and the MOMT. Indonesia was among the first pilot countries to set in motion a national process of dialogue and adaptation of the Global Jobs Pact after its adoption by the International Labour Conference in 2009. The drafting process was truly a national process done by a drafting team from the tripartite components and the whole process took one year.⁷⁰ The IJP focuses on employment creation, strengthening industrial relations, enhancing the quality and coverage of social protection and improving labour productivity, which are very much in line with the ILO's decent work agenda. These focuses are essentially a re-emphasizing of points already made in the manpower policies outlined in the RPJM 2010-2014.

In order to be more effective in mainstreaming the decent work agenda and bring employment to the centre of policy making, the ILO country office should move to the

⁶⁹ There are four directorate generals that serve the manpower section of the ministry: (1) training and productivity, (2) manpower placement, (3) industrial relation and workers' social security, and (4) labour inspection.

⁷⁰ Interview, Jakarta, April 2011.

centre of socio-economic policy making in the country, moving beyond the formal tripartite constituents as the ILO's traditional government counterpart is the Ministry of Manpower. This is because the Ministry of Manpower is not a key ministry and functions more as a sectoral ministry responsible for industrial relations in the formal sector with less influence on the overall economic policy. However, the ILO country office has made important strides in this direction. The country office has managed a close relationship with the BAPPENAS's employment directorate. The ILO has been requested by the Coordinating Minister of Economic Affairs to provide technical assistance on assessing the employment impact of the infrastructure component of the Indonesian stimulus package in response to the recent global financial crisis. The Vice-President's office requested an ILO presentation on youth employment.

2.5 Tripartite social dialogue

There has been considerable progress relating to the social dialogue among the tripartite elements, especially after Indonesian democratization in the late 1990s. Trade unions and employer associations were widely consulted during the early preparation of any employment related regulations. In the case of laws that are passed by the parliament, they have limited role and influence once the process gets into the parliament, where the political process becomes more dominant. Tripartite institutions have been established at the national, provincial, as well as at district levels; and bipartite bodies (workers and employers) have also been set up at the enterprise level. Workers and employers have been increasingly more willing to talk as the preparation process of the IJP was a good experiment of their substantive collaboration. The IJP has been adopted as an agenda of the National Tripartite Institution.

Despite such progress, the tripartite (government-worker-employer) social dialogue cannot be overemphasized for the following two reasons. The *first* relates to the problem of imbalance in representations. While the government is responsible for the overall development policy for the whole economy/country/population and represents 100% of employment policy, the other two elements, worker and employer, only represent a much smaller segment of employment. As has been mentioned earlier, trade unions only represent around 3% of total employment in the economy and the members of the employer association, APINDO, only employ around 10% of total employment. This creates a situation where the worker and employer elements have a much narrower focus vis-à-vis the government. The two elements tend to be driven by the objective of protecting their self-interests either as workers or employers that is not necessarily good for the overall economy. However, this is not to say that the trade union and employer association have only limited concerns about the minority segment of the formal sector employment they formally represent. With the ILO facilitation, they were actively involved in the preparation of Indonesian PRSP in 2003/2004 where they came out with their PRSP position papers. One trade union confederation (KSBSI) has attempted to organize informal workers in the construction sector. The employer association has also shown a strong concern about the advancement of the overall economy for employment creation.⁷¹

The second relates to the quality of dialogue and collaboration within the tripartite elements. So far, it has been suggested that the role of tripartite institution has only functioned primarily as a fire-brigade.⁷² It is needed when an emergency situation emerges as in the case of labour unrests/strikes or problems related to dismissals, while it seems that its

⁷¹ Interview, Jakarta, April 2011.

⁷² Interview, Jakarta, April 2011.

role as a meeting point for dialogue among the three elements in dealing with more substantive issues, such as the revision of the manpower law, has been very limited.

Therefore, the notion of social dialogue should be broadened, beyond the tripartite components. This is primarily due to the segmented nature of the Indonesian labour market (formal and informal), where the informal economy dominates. The social dialogue should include mass organizations (such as *Nahdatul Ulama* and *Muhammadiyah* as they are concerned with socio-economic issues such as education, health and economic empowerment of the poor; youth organisations, and so on), academia/think tanks/universities and NGOs.

Community-driven participatory approach

In 2005-2008, the ILO project on Papua indigenous people's empowerment adopted the community-driven participatory development approach. The project aimed at contributing to the overall development of the indigenous peoples by helping them attain greater capacity and self-reliance in reducing poverty, promoting gender equality and strengthening peace and development mechanisms in their villages and communities. The project was in line and contained some cross fertilization with the national community empowerment program (PNPM – *Program Nasional Pemberdayaan Masyarakat*) and the Papua version of community empowerment program (RESPEK – *Rencana Strategis Pembangunan Kampung*). In the conflict-affected province of Maluku, the ILO has been undertaking the PELAGANDONG project that is designed to contribute to poverty reduction and peace building process in the province through the development of sustainable livelihoods and economic activities in selected communities. The project also adopts the participatory community-based approach.

Engaging with broad range of national stakeholders is another important element in advocating employment policy. While all core ILO constituents from the tripartite elements have been well covered, and concerned NGOs have been actively involved, the coverage of such engagement still needs to be broadened.

3. Conclusion: summary of key findings and recommendations

3.1 Summary

This section offers a summary of key findings. The discussion is based on the following themes that form the crux of this paper: Indonesia's recent employment performance, national employment policy and ILO support strategy.

Recent employment performance

Although the first term of SBY presidency failed to achieve the targeted reduction in the unemployment rate by 2009, the overall unemployment figure has steadily declined in the past five years and reached its lowest point of 6.8% in February 2011.

As the open unemployment rate is not a good labour market indicator in a developing country and in line with the decent work agenda, Indonesia needs to go beyond the open unemployment rate indicator and start targeting indicators reflecting the quality of employment. There has been virtually no improvement in the level of underemployment between 2004 and 2010. Despite the fact that the RPJM 2004-2009 put a strong emphasize in expanding employment in the formal sector, the proportion of informal employment to total employment only declined slightly during 2004-2010. The majority of Indonesians, located in the middle income strata, are totally unprotected by any forms of social security, while only about 17% of the employed population is currently covered by formal social security schemes.

National employment policy

National employment policy can be located in two places. First is related to employment regulations in the forms of law, government regulation, presidential decree, etc. Five major pieces of labour-related regulations have been enacted since the collapse of the New Order regime: the laws on manpower, trade union, industrial disputes settlement, national social security system and the placement and protection of overseas migrant worker.

The second is related to the macro-sectoral employment policy component of the medium-term national planning documents. Indonesia has had a tradition of having five year medium term development plans for the past four decades; however, Indonesia has never had a stand-alone national employment policy or a white paper on employment policy at the national level. A section on employment is part of the overall national development planning documents.

The current medium term development plan (RPJM 2010-2014) has made major progress due to its adoption of the decent work agenda as the main policy directive in its employment section. Furthermore, since the previous RPJM (2004-2009), the triple-track development strategy of pro-growth, pro-poor and pro-jobs has been emphasized and carried out further; but it lacks a balanced articulation. Unlike the pro-growth and pro-poor elements, the articulation of the pro-jobs component of the triple track strategy is still very much unidentifiable. In short, the employment agenda has never been a top priority of the national level planning documents.

ILO support strategy

Several lessons learned can be drawn from ILO experience in Indonesia. The first is about the importance of combining policy advocacy and having projects on the ground. The second relates to the potential gains of having policy advocacies both at the national and sub-national levels. The third concerns the imperative of engaging with a broad range of national stakeholders in advocating employment policy beyond the traditional tripartite elements. The fourth relates to the crucial and sensitive element of working together with national constituents and social partners, without being perceived as walking ahead of them, in trust building.

3.2 Recommendations

For the Indonesian government

First, while a strong appeal has been made for the triple track strategy of pro-growth, pro-poor and pro-jobs and the decent work agenda has been adopted at the latest medium term development plan, it seems that the pro-jobs element has not received enough attention treatment. This element, which is essentially a national employment policy within the decent work framework, needs to be mainstreamed in the overall development policy, and should not be reduced to merely a sectoral issue.

Second, the mainstreaming of employment should be done on two grounds. (a) From the policy arrangement perspective, the employment and decent work agenda needs to be mainstreamed and treated as cross cutting issues in the same way that poverty has been treated in the RJPM. (b) From the institutional arrangement perspective, a higher level government body would be required to guard the employment and decent work agenda, at least at the level of a coordinating minister.

Third, as the unemployment rate has steadily declined in the past five years and the target of achieving 5-6% employment rate by 2014 is very much achievable, Indonesia should move its focus beyond the indicator of the open unemployment rate. Attention should now be shifted to the quality of employment, which relates to tackling

underemployment, expanding the share of employment in the formal sector, improving workers' productivity and real wage, expanding social protection and security, and so on.

For the ILO country office

Mainstreaming employment in the overall development policy can be a daunting task as it must be grounded and contextualized in the current development planning system and institutional arrangement, within the setting of a democratic and decentralized Indonesia. In this regard, technical assistance and localisation of best practices on the issue would be a valuable contribution; however, it should be noted that any new approach/initiative must be home grown. Initiatives at the national level as well as sub-national level can be simultaneously exercised. Generating quality demands from the host country becomes crucial. This is the first area where the ILO can make a significant contribution to Indonesia in promoting the global decent work agenda.

The ILO might think of initiating a research study on the quality of employment in a few urban areas. The study can combine qualitative approach as well as carrying out quantitative analyses using employment related surveys administered by BPS.

Since decent work agenda is essentially the heart of development and requires a shifting of development paradigm, the ILO country office should move to the centre of economic and social development debate in Indonesia, away from being perceived merely as a sectoral international agency concerned with employment issues and engaging only with the tripartite elements. However, this should not be understood as moving away from the ILO's traditional mandate; it only needs to be broadened and deepened. Allocating resources to this effort would be a worthy long term investment. It can be done by providing continuous intellectual capacity and building strategic alliance with Indonesian think tanks, universities, opinion leaders and media. In the past ten years, the ILO country office has made a great deal of progress in terms of policy advocacy and media relation; however room for improvement is there.

The last point relates to the adoption of the Indonesian Jobs Pact that exhibits a considerably high degree of national ownership. Using this as the entry point, the ILO might advocate that the Indonesian government ratify the ILO employment policy convention. Having employment at the core also means changing the macroeconomic framework from aiming narrowly at stabilizing nominal variables like inflation and budget deficits. The ILO should engage in the broader policy debate on these issues as well.

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Chapter III. National employment policy-making: lessons from Moldova⁷³

Moldova is a typical transition country situated on the periphery of both the European Union and the Commonwealth of Independent States (CIS) of which it is a member. Being sandwiched between those two power centres, Moldova is struggling to find its own place and identity as a fully independent state. The definition of that identity is an on-going process that is not always painless. During the 20 years of its existence as an independent state, Moldova experienced a short, but brutal, civil war following the emergence of the breakaway Republic of Transnistria⁷⁴, two devastating economic crises in 1998 and 2008/09, an unprecedented migration flow out of the country, and violent riots in 2009, followed by the on-going period of political uncertainty and relative instability.

1. Recent economic and employment performance

1.1 *The socio-economic context*

Over 60 per cent of the 3.6 m population of Moldova lives in rural areas, for the most part in communities of less than 5000 inhabitants (and about 11% in communities of less than 1000 inhabitants), which poses enormous problems when it comes to providing basic utilities and physical infrastructure. In 2009, about 41% of Moldova's citizens did not have access to running water, 55% to a sewage system, and 47% to natural gas⁷⁵. The poverty level in Moldova is among the highest in Europe.

During the Soviet period, Moldova specialised in the production and export of a broad range of agricultural products for the whole Soviet Union and the Soviet satellites. Moldova occupies an area that is ideal for agriculture and food processing, which accounts for one-third of the country's GDP. The chernozem (humus) soil supports wheat, corn, barley, tobacco, sugar beets, and soybeans. Beef and dairy cattle are raised, and beekeeping is widespread. Moldova's best-known product comes from its extensive and well-developed vineyards concentrated in the central and southern regions. In addition to wine, Moldova produces liqueurs and sparkling wine. It is also known for its sunflower seeds, walnuts, apples, and other fruits. The collapse of the market after the dismantling of the Soviet bloc caused a dramatic fall of production and the decline of the rural districts.

Moldova has no major mineral deposits and the economy must import almost all of its energy supplies. Moldova's vulnerability in terms of energy dependence became very clear in January 2009, when gas supplies were cut during a dispute between Russia and Ukraine.

⁷³ The full version of this report was written in June 2011 by Mikhail Pouchkin (email: mikhail.pouchkin@nav.no). It is based on a two week mission to Chisinau in March 2011, facilitated by Ms. Natalia Popova of the ILO Budapest office and Ms Ala Lipciu, ILO national coordinator for Moldova.

⁷⁴ The unsolved territorial problem of the breakaway region of Transnistria, located on the left bank of Dniestr River means that the Moldovan Government does not have control over the region, which has unilaterally declared independence and has been recognized by the regimes of the break-away regions of Abkhazia, South Ossetia and Nagorno-Karabakh, all of which are located in the Trans-Caucasian region.

⁷⁵ Expert Grup, Moldova 2009: State of the Country Report.

The onset of the global financial crisis and poor economic conditions in Moldova's main foreign markets caused GDP to fall by 6.5 % in 2009 against +7.2% in 2008. Unemployment almost doubled and deflation appeared (-0.1%).⁷⁶ In the fall of 2009, the IMF allocated \$186 million to Moldova to cover its immediate budgetary needs, and the government signed a new agreement with the IMF in January 2010 for a program worth \$574 million. In 2010, an upturn in the world economy boosted GDP growth to 3.1 % and inflation to 7.3 %.

The macroeconomic framework of Moldova changed dramatically after the 2008 economic crisis. Before the crisis, the government's priorities were focused on macroeconomic stabilization through disinflation and reduction of public deficits. The priorities were integrated in the broader goal of poverty alleviation, implemented through the poverty reduction strategy. Most of the targets were met until 2008, when the effects of the financial crisis brought about a sharp rise in expenditures combined with a decline in revenues. Until 2008, GDP growth rates regularly exceeded 5 per cent. It was, however, mainly consumption-led and extremely depending on remittances. This pattern seems to be changing: data show an increase in the share of investment in GDP combined with a slight decrease of the consumption share, a shift that could be even more marked if part of the remittances currently recorded as consumption were recorded instead as investments.

Before 2008, monetary policy had been increasingly focused on managing inflation instead of exchange rate stability. Despite real exchange rate appreciation, the exports remained competitive due to low labour costs and fast growing productivity (but the business environment remains below its regional competitor's standards). Following the deflation due to the economic crisis, the stabilization program allowed for monetary easing during 2010, and strengthened financial sector monitoring and the framework for bank resolutions.

The fiscal policy was tight. The government committed not to exceed 0.5 per cent of GDP of public deficit. In 2007 the deficit was 0.3 per cent of GDP, due to expenditure kept in line with commitments and higher than expected revenue due to VAT on imports. However, the consequences of the economic crisis changed the picture: in 2009, the public deficit reached 6.4 per cent of GDP, and was estimated at 7 per cent of GDP in the 2010 article IV. The expenses are cut mainly on goods and services, and on public administration employment⁷⁷. Social expenditures such as health care and transfers to households did not decrease during 2000-2010. Transfers to households increased from 11.4 per cent of GDP in 2008 to 14.9 per cent of GDP in 2009 as a consequence of the crisis. The government intends to expand targeted social assistance.

Tax revenues rose from 24.4 per cent of GDP in 2001 to 32.2 per cent of GDP in 2009, after having reached a peak of 33.4 in 2008, which is a good score compared to similar Eastern Europe countries. Efforts have been made to improve tax collection, especially VAT which rose from 7.9 per cent of GDP in 2001 to 14.5 per cent of GDP in 2009.

The public debt remains at sustainable levels and is mainly external (22.2 per cent of GDP in 2009, compared to a domestic debt of 8.5 per cent of GDP), a great share of which is concessional. As a result, interest payments did not exceed 1.4 per cent of GDP in 2009-

⁷⁶ Reduced disposable incomes, especially for the 40% of Moldovans living in households that receive remittances, as well as an overall decrease in consumer confidence resulted in deflationary pressures.

⁷⁷ The concept paper on "Rationalization of the Number of Employees in the Budgetary Sector for 2008-2010" was approved on September 28, 2007, imposing a limit on the public sector wage bill of 10 percent of GDP.

2010, but total external debt service will remain high at 19 per cent of exports of goods and service until 2014.

Economic reforms have been slow. Nevertheless, the government's primary goal of EU integration has resulted in some market-oriented progress. The granting of EU trade preferences and increased exports to Russia will encourage higher growth rates, but the agreements are unlikely to serve as a panacea, given the extent to which export success depends on higher quality standards and other factors. The economy has made a modest recovery, but remains vulnerable to political uncertainty, weak administrative capacity, higher fuel prices, poor agricultural weather, and the scepticism of foreign investors as well as the presence of a separatist regime in Moldova's Transnistria region.

The table below gives a picture of the development of some core economic indicators during the last 9 years. As for the remittances flow, we see a tendency to decline by the fall of 2009 – the explanation is the economic crisis and many Moldovan migrants abroad losing their jobs. The low percentage of industry *and* agriculture in GDP is remarkable, as is the fall of net FDI from 2008 to 2009. Service sector is dominating GDP today, having a share of over 60 %, and growing. The indicators in table 1 also show increased unemployment and slowing of the real wages growth – mostly due to the economic crisis of 2008, followed by political crisis and uncertainty.

Table 1. Key macroeconomic data

	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP, billion USD, current prices	1.662	1.981	2.598	2.988	3.408	4.401	6.055	5.403	5810
GDP per capita, USD at PPP	1761	1923	2126	2359	2559	2720	3004	2839	n.a.
GDP growth rate, y-o-y, %	7.8	6.6	7.4	7.5	4.8	3.0	7.2	-6.5	6.9
Share of industry in GDP, %	20.2	20.5	20.5	19.1	18.0	19.1	13.9	13.0	13.3
Share of agriculture in GDP, %	21.0	18.3	17.5	16.4	14.8	10.0	8.8	8.5	12.0
Industrial production growth rate, y-o-y, %	10,8	15.6	8.2	7,0	-4.8	-1.3	0.7	-22.2 (est.)	
Agricultural production growth rate, y-o-y, %	3.4	-13.6	20.8	0.8	-1.1	-23.1	32.1	-9.9 (est.)	
Net foreign direct investment, million USD	83.6	73.64	147.8	190.86	234.16	522.04	691.49	112.0	n.a.
Net remittances, mill. USD	286.3	440.2	659.5	868.8	1119.0	1419.4	1795.8	1342.4	n.a.
Employment rate, % of population aged above 15	53.3	47.5	45.7	45.4	42.9	42.5	42.5	42.8	38.5
Unemployment rate, % of economically active population	6.8	7.9	8.1	7.3	7.4	5.1	4.0	6.4	7.5
Real wage growth rate, y-o-y, %	20.9	15.4	10.1	6.8	14.2	8.0	10.2	9.0	0.7
Consumer prices, year average, %	5.2	11.6	12.5	12.0	12.8	12.4	12.8	0.0	7.4
Poverty headcount ratio at national poverty line (% of population)	40.4	29.0	26.5	29.0					
Poverty headcount ratio at \$2 a day PPP (% of population)	40.33		29.0				12.5		

Source: Expert Grup, WDI.

Poverty remains one of the main challenges in Moldova. Good growth performance between 1999 and 2004 moved 40% of Moldova's population out of poverty, thereby representing the

largest reduction in poverty (in percentage terms) in the Europe and Central Asia region over this period. Despite this, in 2007, about 26% of the population remained poor (down from over 30% in 2006), with about two-thirds of the poor living in rural areas. Poverty in Moldova is mainly a rural phenomenon.⁷⁸ The high level of poverty in Moldova (one of the highest in Europe) is contrasting to the high level of school enrolment and high literacy rate (table 2). While the minimum wage was increased by 9% year-on-year and new salary norms were introduced in January 2009, there was no significant progress in the fight against poverty which remains a key priority for the Government. Moldova has the lowest minimum wage in Europe.

Table 2. Inequality and education

Inequality indicators	
Income share held by lowest 20% (2007)	6.7
Gini index (2004)	35.6
Education	
School enrollment, primary (% gross) (2008)	94.0
Literacy rate, adult total (% of people ages 15 and above) (2008)	98.3

Source: www.ruralpovertyportal.org and [ILO \(KILM\)](#)

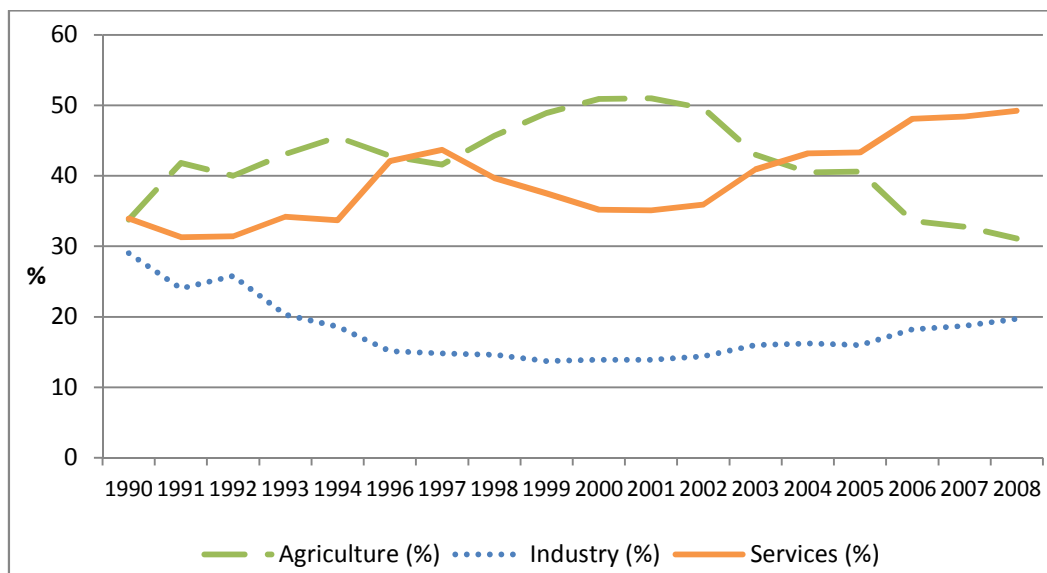
Inequality is relatively high in Moldova as shown in table 2. As for human development, the Human Development Index (HDI), which measures living standards, education level and life expectancy, Moldova ranks 99th in the world, with an HDI of 0,623, a level similar to that of Mongolia, Botswana, Philippines and Egypt.

1.2 Employment profile

In 2009, 28.2% of those active worked in the agricultural sector, 13.1% worked in industry, 6.2% in construction and 52.5% in services. Since the beginning of the 2000s, the share of the primary sector in employment has been declining, while the share of employment in the tertiary sector has been increasing to overpass agriculture in 2004 (figure 1). The share of the secondary sector regained some ground in the 2000s after the drastic fall of the 1990s, but remains at a very low level (below 20 per cent of total employment is in industry in 2008). In the agricultural sector, self-employment and unpaid family help prevail.

⁷⁸ Maddock N. and L. Ramguttee (2009).

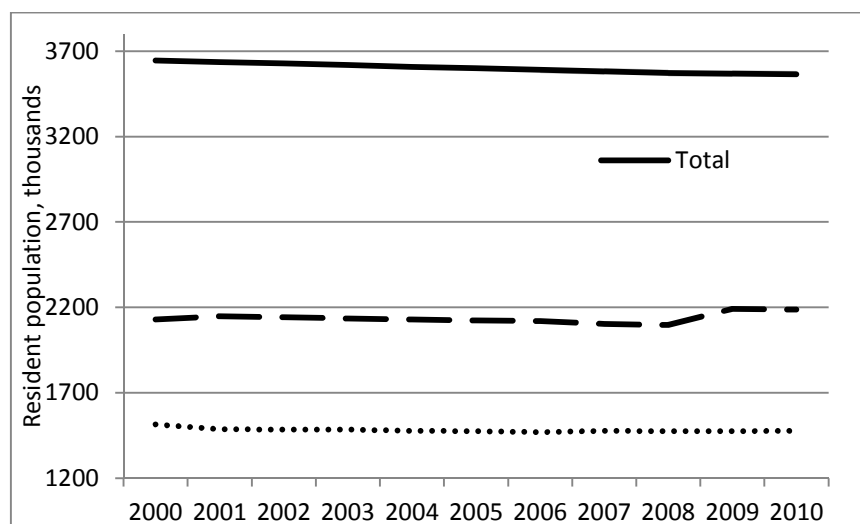
Figure 1. Employment by main sectors, 1990-2008 (%)



Source: ILO (KILM)

The resident population is decreasing, as shown in figure 2, and the urban population is decreasing faster. As a result, today nearly 60 % of the population lives in rural areas. The last couple of years, however, there have been signs of a certain stabilization, a possible impact of the economic crisis in the recipient countries that presses many Moldovan migrants back home away from a jobless situation and often illegal existence abroad.

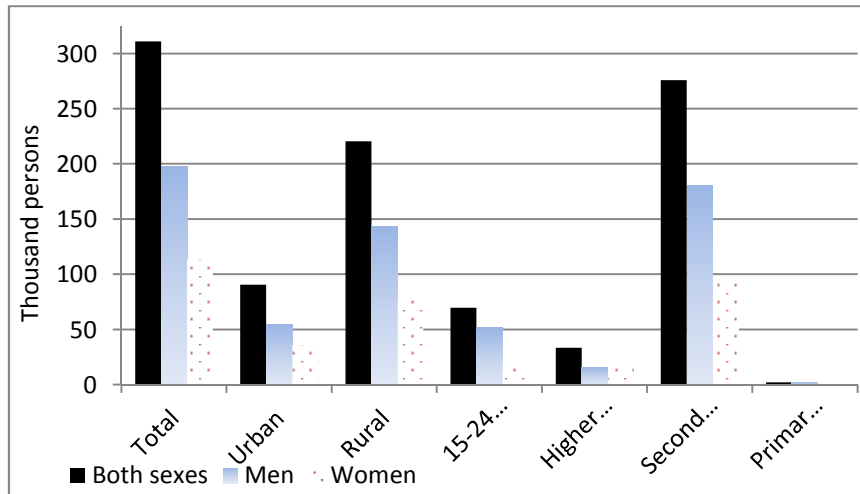
Figure 2. Resident population by area, 2000-2010 (Thousands)



Source: National Bureau of Statistics

More than twice as many persons are working abroad or looking for work abroad in the rural areas – a very strong indicator of the rural reality in Moldova, and a sphere where the Government should apply the biggest efforts.

Figure 3. Population working or looking for work abroad by Sex, Area, Age groups and Level of education (Thousands), 2010

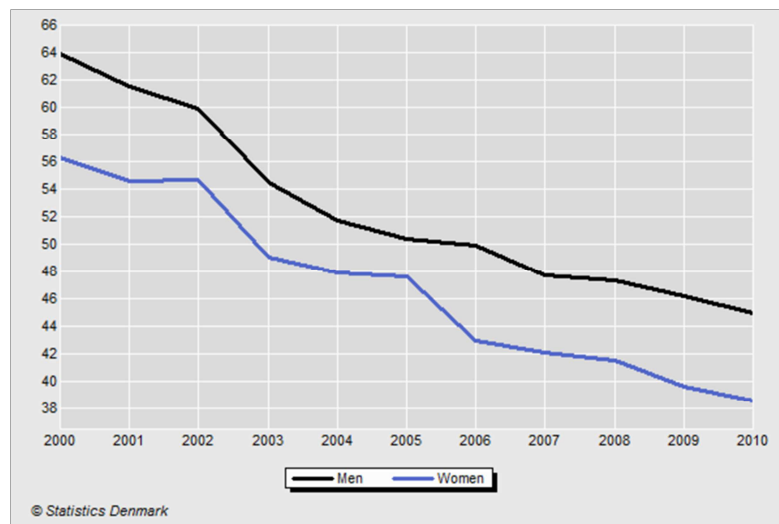


Source: National Bureau of Statistics

Most of the workers left the country over the last few years, during which period real wages also grew on average by more than 20 percent. Anecdotal and theoretical evidence suggests that emigration-induced shock to labor supply could be a driving force behind this rapid wage increase.⁷⁹

The number of persons working in Moldova has been decreasing since 2000 (figure 4). The decline in the employment-to-population ratio cannot be solely due to the decrease in population due to emigration as the latter is insignificant when compared with the former.

Figure 4. Activity rate by sex, 2000-2010 (%)

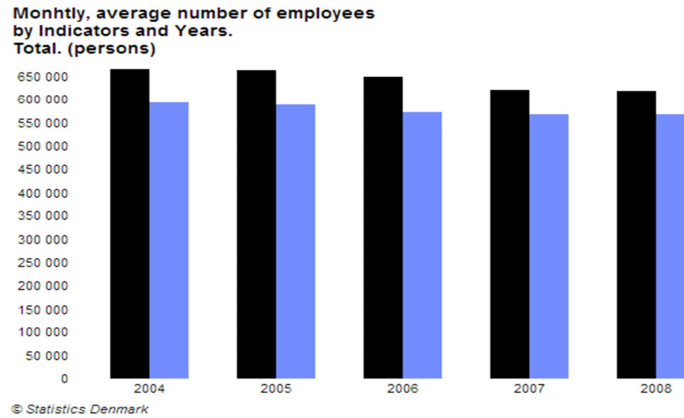


Source: National Bureau of Statistics

⁷⁹ Lawrence Bouton, Saumik Paul, and Erwin R. Tiongson (2009).

While the total number of persons with a job is declining, the decline in the number of wage earners is less marked (figure 5), and its share in total employment is growing. Wage earners represented 89% of total employment in 2004, against 92% in 2008. This reflects the fall of the number of persons working in agriculture and the slight increase of employment in trade, hotels and restaurants, and in public administration, education, health and social work.

Figure 5. Number of workers and of wage earners, 2004 – 2008.

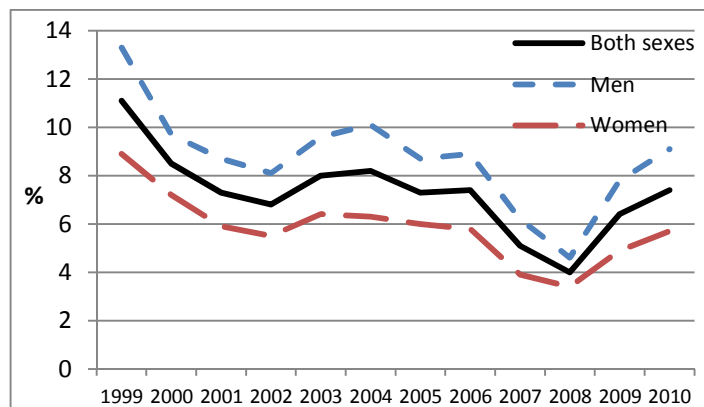


Source: National Bureau of Statistics

Unemployment: urban, young and educated

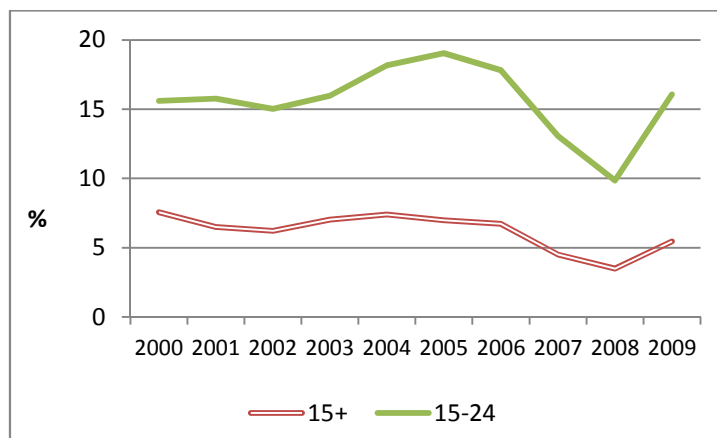
The unemployment rate rebounded in 2008 after a net decrease in the preceding 10 years. The trend is similar for men and women (figure 6). The relatively high unemployment rate at almost 8 per cent is urban, young and educated. The youth unemployment rate is twice the total population's (figure 7) and youth represent over a quarter of all unemployed (figure 8).

Figure 6. Unemployment rate by sex, 1999-2010 (%)



Source: Moldova National Bureau of Statistics

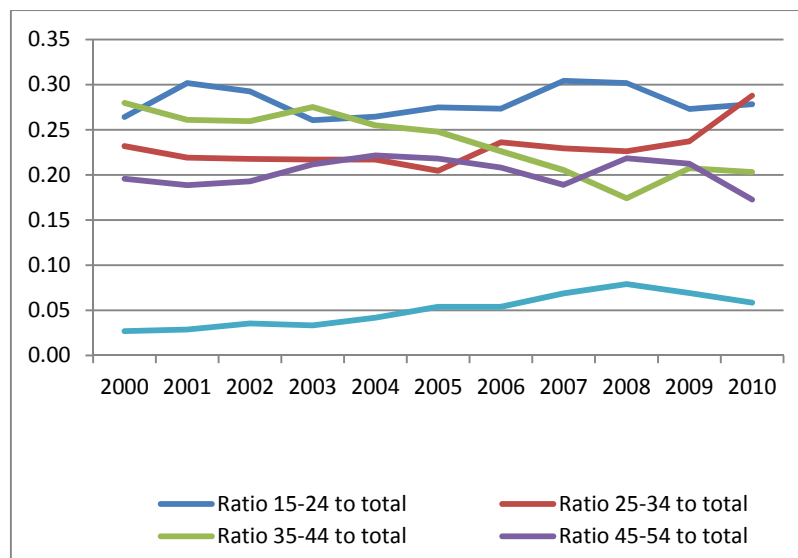
Figure 7: Unemployment rate by age, 2000-2009 (%)



Source: own calculations based on Moldova National Bureau of Statistics and ILO (KILM)

While the implementation of the national program for youth economy (2008-2010) continued, youth unemployment remained an issue of concern, with, officially, 12% of the 15-29 years age group being unemployed. The return of migrants, due to the global crisis, contributes to putting the labour market under pressure by widening the gap between the labour market needs and the skills of the returned migrants.

Figure 8. Ratio of selected age groups' unemployment levels to total unemployment level

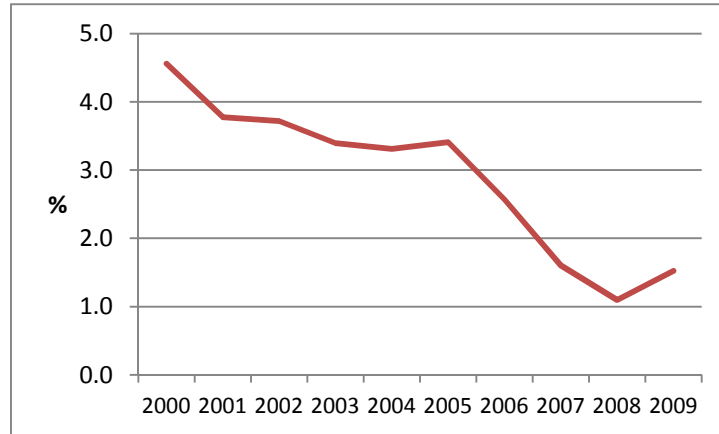


Source: own calculations based on Moldova National Bureau of Statistics and ILO (KILM)

Noteworthy is the increasing share of older workers (aged 55 to 64) who are unemployed (figure 8).

Long-term unemployment (unemployment of 1 year and over) has been on a clear decreasing trend since 2000 despite a slight rebound in 2008 (figure 9).

Figure 9. Long-term unemployment rate, 2000-2009

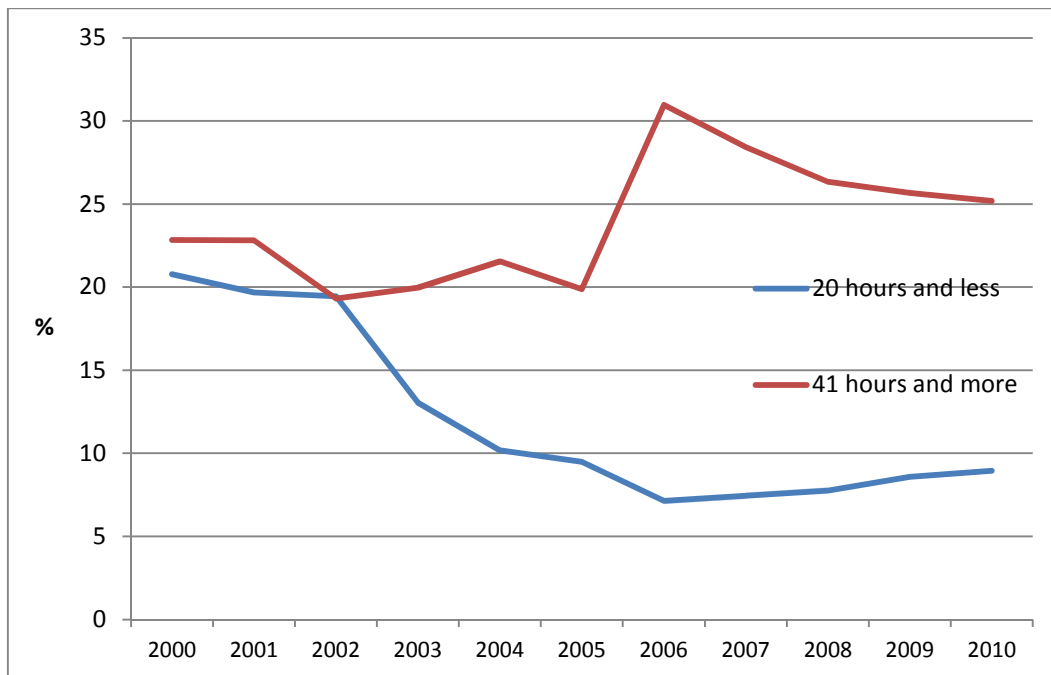


Source: own calculations based on Moldova National Bureau of Statistics and ILO (KILM)

Beyond unemployment

Unemployment is only part of the picture. The quality of employment of those who work is also something to look at, especially given the high poverty rate in the country. Many of those who work, work long hours. The share of the persons working more than 40 hours a week has even increased over the 2000s and represents about a quarter of all employed in 2010. On the other hand, fewer people work 20 hours or less a week today than in 2000. (figure 10)

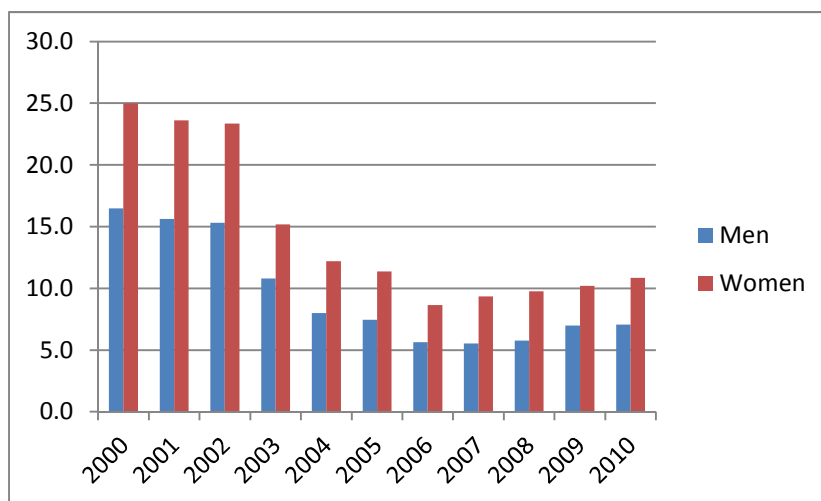
Figure 10. Share of employment by duration of the working week, 2000-2010 (%)



Source: National Bureau of Statistics

Those who work 20 hours or less a week are mostly women. During the crisis years, the incidence of underemployment increased after a net decline during the first half of the 2000s, both for men and women. (figure 11) The same data set shows that those working more than 40 hours a week are mostly men.

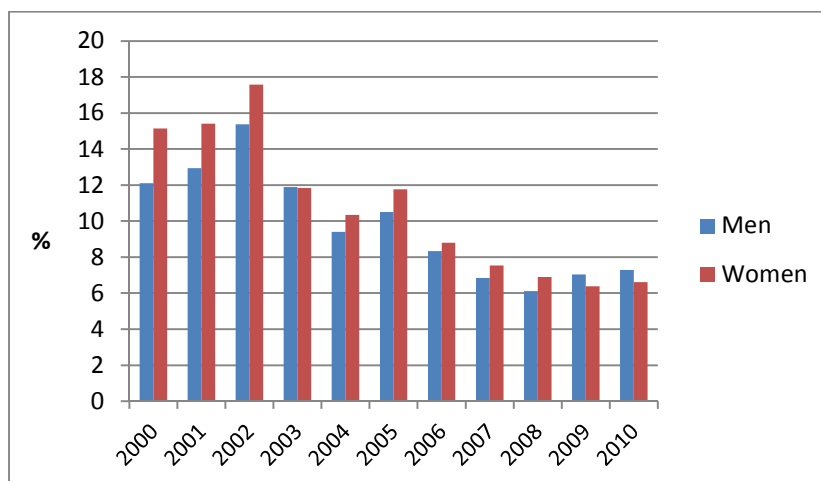
Figure 11. Share of workers working 20 hours or less a week, by sex, 2000-2010 (%)



Source: own calculations based on Moldova National Bureau of Statistics

The incidence of part-time work decreased over the 2000s and interestingly, as of 2009, coinciding with the effects of the global economic crisis, more men than women work part-time (figure 12).

Figure 12. Share of part-time work in total employment by sex, 2000-2010 (%)



Source: own calculations based on Moldova National Bureau of Statistics

Employment in the informal economy

In 2007, according to national statistics, informal employment in Moldova was 33% of total employment⁸⁰, mostly in agriculture (45.7%). 11% of informal work took place in formal firms, but legislation allowed non-declaration of small activities (trade). According to ILO statistics, non-agricultural informal employment accounted for almost 16 per cent of total employment in 2009.

Table 3. Informal employment, both sexes, whole country, thousands

	2003	2004	2005	2006	2007	2008	2009	2010
Informal employment - total	516.0	455.1	441.0	441.5	419.5	389.6	355.4	353.5
Employee	179.3	165.4	144.9	149.6	132.3	120.9	103.6	100.8
Own-account worker	304.3	275.9	281.5	254.9	258.1	238.9	221.4	222.2
Contributing family worker	0.1	0.3	0.0	0.1	0.0	0.0	0.1	0.0
Employer, member of a cooperative	32.4	13.5	14.6	36.8	29.0	29.8	30.3	30.5

Source: National Bureau of Statistics. <http://statbank.statistica.md/pxweb/Dialogue/Saveshow.asp>

High levels of *informality* were fuelled by a reduction in formal public employment largely due to the impact of privatization and subsequent restructuring; land reform that encouraged self-employment style activities; an abundant supply of labour on the market due to closures, allowing employers to establish informal or semi-formal arrangements; erosion of incomes that forced many people to look for alternative income sources; and cost-cutting strategies in enterprises. This means that a significant share of the labour market still operates in low-productivity and low-wage conditions. Furthermore, around 60% of the new jobs created between 2000 and 2007 were in the informal economy.

The trend of “legalisation” of the Moldovan economy is quite clear, with a total fall of all informally employed by 162 500 persons in the period 2003 – 2010, or by 31,5 %.

Youth employment, school-to-work transition and emigration

In 2008, two small-scale surveys (a separate inter-sectoral mobility and transition from school to work module and a youth labour market situation survey) were conducted that showed that the school-to-work transition is difficult for new graduates looking for their first job. While those with higher education fare relatively well with some 56,1% and 60,5% of higher education and post-secondary non-tertiary education graduates respectively in employment, those with secondary technical education face difficulties (a mere 42,4% of secondary professional graduates had a job at the time of the surveys). More than half of all respondents (mostly higher education graduates) found jobs relatively easily, but around 30% reported first jobs with little relevance to their core speciality (in secondary professional graduates and post-secondary non-tertiary graduates), and another 30% took ‘low-skilled’ first jobs. Informal sources and personal connections (such as relatives, friends and acquaintances) were the most used methods to find the first job. The impact of migration was

⁸⁰ Labour markets and employability: trends and challenges in Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Working paper. European Training Foundation, 2010.

also felt on youth transition. Many graduates have parents or other relatives working abroad and this enables them to leave the country more easily than was the case for first waves of migrants (social networks and multiple citizenship ease the process considerably) and they expect much higher entry salaries than did previous cohorts⁸¹.

Emigration is partially associated with 'brain drain' and 'brain waste'. There are signs that most migrants work in low-skilled or unskilled jobs abroad (or outside their expertise) irrespective of their education. Those who go to the European Union have lower expectations of being able to use their skills abroad and there is a common pattern of 'skills waste'. Thus, education and skills acquired at home seem irrelevant and are probably lost to migrants, host and home countries, rendering the migration process less efficient for all parties concerned⁸².

2. National employment policy in Moldova

2.1 Moldova's development framework

Programme for the stabilization and recovery of the economy 2009-11

The Government adopted a program in November 2009 for stabilization and recovery of the economy for the years 2009-2011. This programme, which updates the National Development Strategy 2008-11⁸³, acknowledges that labour absorption is a main constraint and responds with a variety of policy instruments to increase access to finance for start-ups and SMEs:

- Interest rate subsidy or partial guarantee for credits provided to SMEs through the state Guarantee Fund managed by the Organization for Development of Small and Medium Enterprises. At the end of 2009 the ODSME was managing a portfolio of €335 000 in guarantees issued in favour of 25 SMEs and triggering investment of €1 million. The Government's plan is to increase the capital of ODSME to €6 million in three years, reaching 100 new enterprises and triggering investments of €18 million.
- Concessional loans through the National Programme for the Economic Empowerment of Youth (NPEEY). Around 300 projects received access to concession credit amounting to €5,7 million by the end of 2009. This lending was backed by World Bank financing. The objective is to continue funding 400 new private projects of young beneficiaries, gender balanced, on concession terms.
- Matching grants for invested remittances (PARE 1+1). According to research, less than 5% of remittances are invested. In order to boost this figure, the Government started a national programme that includes information, communication, research, training, consulting, and financing of businesses created with the help of invested remittances. Through this programme, the state will match each invested Lei with a granted Lei for investments up to 200 000 Lei (€11,300). It is planned to support the creation of 240 new enterprises in rural areas of Moldova over the next 2 years.
- Matching grants for implementation of ISO certification. Access to export markets is crucial for SMEs that target economies of scale. The Government's objective is to

⁸¹ Source: European Training Foundation, 2009.

⁸² Source: European Training Foundation, 2007, 2008a, 2009.

⁸³ The National Development Strategy adopted by the Parliament in December 2007 for the period 2008-2011 lacked a strong focus on work and employment issues.

enable businesses to receive internationally recognized certification. The Competitiveness Enhancement Project of the World Bank has successfully done this in the past. Our objective is to reach 100 new enterprises annually.

In addition, the Government wants to set up a network of business incubators and strengthen the existing ones to provide support infrastructure, to improve SME viability and to encourage more innovation and the introduction of new technologies and know-how which should result in growing budget revenues. The Government will also step-up procurement of equipment for creation of small industries in rural areas and provide matching grants for consulting services for restructuring private and state-owned enterprises, including export marketing, studies, plans and activities.

Increasing the financial allocations provided through these programmes is expected to boost entrepreneur activity but is also seen as a social measure to increase occupation through self-employment and reduce emigration of the labour force.

Rethink Moldova - Priorities for Medium Term Development

This strategic document was released in March 2010. It served as a basis to draft the national Development Strategy "Moldova 2020".

Worth noting in this document is that the Government wanted to implement policies and services to promote women's employability, especially targeting poorer women in rural and suburban areas. This is not later found in the "Moldova 2020" document.

Moldova 2020: National Development Strategy 2012-2020

The overarching goal of the National Development Strategy "Moldova 2020" (NDS) is to accelerate economic growth and, implicitly, to reduce poverty. The NDS is built on the following development priorities:

1. Aligning the education system to labor market needs in order to enhance labor productivity and increase employment in the economy.
2. Public investment in the national and local road infrastructure in order to reduce transportation costs and increase the speed of access.
3. Reducing financing costs by increasing competition in the financial sector and developing risk management tools.
4. Improving business climate by streamlining the regulatory framework and applying information technologies in public services for businesses and citizens.
5. Reducing energy consumption by increasing energy efficiency and using renewable energy sources.
6. Financial sustainability of the pension system in order to ensure an appropriate rate of wage replacement.
7. Increasing the quality and efficiency of justice and fighting corruption in order to ensure equity for all citizens.

The NDS includes the following employment targets:

- Reducing the outflow of young labor force (%), 17.7% (2010), 15% (2015) and 10% (2020)
- Reducing unemployment rate (%), 9.1% (2010), 6% (2015) and 4% (2020)
- Reducing the share of graduates who claim to need additional training after graduation (%), 40% (2010), 20% (2015) and 10% (2020)
- Maintaining the rate of replacement of salaries with pensions (%), N/A (2010), N/A (2015) and at least 25% (2020)

- Increasing the ratio between average retirement pension and subsistence minimum for pensioners (%), 70.6% (2010), 75% (2015) and 85 (2020)
- Creating the regulatory framework for the introduction of mandatory private pensions and coverage of employed population (%), N/A (2010), framework introduced (2015) and 20% (2020)
- Increasing the share of employers satisfied with labor quality (%), 15% (2011), 50% (2015) and 85% (2020)

The institutional framework for monitoring and evaluation of the NDS will include two main players. The Interministerial Committee for Strategic Planning (ICSP) will oversee the implementation of the Strategy. ICSP will meet on a needs basis, but at least once a year, to review progress and resolve problems emerged in the process. The National Participation Council (NPC) consisting of representatives of civil society will monitor the implementation of the Strategy "Moldova 2020". The Government will communicate the progress achieved to civil society organisations through the National Participation Council and will discuss ways of joint involvement for a successful implementation of the Strategy.

2.2 Main employment policy documents

Legal framework and main normative documents

Among the main normative documents on employment in Moldova are:

1. The Labor Code of the Republic of Moldova (Law no 154-XV from March 28, 2003)
2. The law on employment and social protection of persons seeking work (No. 102-XV of 13.03.2003); amended by the law No. 444 of 27.05.2005
3. The Law on wages (No.847-XV from January 14, 2002) – amended as of 2010
4. Law on the wage system in the budgetary sector (no. 146/2006 of 22.02.2006)
5. The Law approving the Strategy of Social Integration of Individuals with Disabilities 2010-2013 (No. 169 of 9 July 2010)
6. Decree n° 674 of 19.07.2001 instituting the government council in charge of people with disabilities (text n° 733). The Council is a consultative organ responsible for the promotion of the national policy, the programmes and the preventive measures against disability and the actions for the rehabilitation of people with disability.
7. The law on equal opportunities between men and women (No. 5 of 9.02.2006)

The Labor Code, which entered into force on 1 October 2003 and the Law on wages both prohibit discrimination based on sex, age, disability, social origins, family situation, apartheid, political affiliation and religious beliefs, affiliation or trade-union activity.

In the Law on employment and social protection of the persons seeking work, employment and social protection are mixed together, and that gives PES a rather unclear role as both a job broker and a social regulator, two quite different roles. In Moldova, with its relatively high poverty, the functions of the social regulator prevail, making the job-seeking dimension weak and not prioritised, both in terms of human resources, staff training and financing.

Article 9 of the Law mentions the following institutions “*involved in the achievement of policies in the field of employment*”

- a) Ministry of Labour and Social Policy;
- b) Ministries and departments of specialty;
- c) National Commission for Common Consultations and Talks;
- d) Patronages and trade unions;
- e) National Body for Social Insurance;
- f) National Employment Agency;
- g) Labour Inspection;

- h) Authorities of the local public administration;
- i) Branch and territorial commissions for common consultations and talks;
- j) Employers;
- k) Private employment agencies;
- l) Non- governmental organizations;
- m) International bodies.

Remarkably, the Law does not clearly point out the bodies responsible for the achievements of the objectives of labour market policies, even though it mentions NGOs and international bodies as involved parties.

PES' functions are not described in the Law 102, but the Law gives the following statement in Article 6 (Labour market), p. 5:

“The National Employment Agency creates and administrates the informational system of the labour market, which contains primary (elementary) and personal data base, information of the participants on the labour market.”

Furthermore in the Law 102:

Article 10. National Employment Agency

1. Policies, strategies, plans and programs concerning the labour market are generally implemented through the National Employment Agency beside the Ministry of Labour and Social Policy (hereinafter referred to as the National Agency).
2. The National Agency is an administrative authority with the status of a legal entity.
3. For the organization and coordination of the employment activity and social protection of the persons seeking jobs, created at territorial level and subordinated to the National Agency, employment agencies (hereinafter referred to as the agency) with the status of a legal entity, in the basis of the labour force offices.
4. The National Agency is led by an administration board, formed on the principle of parity from representatives of Government, trade unions and employers.

Such is the legal description of NEA's and PES' functions as a channel of implementation of “policies, strategies, plans and programs concerning the labour market”. Even if the translation to English is not perfectly correct, this description needs more precision and content.

As for the *social dialogue*, there was no progress on the adoption of the long-awaited amended draft of the Labour Code, and there are concerns about the non-conformity of certain provisions with its basic standards, in particular as regards the right to strike. The draft law on social dialogue is still under parliamentary examination, and bipartite social dialogue still needs to be strengthened.

The national employment strategy (NES) 2007-2015

The NES received executive force by government Decision No. 605 of 31st May 2007 approving the National Strategy for Employment 2007-2015.

The NES 2007-15 states that “The employment challenges that the Strategy seeks to address are: low productivity and low wage jobs, mostly in the informal economy; migration and brain drain; high rates of youth unemployment; long-term unemployment; low capacity of the employment services to provide quality services to the unemployed and to enterprises and little involvement of the social partners in the design, monitoring and evaluation of economic and social policies.”

The last challenge mentioned is being tackled and the situation improved during the last 5-6 years. But the other challenges are still dominating Moldova's social and economic landscape.

NES 2007 – 2015 states the following on the National Employment Agency's functions and funding:

“The National Employment Agency (NEA) will be the main institution responsible for the implementation of the labour market policies foreseen by the Strategy. The main programmes will include employment mediation, design and implementation of labour market training programmes, and the administration of unemployment benefits. To meet the targets set forth in the Strategy and the National Action Plan on Employment, the local employment offices will mediate between institutions and organizations involved in the implementation of employment policies at regional and local levels, including employers' and workers' organizations, private employment agencies and non-governmental organizations.”

Comparing this statement with the one in the Law 102, we see a mismatch and non-coherence of NEA's functions. Both the Law and the Strategy should be revised, and NEA's functions, and funding, should be made clear and coherent in both documents. Of course, the Law and NES have to refer to another ministry responsible, the Ministry of Labour, Social Protection and Family.

In February 2009 Moldova adopted a yearly Action plan on *employment* with a view to implementing its 2007-2015 Strategy on Employment. The 2009 action plan aims to increase the capacities of the Government and social partners in formulating employment policies; to improve labour market information and labour statistics and to better target employment services and programs.

It has to be mentioned that some of NES' policy measures are implemented and working, though not always effectively enough.

The ILO agreed to a Decent Work Country Programme (DWCP) with Moldova for the years 2008-2011, updating the 2006-2007 DWCP. The 2008-2011 DWCP focuses on harmonisation with the EU. Other objectives include the development of a system to manage labour disputes, developing policies and legislation to address the problems of labour migration, human rights, combating trafficking in human beings, and improving the effectiveness of social protection with a special focus on vulnerable groups.

The financial coverage of the NES will be secured through budgetary and extra-budgetary resources, as well as through EU financial assistance. The unemployment fund will finance the largest share of expenses associated with NES implementation. The allocation of funds necessary for the implementation of the NES will be carried out on an annual basis during the formulation of the NAPE (*National Action Plans on Employment*) and will be reflected in the yearly expenditure framework.

Table 4. Statistics on expenditure on labour market policies, public employment services and registered unemployed (% of GDP), 2008⁸⁴.

Total spending on	Moldova	Azerbaijan	EU27
labour market policies (active and passive), % of GDP	0,05	0,1	1,6
Spending on ALMPs, % of total spending on labour market policies	44	15	Appx. 30 (0,45% of GDP)
Unemployment rate, % (Labour force survey data)	4	6,5	7
% of unemployed receiving cash benefits	7,4	1	

The statistics in this table is alarming; Moldova is using only 0,05 % of GDP on labour market policies, against 0,1 % in Azerbaijan and 1,6 % in EU27.

The issue of a sufficient financing of the employment policy is a complicated matter. There is a normal process of budgeting, the Ministry of Finance getting budget proposal from the NEA, adapt it to the existing political incentives and returning it as a budget, but the problem is that the budgeting is far from enough. The reason appears to be as follows. The major concern of the current Government of Moldova, like of the previous one, is to provide the basic benefits to the people and in Moldova that means social benefits, which cover unemployment too. The Government's budgetary responsibility on the field of employment is therefore reduced to only financing the NEA. Even the existing law framework allows international actors to participate in the employment measures (read: finance them). Such approach of the Government witness of its unwillingness to recognize the importance of employment strategy and policy, and demands a broad awareness-raising campaign and series of trainings, conferences etc initiated by ILO and other international constituents.

Deputy Director of the National Employment Agency stressed also that underfunding makes mobility support, support of the employers, crediting of the Employment Fund, etc., practically impossible to realize. The CNSM share the opinion of many stakeholders that good intentions of the NES are constrained or completely stopped by underfunding.

Other documents

The Ministry of Labour, Social Protection and Family developed together with the social partners a draft Action Plan on Undeclared Work, which took on board the ILO's analytical work as well as the improved data collection obtained through the technical assistance to the National Bureau of Statistics for evidence-based policy-making.

⁸⁴ Source: European Training Foundation, 2009.

2.3 Assessment of the employment agenda

Revision of the NES needed

The objectives set by the NES have not been achieved. Setbacks suffered by Moldova during and after the economic crisis of 2008/9, have made it necessary to lower the expectations and in many senses look for a new start. The country needs a new, revised NES that can better respond to Moldova's current challenges and point out the best solutions for the next 3-5 years. The objectives of the strategy should be modified and adjusted to new circumstances – and new political challenges. Work generally, and decent work specifically, should be proclaimed as a main objective of Moldova's employment strategy. Full employment of the population under decent conditions and with fair wages should be the objective of the Government's policy.

The need of the revision of the existing National Employment Strategy was clearly proclaimed by Deputy Minister of Labour, Social Protection and Family. The specific need of strengthening of vocational education and combat youth unemployment, as well as the regional and local aspect of employment, was emphasized. The importance of the regional and local aspects is reflecting the importance of the issue of land in Moldova – ownership, investments, rural population, effectiveness of the agriculture etc.

The main international instrument for employment promotion is the Employment Policy Convention, 1964 (No.122), which Moldova has not ratified. The ILO Convention calls on ratifying Members to "declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment". The general principles of the active employment policy are elaborated further in Employment Policy Recommendation, 1964 (No. 122) and Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169).

The European Employment Strategy (EES) of the European Union is an integrated employment policy approach centred on the broad objectives of implementing "employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion". Countries are guided in establishing common objectives articulated around three areas (attract and retain more people in employment, increase labour supply and modernize social protection systems; improve adaptability of workers and enterprises; and increase investment in human capital through better education and skills).

According to the stakeholders, the local dimension of the NES has to be strengthened, including development of local strategies and action plans. As for the development of labour market and employment statistics, the efforts have been made in Moldova in order to really enhance the capacity of the National Bureau of Statistics.

Lack of a comprehensive development strategy focusing on decent work and employment

The core problem in Moldova is a lack of a comprehensive development strategy of the government, focusing on work and employment, defining the most important fields influencing employment, hindering full employment and setting the objectives to be achieved in that field in the medium-range period. As a result Moldova is suffering from poor governance of the labour market and ineffective laws. Thus, the aforementioned strategy should be widely discussed by the people of Moldova, political parties, social partners and NGOs, and whole civil society, with participation of relevant foreign actors. It should then be accepted by a political consensus and used as a basis for further, and more sustainable, development of the country.

Lack of such a strategy is the basis for many of Moldova's structural challenges. The country has around 450 different strategies and plans worked out by foreign and domestic

experts and covering different fields of the social and economic life, but none of them are addressing Moldova's real need for a vision to deal with the deepening crisis of the society. The country is characterized by strengthening negative trends such as increasing unemployment, low investment rate, weak monetary policy, growing dependence on foreign loans and remittances, and high migration numbers. Moldova is generally unattractive for the Moldovans, and that is an extremely alarming trend. An effective, socially oriented governance targeted on the country's sustainable development and setting key objectives such as market regulated, transparent economy combined with strong social guarantees and specialized programs (child and family protection, gender equality, reasonable migration management) should be given top priority by the Moldovan Government and international organizations operating in Moldova, in their counselling of the Government and planning their activities.

Education

The relevance of the current education and training system in Moldova does not correspond to labour market demands. Investment in education and training is not targeted and results in wasting scarce resources. In this context, a consultation process involving stakeholders from outside the education system needs to be carried out, in order to develop adequate reform strategies. In this regard, it is necessary to improve the cooperation between the labour market and education authorities, including the respective Ministries.

Box 1. European Training Foundation. Moldova Country Report. Working document, 2009

Labour policy needs to target one of the main shortcomings of the Moldovan labour market, the mismatch between education and the labour market. The progress in education and training reform has been rather limited, especially with regard to the relationship between educational supply and labour market demand. Secondary professional education faces the most daunting tasks in this respect. Furthermore, the situation is not helped by the fact that the use of on-the-job training is very limited. Over recent years less than 10% of employees have received this kind of training. The labour code states that 2% of the employers' retribution fund should be channelled into training needs. However, the actual amount is only a quarter of this figure.

Agriculture is especially in great need of qualified workers, skilled to operate the machines, and the lack of such skilled labourers is a huge hindrance to the development of the rural areas. Higher education is also rather one-sided, since around 50 % of all students graduate in economy and law.

Without making education one of the main priorities for the coming years, Moldova will not be capable of ensuring sustainable development and growth of the living standard.

Migration

Migration is another important issue to be emphasized by the new development strategy. The government is struggling to prevent brain drain, but given the low salaries and poor social and technical conditions for research and teaching, the graduates seek to emigrate to more advantageous environments abroad. There is a link to be explored between migration, remittances and entrepreneurship. Investment of the remittances in small businesses has been a theme of a recent ILO-project in the country. Many of these small investors withdraw their money after a short time though, not content with the economic reality of corruption and "grey schemes" of money flow. Yet, such projects could play an important role, becoming a success story and a good example to follow for others who want to invest.

The thorough approach to education, decent labour conditions, healthy finance climate and balanced structure of the economy would also provide conditions for a significant reduction in emigration of Moldovans, and even reverse the negative migration trends.

A National Committee for migration lead by Deputy Minister of Labour, Social Protection and Family has been established, indicating the institutionalization of the issue. Among ministries represented in the Committee is the Interior Ministry, responsible for migration and asylum policy.

Migration issue was also mentioned often by the stakeholders, indicating the importance and key character of the issue. Migration Policy Unit of the Ministry of Labour, Social Protection and Family emphasized the offensive measures recently taken by the Ministry in an attempt to reverse the negative trends. Among such measures are temporary arrangements (salary and housing) for the returning scientists and guaranty of 6 months extra salary to the returning students (an IOM project). Labour Migration Law was adopted in 2008. Mobility Partnership is becoming a permanent arrangement with the EU, including around 70 projects. EU has also taken initiative to create an Extended Migration Profile on Moldova, aiming to a deeper analysis of the issue.

The Migration Policy Unit of the Ministry underlines the need to study migration laws of the main destination countries, emphasizing good cooperation with them (Italy, Russia, Cyprus) on the migration issues. The Unit suggests placing labour attaché in the Moldovan Embassies in Russia and Italy. The Unit had useful cooperation with ILO on the issues of trafficking and labour migration, and needs further ILO support on the issue of private employment agencies and their role in migration and employment. More transparency in licensing of the private agencies and more fair play in recruiting and providing free services to the unemployed were pointed out as important issues. Another perspective might be interesting for ILO in that context, namely making social partners (trade unions and employer's organization) in Moldova and the main destination countries aware of the challenges faced by Moldovan migrants (trafficking, illegality, social dumping).

Gender equality

The gender aspect is also very important in terms of the comprehensive development strategy. Gender equality is proclaimed by the Government, is an integral part of the laws, but in real life there are many negative trends forcing the gender balance into the wrong directions. The Government should launch a proactive and broad gender equality policy through declaring it as a priority in the Strategy, through revising the laws and through structural changes within the government. *A separate Ministry responsible for childhood, family and gender equality* should be recommended, giving the Government a stronger apparatus to handle challenges in that field and at the same time giving the Moldovan population and international community a strong signal of change.

A country gender profile could be a useful tool for unveiling the core problems in the field of gender equality, and could highlight ways of improving the women's position in the Moldovan society. Such important issues as the gender wage gap (*women's wages is approximately 25-30 % lower than men's*), work and family reconciliation measures, home violence etc. could be highlighted in such a document.

Table 5. Ratio of women to men average monthly earnings (%)

	2005	2006	2007	2008	2009
Ratio	72,6	68,1	72,6	73,3	76,4

Source: National Bureau of Statistics.

The laws should be also subjected to revision in order to adjust the legal basis towards positive, global standards. *Gender literacy* of the population, and in a narrower context, of Government bodies and country authorities, should be acknowledged as an existing problem and given priority by the Government itself.

The abovementioned issues should be explicitly addressed in the new, comprehensive development strategy. A wider and solution-oriented approach to the issue is given in the following section by stakeholders interviewed during the country study.

2.4 Stakeholders

The government ministries

In national social dialogue, the Government is represented largely by the key ministries: Ministry of Labour, Social Protection and Family, Ministry of Economy, Ministry of Education, Ministry of Agriculture and Food Industry, Ministry of Construction and Regional Development, which are members of NCCCB and related branch committees. The Ministry of Labour, Social Protection and Family plays the leading role in the social dialogue. At the local level, the state is represented by local public authorities. Being closer to the local economy and, consequently, to the local population, local authorities have a key role in developing partnerships and promoting cooperation between various local public and private actors. In the context of job creation, it is particularly important that local authorities have powers that give them the potential to create new jobs, thus making their actions more likely to have a considerable impact on the local labour market. Although they are often major employers, their role may need to be strengthened if they are to play their part more efficiently.

On the issue of monitoring the NES, “The role of coordinator in monitoring the implementation of the NES rests with the Ministry of Economy and Trade, which is directly responsible for the development of the NAPE. The Ministry of Economy and Trade is entrusted with monitoring the achievement of the objectives and targets set out in the strategy according to the performance indicators identified. The local and central administration authorities develop regional action plans, monitor the implementation of the strategy’s sector components and evaluate the impact of policy responses. The responsibility for coordination, monitoring and evaluation at local level is entrusted to the economic directorates of city and regional councils. The national system of labour market and employment statistics will be aligned with EU and international standards to ensure an appropriate monitoring mechanism and the comparability of Moldova’s performance with that of other European countries.”⁸⁵ Since the NES’ adoption, the responsibility for the monitoring of implementation of the NES has been moved to the Ministry of Labour, Social Protection and Family.

The National Employment Agency of Moldova (NEA)

The NEA is no doubt one of the most important players on the labour market. The NEA was established in 2003 as a decentralized public authority in the area of employment. According to the national legislation, NEA is a legal entity empowered with the promotion of state policies, strategies and programmes in the field of human resource development, social protection of jobseekers as well as unemployment prevention and reducing the social effects of unemployment.

NEA delivers upon the four main functions of a modern public employment service as defined by Convention 88, ratified by Moldova in 1995. These are: labour market information, job broking, administration of active labour market programmes and passive labour market programmes. NEA was additionally assigned tasks related to the implementation of migration policies as well as monitoring the activity of private

⁸⁵ National Employment Strategy of Moldova for 2007-2015, p. 6-7.

employment agencies. NEA is also the institution that creates and designs the legal base for employment policy (Law 102 of 2003 and the following changes to that Law were developed by NEA's experts).

The NEA is understaffed (table 16) and underfunded. In practice, NEA is functioning at two levels, central and municipal, and has only 248 employees, 39 on the central level and 211 on the local level. NEA has 35 offices in Moldova. According to one of the central stakeholders, there is a "political unwillingness to increase NEA staff". There are concerns, however, surrounding the effectiveness of social dialogue at local level and the scope of the implementation of ILO's recommendations in the field of tripartite cooperation, given the weak local representation of employer's organizations, lack of human resources and the remarkable underfunding of NEA itself.

Table 6. Administrative Information for Selected National Public Employment Services.

	Labour force (million)	Number of PES staff	Labour force per PES staff
Bulgaria	3.5	2825	1239:1
Croatia	1.7	1185	1435:1
Czech Rep.	5.3	5007	1059:1
Estonia	0.67	289	2318:1
Hungary	4.2	3500	1200:1
Latvia	1.1	679	1620:1
Macedonia	0.9	505	1782:1
Moldova	1.3	249	5221:1
Montenegro	0.26	342	760:1
Serbia	2.9	1807	1605:1
Ukraine	22.3	15000	1487:1
Norway	2.57	19000	135:1

Sources: 2007 CIA World Factbook, World Association of Public Employment Services (WAPES) Member Survey, www.nav.no

To provide an example, employment support measures such as mobility support, support to employers in creating new jobs, and credits to Employment Fund, are underfunded, while vocational education, administrated financially by NEA, is hired out to private actors, with alleged low quality. Only public works, a traditional employment measure, receives enough funding. In 2003, NEA started implementing active measures, but the financing was cut off. Due to poor funding, activities targeted towards small and medium enterprises are almost non-existent.

Other challenges to be mentioned are:

- i) poor communication with the Government and poor discussion flow between NEA and the Government;
- ii) low level of implementation of the employment programs, often due to lack of understanding of their importance, both on central and local levels;
- iii) low quality of vocational education and adult training.

Box 2. Case of Orhei District; population 125 900 (2009).

4000 registered job seekers, 11-12000 unemployed, but not registered as job seekers. In 2010 the number of unemployed increased by 500 persons. 7000 inquiries were registered at the local employment office in 2010.

There are 7 employees at the local employment office in Orhei. 39% of all those registered are young people – qualified workers are migrating abroad. Very few new jobs are being created and only 150 unemployed received vocational training in 2010.

It is obvious that the volume of work flow is much bigger than the employees can handle. 570 registered job seekers plus 1000 inquiries per year per employee are impossible to cover, not to mention other functions these employees are required to perform.

The client-centred approach is needed, with client, job seeker, disabled, young unemployed etc. to be considered as the absolute centre of NEA's activity, including its local offices. Creating local employment councils with client participation could be considered. The next step could be an invitation to client organizations or representatives to the local, regional, and national employment forums. Client participation could give NEA's activities the necessary feedback from the users, more legitimacy and local support, result in strengthened client orientation of NEA, and could lead to more funding and more realistic approach from the Government to NEA's challenges.

The social partners

At the national level the social partners, as members of the Administrative Board of the NEA, take part in the preparation, implementation and monitoring of the national employment programmes. Employers are represented by the National Confederation of Employers (CNPM), while the trade unions are represented by National Confederation of Trade Unions of Moldova (CNSM), a result of a merger on 7 June 2007, establishing a new trade union confederation from the Trade Union Confederation of Moldova and the Confederation of Free Trade Unions (Solidaritatea).

The National Trade Unions Confederation (CNSM) includes 28 branches or union federations, approximately 8 600 primary organizations and about 450 000 members, of which 120 000 are under 30 years old and 290 000 are women. CNSM has been a member of ILO since 1992 and the International Trade Unions Confederation since 2009.

The National Confederation of Employers (CNPM) is the sole Employers' Confederation in Moldova. It was established in 1996 by five founders and now it includes 30 members⁸⁶ - three employers' federations, 12 unions, employers and professional associations, and 15 companies (35% of existing businesses and about 60% of the workforce employed). It has been party to all national tripartite agreements concluded so far in Moldova and part of sector agreements in those sectors where it is present. CNPM is a member of the ILO and the International Organization of Employers (IOE) and benefits from capacity building support provided by them. The Confederation is recognized as the most representative employer's organization and is legally empowered to participate in national tripartite institutions and to negotiate collective labour conventions at the national level in NCCCB, as well as to express views on s draft regulations.

In their role as social institutions in the labour market of the Republic of Moldova, the employer's organizations (locally called "patronages") are relatively young organizations. For this reason, they have not yet managed to fully consolidate their positions as social

⁸⁶ Compared with 25 members in 2005.

partners in the labour market and be active in all economic sectors. The branch level negotiations are attended only by those business organizations that represent an economic sector (construction, transport, agriculture) and only in those sectors in which collective labour agreements were signed. Moreover, only two employer's organizations were able to create functional regional structures, in agriculture and construction sectors. The lack of employer's organizations at the local level led to the almost non-existence of social dialogue at that particular level.

In order to increase the number of members, CNPM managed to obtain tax deductibility for patronage's membership fees and began to provide services in Occupational Safety and Health at Work (OSH).

Both National Trade Union Confederation (CNSM) and National Confederation of Employers participate at all stages in processes related to the national employment policy, and it is clear that common responsibility on the employment issues has significantly strengthened the social dialogue.

Social dialogue and tripartite cooperation

Tripartite cooperation and social dialogue are formally implemented and currently present in the Moldovan landscape, both at the legal and practical level. The problem, frequently articulated by the main stakeholders, is the weak functioning of the tripartite system and social dialogue, mostly due to lack of the clear understanding of the need of tripartism, lack of agenda and objectives for cooperation between the parties, slow implementation of the international conventions and unstable political situation. Further training in tripartite cooperation, social dialogue, and the dissemination of good practices from the region are needed.

In Moldova, although there were some attempts since 1993 to develop tripartite social dialogue to address the first social and economic consequences of the collapse of the economy, the dialogue did not take shape effectively until 1999. The dialogue was activated by a decision of the Government taken after consultation of social partners⁸⁷. The Government's decision set out the objectives (solving problems via consensus building), the principles (independence and equality of the parties, respect of agreements concluded, etc.) and the structure of social dialogue in the country. It has also specified the roles of the three actors of social dialogue, namely the government itself, trade unions and employers' associations.

Tripartite commissions for social dialogue were created at three levels, namely: national, sector and territorial levels, thus offering a platform for negotiations and tripartite consultation between public authorities and social partners at higher and lower levels.

Besides being members of NEA's Administrative Board, the social partners are also represented in tripartite social dialogue commissions which are established on the national, territorial and sector levels. Bipartite dialogue is developing as well.

At the regional level, the social partners take part in employment policy through the tripartite Advisory Council. This Council is responsible for supporting and coordinating the regional employment agencies and it also provides counselling for the local agencies. Cooperation with employers at the local level is rather weak, due to the fact that the National Confederation of Employers (CNPM) is only represented in 4 districts.

⁸⁷ Decision No. 356 of 23 April 1999.

Since 1999, tripartite social dialogue in Moldova materialised mainly through the conclusion of tripartite agreements at both the national, sector and territorial levels. However, at the territorial level there have been significantly fewer agreements signed. The development of a territorial social dialogue has been constrained by the weakness of social partners, particularly on the employer's side.

The structure of social dialogue in Moldova has gone through transformations during the last 12 years. The Republican Commission for Collective Negotiations (RCCN), established by the Government decision in 1999, served as a forum for negotiations and tripartite consultation between public authorities and social partners at national level. At the same time it created tripartite commissions for social dialogue at territorial and sector levels.

The National Commission for Consultations and Collective Bargaining (NCCCB) replaced the RCCN in 2006. It has equal representation of all social actors. Its major objective is to discuss and promote relevant issues regarding economic progress, consensual decision-making on economic and social matters, labour laws, and legal approval of draft laws before their approval by the Government or the Parliament. The Commission has also negotiated 10 national collective conventions, which have the force of law, aimed at such matters as salary and other financial benefits, working and leisure time, child labour, minimum guaranteed income, etc. The quality of the actors involved in this process, in particular that of employers' organizations and trade unions, is a separate topic on the national agenda of social dialogue. In this context, internal and external assistance has been channelled to strengthen their capacities for collective bargaining, negotiation techniques in times of crisis and economic recession, services' delivery to members, and capacities to attract new members. Trainings have been carried out on management of migration, fine-tuning of employment and economic policies, enhanced communication skills with media and general public, etc. The technical projects and assistance for this purpose was provided by the ILO, International Trade Union Confederation, International Organization of Employers, etc.

Tripartite discussions over employment issues take place within the frame of NCCCB on a yearly basis ("at least yearly" as it was articulated by one of the stakeholders). Each yearly meeting is concentrated around one chosen issue (youth, child labour etc). According to the Ministry, this is the most effective way to arrange the tripartite dialogue. Yet, the complexity of Moldova's problems should be met by a complex approach within the tripartite dialogue, something that could be achieved by setting several issues on the yearly agenda. A connection between NCCCB and the territorial and sector organs should be stronger and clearer, ensuring that dialogue extends to the districts and branches and that feedback on the policies and decisions is approved. Similar bodies have been established at the branch and district level, and these organs need more involvement, input and encouragement.

National tripartite agreements, concluded in general for a period of one year only, address a wide number of issues including the following: macro economic policy measures to boost growth, wage increases, working time arrangements, and support for workers with family responsibilities and peace obligation at the work place. In the area of employment, they included measures aimed at protecting workers against massive redundancies (mainly in the public sector) and unfair dismissals (in all sectors).

Sector agreements focus on such issues as wage tariffs, working conditions, labour disputes settlement and occupational safety and health at the work place. *Labour market issues do not seem to top the agenda of these agreements.* The main target of territorial agreements appears to be initiatives for employment promotion at local level.

While the institutional framework for tripartite social dialogue at national, sector and territorial levels is recent, attempts to promote bipartite social dialogue and collective bargaining between workers and employers dates back to 1993 when two Acts were adopted by parliament, namely the collective agreements Act⁸⁸ and the Act on labour disputes settlement⁸⁹. The legal framework regulating bipartite social dialogue was supplemented later by the laws on trade unions and on employers associations⁹⁰, and further consolidating by the new Labour Code adopted in October 2003. As a matter of fact, the latter piece of legislation has specified the overall rules of “*social partnership in the sphere of labour*”.

The existence of a comprehensive legal framework for bipartite social dialogue has not lead so far to a breakthrough in the development of collective bargaining in the country. Presently, collective bargaining tends to concentrate on the shrinking public sector, while in the expanding private sector there are hardly any collective agreements signed. As a result, in the latter sector the only protection enjoyed by the workers, if any, is the one set out in the legislation. Needless to say, the weak presence of trade unions in the private sector (agriculture, construction, services, trade, transport, etc.) and the reluctance of individual employers to engage in collective negotiations with employees represent the main obstacles for the development of bipartite social dialogue in the private sector.

3. Conclusion: summary of key findings and recommendations

3.1 Summary

Moldova is a transition country facing a number of challenges, such as the unsolved territorial problem of the breakaway region of Transnistria, underdeveloped civil society, poor governance and poorly managed migration flows. But the natural conditions and the skilled and educated workforce provide the perfect conditions for successful agriculture and tourism. The country’s location between the EU and Ukraine/Russia is also a potential advantage.

Labour market policies in the Republic of Moldova give high priority to prevention and reduction of unemployment among young people. This is reflected in the National Development Strategy for 2008-2011, the National Employment Strategy 2007-2015, the draft Strategy for Vocational Education and Training (2008-2015), the Labour Code, the National Youth Strategy (2009-2015) and the Law on Youth (adopted in 1999). Also, in practice, there are or have recently been a range of measures put in place in Moldova, both domestically and externally-funded, aimed at improving labour market outcomes for the young. These include substantial support to vocational education and training and to youth entrepreneurship. In addition, internships offered mainly by larger companies smooth the education-to-work transition for graduates.

An employment strategy exists, the consultative and implementation mechanisms are in place. However, a number of weaknesses remain, such as the lack of a clear employment focus in the NDS, partial implementation of the NES, lear lack of adequate funding.

⁸⁸ Act on collective agreements No. 1303-XII of 25 February 1993.

⁸⁹ Act on Labour Disputes Settlement No. 1298-XII of 24 February 1993.

⁹⁰ Act on Employers No. 976/XIV of 11 May 2000 and the Act on Trade Unions No. 1129-XIV of 7 July 2000.

An important issue underlined by the stakeholders is the issue of securing the adequate participation of the relevant organizations and bodies, responsible ministries, directorates, research institutions, NGOs, international actors, in shaping, implementing and evaluating the employment policies. NEA in particular is not content with lack of public discussion on the issue of employment policy, bad communication between NEA and the Government, and lack of the public knowledge of the labour market problems. This should be seen in a close connection with coordination and communication. The activities have to be coordinated by *one* body (for instance a working group consisted of high level representatives, committed to the principles of decent work, able to work effectively and commit others) – and what is even more important, the activities and the ideas generated have to be broadly communicated to the people of Moldova, politicians, expert community and international actors. Participation, coordination and communication are the key.

3.2 Recommendations

We divide our recommendations into three parts: political, technical and social dialogue.

Political economy:

1. Moldova needs a *comprehensive development strategy with a strong focus on work and employment*, which should cover some core issues hindering the country from moving ahead.
2. Being partly implemented, NES is not working satisfactory. It needs a revision, and a new version should be made for a medium range period of approximately 4 years, giving the Government the opportunity to fulfil the main objectives of the strategy during the current Parliament term.
3. *Both the Labour Code and the Law No. 102 need revision and harmonisation*. ILO could provide a legal expert to examine the above mentioned laws and suggest changes. This could be done in cooperation with the Ministry and the NEA.
4. *Strengthening of coordination between ministries responsible for labour market issues, and between ministries and other relevant actors, is strongly recommended*. ILO should establish capacity building or *good practice dissemination* seminars on actual themes like transparency, education, gender policy, rural investments, effectiveness of tripartite dialogue etc, and invite the responsible ministries, social partners, NGOs, as well as the international constituents, represented by senior officials, who would give the seminars the necessary legitimacy and authority.
5. *Tripartite dialogue needs further strengthening*. One of the tools could be an awareness-raising campaign within the society to explain the objectives and possibilities of a tripartite dialogue and cooperation between social partners. ILO could contribute in setting up this campaign. Then, parties should meet regularly, on a yearly basis, and discuss a broad spectre of issues, including general wages policy, labour safety, gender issues, and a regime of investments. Decisions made by the Commission should be mandatory for all parties. Both unions and employer's organisations should be trained in bipartite dialogue and collective bargaining, in order to learn negotiation strategies and be able to negotiate with the counterpart without involvement of the state, for example in wage issues and labour conflicts. Establishment of a labour mediation body, 3rd party involvement in the labour conflict in special cases, should be seriously considered and discussed.
6. *Gender issues* are to be met and handled seriously. Moldova strives to combat domestic violence and labour-related gender discrimination, and people's awareness of the issue is low. National institutions responsible for gender policy need to be developed further. The Government deserves acknowledgment for establishing a Governmental Committee on Gender Equality, but the situation is so severe that strengthening is needed. As shown above, restructuring of the Ministry of Labour, Social Protection and Family into Ministry of Labour, Gender Equality, and Social Protection, or establishing a new *Ministry of Gender Equality, Children and Family Protection* is strongly recommended.

Technical assistance:

1. There is a need for technical assistance to the Ministry in creating a *new occupational classification*. This is needed due to absence of many occupations that people acquire in Europe, in the existing classification. Moldova could receive assistance on the creation of the national classification on the basis of the International Standard Classification of Occupations, its updated version adopted in 2007 and known as ISCO-08.
2. Moldova does not have a central unit responsible for *long term statistical forecasts*. The National Bureau of Statistics does not have such a function and neither is it equipped to perform it. Different ministries make their own forecasts within respective branches, and these forecasts make up the platform for Government's decision-making. It seems necessary to establish a central unit, probably within National Bureau of Statistics, where ILO could play a central role in planning and capacity building of people involved in the establishment process. *Decent work indicators* are another field within statistics where ILO's assistance is needed and expected.⁹¹
3. *Staff training in NEA and in extension in the Ministry is still needed*. The themes mentioned as possible for trainings are: unemployed youth, vulnerable groups, specially disabled persons, and employment in rural areas. It could also be beneficial to use the experience and expertise of other international organizations such as the Swedish Employment Service, and UNDP, and to develop a relevant competence from other transition countries successfully dealing with similar issues, like Ukraine, Slovenia, Slovakia, and Baltic countries.
4. *Wages* is another topic where ILO could provide technical assistance. First of all, assistance with a survey on coherence between wages in public and private sectors has been requested in order to look at the level of the real income of people. Secondly, such a survey could indicate the size and spread of the *informal sector*, and people's incomes there.
5. Though *labour safety* has been on the agenda in Moldova for many years, and both unions and employer's organization have been trained and even disseminated knowledge to some districts, the additional trainings of all 3 parties, Ministry, unions and employers is needed, in terms of aligning Moldovan and European standards and dealing with work accidents, just to mention some issues.
6. Short-termed ILO involvement should focus on assisting the Government in the formulation and initial implementation of a new, comprehensive national development strategy with a firm labour focus.
7. Such a strategy should be translated into a new employment policy which could serve as an effective tool for a smooth transition.

Social dialogue:

1. The NCCCB needs to be strengthened to be able to deal with urgent problems in their full complexity and to define regularity and predictability through requiring regular meetings at given period of the year.
2. The NCCCB's functioning should be strengthened and resources (budget, secretariat, human resources) endowed.

⁹¹ It has to be mentioned though that Moldova's ILO membership and its aspiration to become a member of the EU have determined important changes in the official statistical system. As a result of the support offered by the ILO, EU, UNDP and statistical offices of donor countries it is possible today to say that Moldova has a functional and reliable system of labour statistics. In an assessment report in 2007, Eurostat assessed this system as being 'nearly fully compliant with EU requirements.

3. The social partners', as well as the responsible ministries' capacity on issues such as migration management, gender equality, wage negotiations, workers' and employers' rights etc, should be strengthened through training courses involving high level functionaries and politicians, as well as the representatives from districts and international actors.
4. The content of national tripartite agreements should be enriched in particular with respect to employment issues and improvement of the monitoring of their implementation.
5. The bipartite aspect of the dialogue should be strengthened as well, as it is the most important arena for negotiations between the employers and trade unions on such issues as wages, working time and environment, etc. Such negotiations, at least to a definite point, should be carried out without state intervention.
6. Communication strategy and policy in connection to tripartite and bipartite negotiations have to be developed – the public opinion and the society need to be broadly informed of the issues to be discussed, outcomes, decisions made, and the different parties' initial position etc.
7. The capacity and presence of trade unions in the private sector should be strengthened, as should the capacity and the presence of the National Confederation of Employers' Associations at the territorial level.

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Annex: People interviewed

1. Ministry of Labour, Social Protection and Family.

Mr Sergiu Sainciuc, Deputy Minister of Labour, Social Protection and Family
Ms Nina Punga, Deputy Head, Employment Policy Directorate
Mr Gheorghe Sircu, Head of Wage Policies Directorate
Ms Ecaterina Buracec, Head of Migration Policies Unit
Mr Sergiu Morari, Head of Labour Relations and Social Partnership Directorate

2. Public agencies and institutions.

Ms Raisa Dogaru, Deputy Director, National Employment Agency
Ms Elena Vatcarau, Head of Division, Labour Market and Demographic Statistics,
National Bureau of Statistics
Mr Marin Molosag, First Deputy-Governor, National Bank of Moldova
Mr Constantin Tricolici, Head of Legal Unit, Tourism Agency of the Republic of
Moldova

3. Social partners.

Mr Petru Chiriac, Deputy President, National Trade Union Confederation
Mr Vladislav Caminschi, Chief of Internal and External Department, National
Confederation of Employers
Mr Alexandru Slusari, Executive Director, National Federation of Employers in
Agriculture and Food Processing Industri

4. International organizations.

Ms Matilda Dimovska, Deputy Resident Representative, Ms Lovita Ramguttee,
Assistant Resident Representative, UNDP Moldova
Ms Ala Lipciu, National Coordinator, ILO
Ms Ulziisuren Jamsran, Gender Adviser for Moldova and Ukraine, UN Women
Mr Iaroslav Baclajanschi, economist, World Bank, Moldova Country Office
Mr Ghenadie Cretu, Migration and Development Program Coordinator, Mr Silas D.F.
Rapold, Labour Migration Project Development Assistant, International Organization for
Migration
Mr Per Lindberg, Project Director, Mr Vladimir Lungu, Project Coordinator, Swedish
Public Employment Service
Mr Dag Brathole, Head of Mission, the Norwegian Mission of Rule of Law Advisers to
Moldova

5. Territorial organs.

Mr Petru Lisu, Director, Territorial Employment Office, Orhei District
Mr Andrei Gheorghe Globa, President of Orhei District Council

Chapter IV. National employment policy-making: Lessons from Nicaragua⁹³

Nicaragua is the largest and the poorest country in Central America. It has the lowest population density. Around 40% of the population lives in rural areas. Many people are illiterate (but their number is coming down rapidly according to the Government). The income distribution is skewed (Gini coefficient: 0.56). The share of the population living in poverty was 48% in 2005 (70% in rural areas). The share of people living in extreme poverty was 17% in 2005 (30% in rural areas) (Spalding, 2009). See also annex 4 for some basic indicators.

The country's development potential is considerable. The vast extension of good quality agricultural land and the low labour and land costs give Nicaragua a comparative advantage over other countries in Central America. But the country has suffered from a number of natural and man-made disasters. These include periodic droughts and floods, earthquakes, hurricanes and a guerrilla war (in the 1980s), which, if anything, did considerable damage to the country's infrastructure. In the 1980s the country was subject to a trade embargo by its largest trade partner.

1. Recent economic and employment performance

1.1 Socio-economic context

The economy has grown at a little over 3 % on average in the past decade. Economic growth turned negative in 2009 in the wake of the global financial crisis but rebounded by 4.5% in 2010 thanks to world economic recovery (exports + 13.2%; exports of goods + 20%) and higher domestic demand thanks to higher minimum wages and the bonus paid to civil servants financed by the Venezuela cooperation (BCN, 2010: 42). Inflation is moderate (see also Annex 4).

Out of a total of 5.8 m inhabitants, 3.9 m are of working age. Around 2.8 m people are in the labour force. The percentage underemployed is 54% and rising (BCN, 2010). Around two-thirds of all workers are active in the informal sector. Child labour is widespread. Open unemployment in 2010 stood at 7.4 % and falling, according to BCN (2010). Youth unemployment is significantly higher.

Many Nicaraguans have migrated abroad. Estimations of their number vary from 600,000 to over one million. Most of them live and work in the US and in Costa Rica. Others have moved to El Salvador.

The rural sector is the engine of the economy. Agriculture contributes around one third to GDP and occupies around one third of the labour force. Agricultural products and beef together make up the majority of exports by value. Many rural workers are landless.

Around 14 % of the labour force is active in manufacturing. Main industries are food processing, textile and footwear, wood, chemical and mineral products.

⁹³ The full version of this country study was prepared by Gijsbert van Liemt (email: gbvanliemt@yahoo.com). It is based on a mission to Managua from 11 to 24 March 2011 facilitated by Mauricio Dierckxsens from the ILO Decent Work Team in San José and Berta Guerra of the ILO project office in Nicaragua.

Table 1. Employment Structure by Activity (% of total)

Activities	2007	2010*
Total (Thousands)	2,138.5	2,591.7
Primary Sector	28	32
Agriculture	27	32
Secondary Sector	19	16
Manufacturing	14	12
Tertiary Sector	53	52
Commerce	23	25

Source: adapted from BCN; *for methodological reasons not comparable with previous years

Tourism is widely seen as a sector with great potential both from an employment creating perspective and as a welcome source of foreign exchange. The number of foreign visitors to Nicaragua increased from 800,000 in 2005 to close to 1,1 million in 2010. According to BCN (2010) in 2008 176,000 people were active in typical tourist activities. Around 63,000 jobs (approx. 3% of the total) are directly attributable to tourism (hotels, restaurants, leisure activities, transport).

Nicaragua has Free Trade Agreement (FTAs) with some of its main trading partners. Among these, the Central American- Dominican Republic- United States Free Trade Agreement (CAFTA-DR), ratified in 2005, is the most significant. The Association Agreement between the EU and Central America that consolidated Central America's GSP status was ratified in 2010. In that same year the negotiations on a FTA with Chile were concluded. Negotiations have started on a Free Trade Agreement with the ALBA countries (Alianza Bolivariana para los Pueblos de Nuestra America) whose principal member countries are Venezuela, Cuba, Bolivia, Nicaragua, Honduras and Ecuador.

Exports of goods have been increasing steadily from USD 509m in 1999, to USD 760m in 2004, USD 1,475 in 2008 to 1.851m USD in 2010. Exports are concentrated by product, by destination and by exporter. 60% of exports by value are concentrated in just a handful of products: coffee, sugar, beef, seafood, beans and (from the Zona Franca:) textiles and clothing, and leather and footwear. Non-traditional exports such as fruit and vegetables are few.

Agricultural products make up 35% of the total⁹⁴. Most of this is coffee (20%), with beans (4%) and peanuts (3.5%) making up much of the rest. Animal products make up another 25% (mainly beef 15%); manufactured products 20% (cane sugar is the main product at 8%), mineral products 12% (mainly gold at 10%) and hydro biological products (shrimp, lobster) 7% (APEN 2010).

The concentration of exports by company is high. In 2007, 70% of all goods exports originated in just 50 companies (CDR, 2009)

The US (at 30% in 2010) is traditionally the main export destination, and even more so for exports from the Zona Franca. Other Central American countries as a group are the second most important destination with El Salvador counting for 11% of the total. Exports to Venezuela (13% of the total in 2010) have been increasing rapidly in the most recent period. Much of this is beef.

⁹⁴ Based on data for the first nine months of 2010

The current account deficit has been financed largely through foreign borrowing; external cooperation, incl. debt relief; and family remittances. Remittances have become an important source of foreign exchange inflows. In 2009 they were higher than aid inflows. BCN (2010) estimated remittances to be 820m USD in 2010 up from USD 519m in 2004. Others sources put these figures higher.

International aid is important for such a poor country as Nicaragua. Aid flows came to USD 657m in 2009 according to the BCN. European donors are reducing or even halting assistance to the country. Sweden has left. The UK's DFID, Norway's Norad and Denmark's Danida are on their way out. The Netherlands have just announced that they are closing their embassy. The decision by these countries to leave Nicaragua is not so much due to differences of opinion on how the assistance is or should be used but more to the generally reduced levels of resources available for aid by these donors, and with them wanting to concentrate their activities on Africa. But different countries may have different motivations.

Venezuela is the exception. Relations between the presidents of Venezuela and Nicaragua are close and the Venezuelan government has become an important if not a main source of funding for many of the social (and other) projects that the Nicaraguan government is undertaking.

The funds from Venezuela are not uncontroversial though. Several of the people I talked to remarked on the lack of transparency surrounding Venezuelan cooperation. To what extent the Venezuelan funds are gifts and to what extent they are loans is not entirely clear, nor is the way they are administered i.e. who ultimately decides what they are spent on and why. An oft-mentioned example is the bonus payments (bonus-solidario) that all Nicaraguan civil servants are receiving, the cost of which (40m USD per month) are entirely paid for by funds from Venezuela.

In such a politically divided society as Nicaragua, independent reporting, data gathering and data analysis are useful and important. European donors contribute to the financing of the respected, independent think-tanks without whose help it would have been difficult to write this report. The funds from Venezuela are no substitute as for them the Nicaraguan Government is the national counterpart. There is concern that the departure of the European donors could lead to an impoverishment of the public debate, including the public debate on employment issues.

Most Foreign Direct investments (FDI) in 2010 went into the energy and communications sector. DFI was 508m USD in 2010 up from 74m USD in 2009. Of this, 36% went to energy and mines, mainly essential, but capital-intensive electricity generation and hydro electrical in particular. Telecommunications, another capital-intensive sector, was second with 23.4% of total. Only 20% of all FDI went to industry, mainly to the Free Zone. Venezuela is also becoming an important source of foreign investment. Venezuelan investments are channelled through ALBA. Its flagship project is an oil refinery but it also finances renewable energy, port infrastructure and forestry projects (LARR).

1.2 La Zona Franca

The Free Zone (Zona Franca) is an important source of both export income and employment. Created in the mid-1990s the Zone saw a steady increase in activity up to 2009 when exports from the Zone dropped by 5%. In 2010, however, these exports rebounded by 30%. In 2010 as much as 90% of all foreign investments in industry went to the Free Zone (2008: 75%). The number of people active in the Zona Franca declined from 88,629 in early 2008 to 71,452 in December 2009 but recovered to 84,268 in December 2010.

Workers in the Free Zone make up an important share of formal sector employment. 73% of all INSS affiliated industrial workers (or 14% of all INSS affiliated workers) were active in the Zone. Their share in all private sector affiliates is evidently higher (BCN, 2010).

Box 1. La Zona Franca in Nicaragua

Currently, there are no less than 35 Zonas Francas operating in Nicaragua. These are exonerated from tax and import duties (aranceles)¹. Any company that produces entirely for export can apply for Zona Franca status. This can be an area, a building, even one floor in a building.

The Government actively promotes foreign investments in the Zona Franca, mainly through its foreign investment promotion agency ProNicaragua, which provides information on investment opportunities and on the regulatory framework, and facilitates contacts for international investors. The Government would like to attract labour-intensive agro-processing activities, knowledge-intensive activities, software development and financial analysis but in practice the main sectors present in the Zona Franca are contract manufacturers in textiles and clothing (around 80%), leather and footwear, and car parts. Investors come from Argentina, Chile, Taiwan, Mexico, the Republic of Korea, the US and Nicaragua, among others.

The Zona Franca has an important place in the government's efforts to create more formal sector jobs. So far, this is done mainly through attracting an increasing number of investors⁹⁵. In this, the country actively competes with other Central American countries (not to mention countries in the rest of the world) following the same or a similar strategy. Nicaragua's stable labour relations are helpful in this regard.

Labour relations in Nicaragua appear to be comparatively stable. In 2010 a tripartite Consejo Nacional del Trabajo was created. The social partners have agreed on a minimum wage for the Zona Franca (and other sectors of the economy)⁹⁶. Essential components of the pact for Zona Franca workers are not just the level of the minimum wage (currently the lowest in Central America) but also its duration (three years). In an effort to provide stability to the workers in the Free Zone, in 2011 workers and employers organizations agreed to renew the 2008 three year agreement for another three years (2011-2013). The agreement foresees periodic wage increases. As part of the pact workers receive basic food parcels at below market prices to help protect them against sudden rises in the price of food. As part of the pact social housing units are being built for workers who are active in the Zona.

1.3 Employment situation

Economic growth in the past decade has been at a reasonable level (the exception being 2009 when GDP dropped as a result of the global financial crisis) but this was insufficient to create jobs for all new jobseekers. The number of new jobseekers has been estimated to be around 100,000 every year. Unemployment and, even more so, underemployment are high in Nicaragua.

The poor quality of employment data in Nicaragua makes it difficult if not impossible to assess the employment impact of different policies. The formal sector, consisting of people registered at the social security institute INSS (large enterprises; the civil service; the Free Zone), is the exception. But even that is only partially true. Although the Government would like to attribute (increases in) the number of workers in the Free Zone to its policies it knows full well that these numbers are probably as much if not more influenced by demand

⁹⁵ One source noted a project to integrate vertically towards the local cotton industry.

⁹⁶ There are ten different minimum wages in Nicaragua. On 1 February 2011 the monthly minimum wage for the Free Zone was C\$ 3,092 (approx. 140 USD), which places it roughly halfway between the bottom rate of C\$ 1,891 for agricultural workers and the top rate of C\$ 4,313 per month for workers in the building and financial sectors.

fluctuations on its main (US) market and cost level fluctuations at its regional and extra-regional competitors.

The size of the informal sector and the size of the labour force can only be estimated. Changes in size are difficult to measure. Keep in mind that between 10 and 20% of the working age population lives abroad. Official 2005 data found that 280,000 children between the age of 5 and 17 were in work. How many family members perform unpaid work?

Nicaragua faces the double challenge of having to create more and better jobs. Productivity levels are low, inter alia, due to illiteracy and low education of the workforce. Skilled workers and middle managers are in short supply.

Many Nicaraguans survive under precarious circumstances. There is broad agreement that eliminating illiteracy, improving education facilities, raising teachers' pay and improving the attendance rate of children will raise the educational level of the workforce. There is also broad agreement that the training system should be better adapted to the needs of its clients and that it needs additional funding.

The macro economy (prices, exchange rate) is widely seen as stable, an essential component for helping economic and employment growth. But the infrastructure (ports, roads, energy supply) is seen as inadequate. After the power distribution was privatised in the late 1990s, new investments in that sector dried up, which led to a growing number of power cuts. Better infrastructure would facilitate economic growth by bringing down transaction costs. Much productive land is virtually inaccessible due to poor infrastructure.

The government is investing in improving the infrastructure and is attracting foreign capital into this sector. In 2009-2010 220MW of generation, including 60MW with renewable sources of energy, was installed. In the period 2011-14, power generation projects will be completed that will provide 490MW in additional generation capacity.

The Government is aware of the job-creating potential of infrastructure investments. When technically and climatically feasible, it attempts to have public works (roads, other infrastructure) built and maintained in a labour-intensive manner.

All agree on the need for more job-creating investments. The government is proud of the growing number of investors it has managed to attract to the Free Zone and the number of jobs that this has created (although the comparatively low level of earnings of these workers is not without its critics).

There is also consensus on the need to stimulate investments by domestic capital. Small and medium companies are rightly recognized for the, on average, low level of capital needed per job created; for their propensity to use more domestic inputs; and in general for their positive impact on the local economy. The vast majority (92%) of all enterprises are micro enterprises, which employ between one and five workers with establishments with only one worker making up 62% of the total. This includes small repair shops, shopkeepers, taxi drivers and street vendors (Peña et al, 2010).

But the fact is that Nicaraguan companies have shown a great reluctance to invest and create jobs. This was commented on by nearly all, but there were different views on why this was so. Government sources stressed how the government collaborates with the private sector in ferias (fairs), how it has created a *ventanilla única* (the "one-stop-shop" to reduce paperwork and facilitate bureaucratic formalities), provides tax holidays etc. To them, the low level of investments is a puzzle considering the country's labour stability; social stability (thanks to government focus on poverty eradication); the low minimum wage; and the absence of criminality- Nicaragua compares favourably to the Mara (gang) related violence of its immediate neighbours to the north. The Employment Director argued that investments were held back by "unjustified fears".

All pointed to the need to strengthen the legal, regulatory and institutional framework with a view to ensure security and stability for economic agents. Uncertainty about property titles, and in general legal uncertainty, keeps investments down. Land can be used as security against loans but only when legal title is undisputed. The uncertainty about property rights and title to land in particular is partly the result of land reforms. Some progress is being made in solving land claims and land titling problems related to disputed ownership.

Access to credit for small and medium firms, especially medium and long-term finance to agriculture, was often mentioned as a problem⁹⁷. Banks are said to have limited experience with credit analysis, which is to the disadvantage of SMEs. Loan appraisal, monitoring and collection entail substantial fixed costs, and this makes small-scale lending expensive (Bebczuk, 2009). When property rights are disputed (untitled or unregistered lands and overlapping title are a widespread problem), land and fixed assets cannot be used as collateral. NORAD (2003) noted the lack of credit reference bureaus. Also, SMEs have little experience in contacting banks and need technical assistance in addition to credit. MIFIC organizes brigadas of ministry officials and university students in law and economics in their final year to help SMEs prepare loan requests.

Some argued that large companies' reluctance to invest was not unrelated to lack of competition that encourages them to opt for "a quiet life". These companies were said to only want to invest when they receive subsidies, or when they operate in a protected market or in a monopolistic situation. Lack of competition keeps prices high, and acts as a disincentive to modernize production and raise quality.

COSEP, the organization that represents Nicaragua's large enterprises, has long viewed the FLSN (the party in power) with suspicion. But relations with President Ortega have greatly improved in recent years. Yet they feel that the government is sending out mixed signals and they hint that this may be a reason for the private sectors' reluctance to invest. (Unfortunately there was no opportunity to discuss this issue with representatives of the small and medium enterprise sector with whom, reportedly, relations are less cordial).

The employers had a "particularly complex relationship" with the Sandinistas before 1990. There was much confrontation. The private sector remembers this well. Up till and including the last election COSEP openly supported an opposition (i.e. a non-sandinista) candidate.

However, since 2009 a new relationship has developed. COSEP says that they even have a better policy dialogue with the current than with the previous government. In particular, they have good contacts with the Presidency and with the "production ministries" i.e. industry and agriculture. Relations with the Labour Ministry are the exception because that Ministry is seen as very partisan. In view of the improved business climate COSEP does not intend to back any candidate during the upcoming elections.

Nonetheless, the employers felt that the government was being less than straightforward in key economic and political questions and that it had a parallel agenda. This parallel agenda makes the rest of the country suspicious because it is confused about what the real goals of the government are. As several others had done earlier, they referred to the opacity surrounding the funds coming from Venezuela (e.g. are the civil servant bonus payments a donation or part of a loan?).

⁹⁷ However, critics consider that this overstates the importance of financial institutions on the supply side and gives insufficient attention to demand side factors. It ignores the role of informal lenders (friends and family), remittances and supplier credits, which are important sources of supply of credit for micro and small enterprises. On the demand side, Bubczek (2009) argues that a failure to obtain credit may simply be due to the project not being viable. See on this also Romero et al (2010).

They also referred to the parallel consultation structure set up by the Ortega II government. Parallel to the open consultation process in the parliament, the National Labour Council, and at different levels of local government, the Ortega II government is organising consultations (*Dialogueo con la Base*) with FSLN-related Citizen Power Councils (CPCs-*Consejos de Poder Ciudadano*)⁹⁸. These CPCs are being serviced by officials of the Labour Ministry in their spare time, according to the COSEP spokesman.

2. National employment policy in Nicaragua

2.1 *The national development framework*⁹⁹

The National Human Development Plan 2008-12 (NHDP), presented to the Nicaraguan people in October 2008 in its final version, is the culmination of various strategic collaborative processes initiated from the time the Government of Reconciliation and National Unity (GRUN) took office. Its operational goal is “economic growth with increased employment and reduced inequality and poverty”. The President subsequently presented the Government’s Programme to defend Production, growth and employment (PDPCE) in January 2009 and the Updated National Human Development Plan 2009-2011 (to deal with the international economic crisis) in September 2009.

The government places priority on encouraging and developing micro, small, and medium-sized enterprise (MSME). This sector has been given priority in food production and job creation strategy, in combating poverty, and in strengthening the legal framework of institutional policies, incentives, and fair credit policies. Modernization through technical assistance, training, and the purchase of machinery and equipment to increase productivity is being achieved more rapidly based on financial assistance from the Banco de Fomento a la Producción (BFP), the ALBA CARUNA Cooperative (Single Rural Fund), and support from the universities.

The General Directorate of Industry and Technology (DGIT) was created in February 2008 to address the government’s priority of developing domestic industry. The actions developed and carried out have been directed to facilitating and improving the capacities of micro, small, and medium enterprise, particularly in the industrial sector, so that they can improve their production and sales levels and thus generate income for their owners and workers, and to creating new companies that can generate jobs and income.

Regarding private sector participation, a matrix of commitments with periodic follow-up has been constructed by a mixed government-private sector commission. Periodic follow-up of the matrix of commitments allows for wide-ranging dialogue on implementation of the pillars of private sector development on the one hand and on potentially relevant government policies and legislation on the other hand.

⁹⁸ The Citizen Power Councils (CPCs) were initially billed as boosting citizen participation but subsequently transformed into an extension of the executive by presidential decree in November 2007 (LARR, July 2010). Howard and Vazquez (2011, p. 70) call the CPCs: “mechanisms for grassroots organisation and distribution of state resources, which have been set up through FSLN local structures, and participation in them is mediated by the local party secretaries”. It is being argued that applicants who seek work in a state institution need to be recommended by their neighbourhood CPC to be considered for the job (*Nica Times*; January 28- February 4, 2011)

⁹⁹ IMF (2011)

For the MSME sector, the Program to Support Micro, Small, and Medium Enterprise (PROMIPYME) has been developed and has begun to be implemented. Its development objective is to “help increase and consolidate the competitiveness of MSMEs so they can enter the domestic and international market with greater advantages and continue in the best way possible to be a source of quality employment and income for their owners and employees, helping to substantially reduce the poverty levels of the Nicaraguan population.”

It should be noted that the MSME sector represents one of Nicaragua’s priority strategic economic sectors since it accounts for more than 90 percent of Nicaragua’s corporate base, generates 70 percent of its employment, and 40 percent of its GDP.

During 2007-2011, the National Industrial Development Policy was approved and its Implementation Plan was formulated, which has been updated for the years 2010-2014. Nicaragua has been successful in achieving a better business climate by establishing a legal framework that promotes the growth and vitality of companies. This framework includes Law 645, the Public Sector Administrative Contracting Law (Law 737), the Law on Promoting Competition (Law 601), the Law on Reciprocal Guarantee Corporations (Law 663), the Law on Trust Agreements (Law 741), the draft Law on Real Property Guarantees, the Exchangeable Invoices Law, and the Factoring Law. A draft Policy on Science, Technology, and Innovation was developed in conjunction with the Nicaraguan Council on Science and Technology (CONICYT).

In the context of the reorganization of government institutions, Nicaragua’s Small and Medium Enterprise Institute (INPYME) has been assigned its new strategic guidelines based on four strategic pillars: making the role of the MSME sector visible; providing training and specialized technical assistance on aspects of business management, productive and commercial technique; promoting access to selective markets domestically and internationally; and linking the MSME sector to the tourism sector.

Attention to MSMEs has been mass produced nationally through the Support Center for Micro, Small, and Medium Enterprise (CAMIPYME) serving more than 40,000 MSMEs over the last three years with decentralized services related to training and technical assistance, trade fairs, departmental, national, and international events, access to financing, and improved product quality.

Restitution of the right of children not to work. A tripartite roadmap agreement was approved and signed to declare Nicaragua free from the worst forms of child labor by 2015 and from all forms of child labor by 2020. Meanwhile, hiring children to work is being actively discouraged and the authorities are monitoring compliance with rights of adolescent workers.

Strengthening of labor laws and regulations. The authorities have strengthened the regulatory framework governing labor issues. The government has endorsed ILO Conventions 81 and 129 on labor inspection and the performance of the Inspection Service. The National Assembly enacted the General Law on Labor Inspection; the Law Amending and Supplementing Chapter VIII of the Labor Code, which regulated domestic labor by adolescents; and the General Law on Hygiene and Safety in the Workplace. For its part, the Supreme Court sitting in Plenary unanimously approved the preliminary draft Nicaraguan Code of Labor Law Procedure, which it sent to the National Assembly for adoption. Nicaragua also ratified ILO Convention 169 concerning Indigenous, Tribal and Afrodescendant Peoples.

In 2009-2010 the Government of Nicaragua continued to develop and strengthen bodies, mechanisms and instruments for overall, sectoral and institutional planning, within the framework of a system that has supported execution and monitoring of the NHDP and the other related plans.

The National Planning, Investment, Budget and Cooperation Council was established by Presidential mandate in 2010 as an overarching body to coordinate planning; the organization, allocation and programming of financial resources; and public management. This function is replicated within the various agencies, in order to coordinate all the factors needed to achieve national and institutional goals. There was a qualitative leap forward in terms of monitoring government execution when the National Planning, Investment, Budget and Cooperation Council was established, along with its National Technical Committees and the National Institutions Commission, which meet twice a month to follow up on fulfillment of the government's strategic goals and execution of the Public Investment Program, the Budget and cooperation funds. These bodies review implementation and define actions needed to meet the goals proposed. As a forum, they are helping to strengthen human resources by sharing best experiences and discussing the challenges faced in national development.

In-depth sectoral dialogue has been maintained in order to develop the (inter)sectoral relations and synergies that have proved to be so important for effective implementation of the NHDP. This is exemplified in the operations of the National Social Welfare System (SNBS); the Agricultural and Livestock Sector (SPAR); and the educational, health, energy, environmental, natural resources and disaster prevention sectors.

Medium-term Budgetary Frameworks were formulated for 2007-2009 and 2010-2013, and progress is being made with bringing them into line with the National Human Development Plan (NHDP) and, as regards macroeconomic data, with the Economic and Financial Program (PEF). That harmonization process still needs to achieve greater linkages between planning and the budget.

2.2 The Employment Plans

There has been no shortage of employment plans and other documents on employment for Nicaragua. The ILO has been involved in the preparation of all of them. This involvement has been of different types, ranging from international experts who prepared background documents and who were actively involved in the preparation of, and the consultation on the Planning document; to technical support provided by the San José Office; to the financing of a national expert. In the last decade the following documents have been prepared.

1. Políticas para el Fomento del Empleo y el Trabajo Decente en Nicaragua (April 2005)
2. Plan Nacional de Empleo y Trabajo Digno (March 2008)
3. Lineamientos del Plan Nacional de Empleo y Trabajo Decente (PNETD) Contextualizado a la actual Crisis Mundial (July 2009)
4. Plan nacional de Empleo y Trabajo Decente: Programa de Generación de Empleo solidario y Trabajo Decente en Nicaragua (October 2010)
5. Plan Nacional de Empleo Juvenil (in preparation)

We will briefly describe each of them.

2.2.1 Políticas para el Fomento del Empleo y el Trabajo Decente en Nicaragua (April 2005)

This is the most comprehensive among them. The initiative was taken by the ILO San José Office. The government acceded because it considered that with high un- and underemployment and other unused resources an Employment Plan would ensure that “all march together in the same direction” as the senior adviser to the current Labour Minister said. A plan helps to articulate what needs to be done and identify who should do it.

The exercise was launched in October 2002 in the Presidential Palace in the presence of (then) President Bolaños. There was a Technical Committee and a Steering Committee that counted with the participation of the trade unions and the main employers' organization

(COSEP). The government was represented through the Labour Ministry, which acted as coordinator of the preparation process, the Strategic and Coordination Office of the Presidency, the Central Bank, the Ministry for Education, the Ministry for Trade and Industry, the National Statistical Office, the Emergency Social Investment Fund and other entities with responsibilities for social and economic policy and the implementation of the “Strategy for the Reinforcement of Growth and the Reduction of Poverty” (ERCERP). In addition to staff from the ILO San José Office and national experts, the project employed the services of three international experts. During the preparation process, the document’s preliminary findings were discussed at no less than three separate workshops held in Nicaragua. The Plan was approved on 1 May 2006 and published in the Official Gazette on 18 May 2006.

The document offers a comprehensive analysis of the employment situation in Nicaragua. Its focus is on the long term. It identifies the major employment and labour problems of the country (including rapid labour force growth; child labour; illiteracy; low levels of education and skills; low levels of social protection). It lauds the country’s macro-economic stability, calls for measures to stimulate demand and enhance the employability of the labour force, and highlights the need for legal certainty (land title), for technical and educational assistance, and for enhanced access to credit for the peasant and indigenous population. It calls for more coherence between labour intermediation and vocational training. The document stops short of identifying specific instruments or measures to execute the proposed policies as, presumably, this was not in its mandate.

The document does argue that an Implementation Plan should be drawn up by a coordination entity made up of the main actors involved. This Plan should set priorities, and identify targets and concrete results that can be monitored and evaluated. It suggests that the lead role in this should be played by the Coordination and Strategy Office of the Presidency.

The document also calls for the creation of a permanent consultation mechanism to strengthen social dialogue though e.g. a Social and Economic Council (Consejo Economico y Social- CES). And it calls for a strengthening of the financial, technical and human resources of the Labour Ministry.

2.2.2 Plan Nacional de Empleo y Trabajo Digno (March 2008)

The new Ortega II government that was voted in in 2006 wanted to operationalize (i.e. make more concrete) the 2005 Plan and align it with its own priorities as specified in the National Human Development Plan (Plan Nacional de Desarrollo Humano) that defined its long term strategies to deal with the country’s cyclical and structural problems, and the Programa Economico y Financiero 2007-2010 that set short- and medium-term goals and targets.

The Labour Ministry was given the lead role in this. The preparation of the 2008 Plan was co-ordinated by a national consultant (Dr. Tránsito Gómez, the former Employment Director at the Labour Ministry) whose services were paid for by the ILO. Dr. Gómez organised a round of consultations with the social partners to stress the point that this was not to be just a government exercise, and with representatives of local governments and local social organizations. In this “Second Phase” (in the words of Dr. López) a questionnaire was drafted and sent to municipalities and other sectors that had not participated in the “First Phase” (i.e. the 2005 Plan). This decentralized process was an essential component of the Plan’s preparations. Local committees and mayors were asked to make their own employment plans. The underlying rationale was to create “ownership”.

Roughly half the 2008 document is made up of “Consensus measures and actions”. These cover measures and actions to be taken in the short-, medium- and long- term. The short-term measures include the following:

- In agriculture, the document calls for some 13 measures to be taken to stimulate production. Responsibility for these lies largely outside the domain of the Labour ministry-although two items refer to minimum salaries and social dialogue.
- In small, medium and micro enterprises a large number of measures and actions are suggested to ensure their growth as a source of employment generation. These measures are basically the responsibility of other ministries.
- The cross-cutting measures and actions suggested fall partly within the responsibility of the Labour Ministry and partly outside the responsibilities of that Ministry (e.g. infrastructure, tourism, credit, public investment, trade policy, education, simplifying paperwork, day-care centres). Those that do (or might do) include transition of firms from the informal sector to the formal sector, creating a labour observatory, drawing up a Youth Employment Plan, increasing labour productivity, avoiding work-related accidents and professional illnesses, more collective agreements, better social dialogue and setting up a *Consejo Nacional del Trabajo (CNT)*

The suggested medium- and long-term measures and actions potentially all fall within the typical competence of a Labour Ministry. These include the modernization of the training system, better public employment services, opening up the possibility for part time work in the labour law, facilitating the return to the labour market of people who have been absent for a while, avoiding abuse of casual workers, and improving social security coverage.

A special section discusses measures to be taken at the local level. These include strengthening the role of mayors, adoption of labour-intensive techniques for local infrastructure works, assistance to local PMEs, and improving the technical skills of the labour force.

The last section deals with migrants. It includes measures to improve labour market information, application of International Labour Standards to migrants, and facilitating the transfer of remittances.

The document does not set targets nor does it assign clear responsibilities. It contains no separate budget. Each sector was expected to validate what it was going to do. According to Dr. Gomez, this second phase was to be followed by a third phase that would identify concrete projects with the help of the ILO.

2.2.3 Lineamientos del Plan Nacional de Empleo y Trabajo Decente (PNETD) Contextualizado a la actual Crisis Mundial (July 2009)

This plan is the result of a tripartite consultation of the social partners in April 2009 to find a joint answer to the international economic crisis and in particular to soften its effects on employment.

The 2009 Plan is based on the earlier (2008) Plan. It also follows up on the Programa de Trabajo Decente that was adopted in September 2008 in Managua in a tripartite meeting. It is further inspired by the Government's Programme to defend Production, Growth and Employment, and the Global Employment Pact adopted by the 98th International Labour Conference.

Within the overall goal of creating decent jobs, eradicating poverty and improving the living standards of Nicaraguan workers the Plan suggests some fifty policy measures. These range from increasing public investment and establishing the joint responsibility of the social partners, to strengthening labour institutions and promoting labour intensive sectors. In a few cases, responsibilities are assigned to a specific institution but these are a small minority.

Emphasis is placed on the need for a favourable macro-economic environment, the development of entrepreneurship, and of small- and medium-sized enterprises in particular (through e.g. simplifying paperwork and raising their competitiveness), and vocational training for employability. It suggests the creation of a Red Nacional de Empleo y

Formacion, and closer ties between the vocational training institute INATEC, the investment promotion agency PRONICARAGUA and the Labour Ministry.

To make the labour market fairer and more efficient, it is suggested to strengthen the role of local Governments, the public employment service, and the Observatorio del Mercado Laboral; to prepare a Youth Employment Plan; and to establish more day-care centres.

The Plan also proposes to raise the number of people covered by social protection and to strengthen social dialogue.

The document stresses that it is important to monitor and evaluate the plan. However, in the absence of clear targets and up-to-date statistics this would at best be a qualitative exercise. The ILO is invited to help strengthen the Labour ministry's institutional capacity through intensive technical assistance the exact nature of which is to be determined in due course.

2.2.4 Plan Nacional de Empleo y Trabajo Decente: Programa de Generación de Empleo solidario y Trabajo Decente en Nicaragua (October 2010)

This document was prepared with assistance of the ILO San José Office and after consultation of workers' organisations, representatives of small, medium and large enterprises, as well local governments and representatives of grass roots organizations (Gabinetes del Poder Ciudadano). No mention is made of other ministries or other public sector entities.

The plan is in fact a project document drawn up to solicit donor funding (21.2 m USD in total over 5 years) for seven "work lines" which aim to promote employability, reduce open unemployment and underemployment, create employment and self-employment, and improve the quality of jobs and incomes. The number of potential beneficiaries is estimated at 18,000 workers with another 62,800 people benefiting through the creation of small- and medium sized-enterprises. Key elements include promoting the creation of small and medium sized enterprises, improving the functioning of existing ones (e.g. through their increased participation in exports), strengthening active labour market policies (including strengthening employment services, and the National Labour Council Consejo Nacional del Trabajo), and strengthening vocational training.

The document lists as "necessary partners" a number of government institutions but it does not make clear which of them will be the answerable counterpart for each of the proposed activities.

2.2.5 Plan Nacional de Empleo Juvenil (in preparation)

This Plan is under discussion. A Coordination (Steering) Committee of nine Government entities together with six UN Agencies is overseeing the preparatory work. The UN Agencies include UNDP, ILO, UNFPA, UNIDO and the World Tourism Organization. The Nicaraguan agencies include the Labour Ministry, training institute INATEC, youth institute INJUVE, as well as organizations that deal with tourism, statistics, migration, rural training, cooperatives and small and medium enterprises. INJUVE is meant to be the coordinating agency. The drafting of the Plan is being done by the Ministry of Labour.

At the time of writing the situation is as follows. A diagnostic of the main problems is being made, which, in the absence of adequate data is more about perceptions than facts, as one observer noted. The Plan is meant to focus on vulnerable youth (e.g. people with a handicap, single mothers, ethnic minorities) and train up to 5,000 people to raise their employability and help them become (better) entrepreneurs. The activities of the project will be concentrated in 11 municipalities selected by the Labour Ministry.

2.3 Assessment of the five plans

The above shows that there has been no shortage of employment plans in Nicaragua. In the last ten years no less than five have been prepared or are under preparation. Their nature varies. From the fairly comprehensive analysis without a budget and implementation plan of the 2005 document to the seven “work lines” with a budget and a timeline of the 2010 document.

None of the plans have been implemented as such. But individual items mentioned in the Plans have- although it is unsure to what extent these have been implemented because they were mentioned in a Plan. Think of the Labour Market Observatory, the Youth Employment Plan, and the National Labour Council.

It comes as no surprise that the two Plans (the 2005 Plan and –to a lesser extent- the Youth Plan) that in their preparation consulted the broadest range of groups were also the best known among the people I spoke to. Few had heard of the other Plans. No effort had been made to make any of the plans more widely known.

Leaving aside the Youth Plan, which is still under preparation, there is a fundamental difference between the 2005 Plan and the others. The 2005 Plan called for it to be implemented by the Office of the Presidency. In contrast, the Plans prepared under the current (Ortega II) government appear to have been prepared by or on behalf of the Labour Ministry. According to the senior adviser to the Labour Minister, the Presidency mandated his ministry with the responsibility for co-ordinating employment policy making. The most recent crop of Employment Plans appears to confirm this. Implicitly or explicitly the impression is given that this Ministry would be responsible for their execution. Other Ministries are mentioned on occasion but it is often unclear to what extent they have been consulted and what their role might be in the implementation of each Plan or in the execution of specific activities. The Labour Ministry claims that projects are executed in close collaboration with other sectors of the government but this could not be verified.

Another characteristic of the Plans prepared under the current government is the willingness to involve and consult local authorities. These local authorities are also meant to play a key role in the execution of the activities described in each Plan.

Overall, it is fair to conclude that the Employment Directorate at the Labour Ministry has the confidence of the Presidency in employment policy matters. The Ministry has interpreted its mandate by initiating a large number of projects and seeking finance for them. It has stopped short of making a comprehensive analysis of the overall employment situation and the different options available to create employment and reduce un- and underemployment. A clear strategy is lacking.

Outside the Ministry, its mandate is not in dispute but its analytical capacity, its authority -to guide other government sectors, including the financial and economic arms of government, let alone the productive sector-, and its political clout to co-ordinate employment policies are placed in doubt.

2.4 Policy priorities

Having been the victim of many disasters Nicaraguans are acutely aware of what government plans and policies can and cannot achieve. For that the impact on the economy, the infrastructure and people’s lives of successive droughts, floods, hurricanes and earthquakes- not to mention the guerrilla war and the trade embargo of the 1980s have simply been too drastic.

When it comes to government policies they have also reason to be wary. In Nicaragua, the State vs. Free Market debate is no abstract discussion. Many Nicaraguans are old enough to have lived through a kleptocracy (the Somoza family not only appropriated large parts of

the economy but even the international aid that poured into Nicaragua following the 1972 earthquake), a quasi-state controlled economy (during the 1980s, the Nicaraguan state controlled large parts of land, trade, finance, and industry), and a major privatization exercise in the 1990s (when the number of state employees dropped from 285,000 in 1990 to 89,000 in 1999- Spalding, 2009).

The second Ortega Presidency (2006-)

President Daniel Ortega S. is a veteran of Nicaraguan politics. He was a leader of the anti-Somoza guerrilla in the 1970s; ‘coordinator’ of the Revolutionary government in the early 1980s; elected president in the late 1980s; leader of the opposition during the 1990 and early 2000s, and elected President since 2006. For President Ortega’s government the fight against poverty and hunger is (and always has been) the centre of its development strategy. It sees employment creation above all as a main road towards poverty alleviation. “Employment is essential to fight poverty” as a senior adviser to the Labour Minister said. The government has successfully tried to improve relations with the employers’ organisation COSEP, notably since the 2009 international economic crisis, as part of its efforts to soften the impact of that crisis on the population and the workforce. It has stepped up labour inspections and gives considerable attention to enforcing respect for the labour law. It focuses on increasing access to (free) public health services and basic education, on the development of small-scale rural producers, and (renewable) energy. It subsidizes energy consumption for pensioners and disadvantaged neighbourhoods (for an overview of the Government’s programmes see e.g. Gobierno de Nicaragua 2009b).

Gender balance and improving the situation of women is a cross-cutting goal. Many government programmes are explicitly targeting women.

Programmes that aim at improving the situation of the poorest include programmes such as Hambre Cero (that makes available livestock and improved seeds to poor peasants, focusing on women), Usura Cero (micro credits made available mainly to poor women), La Cruzada Nacional de Alfabetización “De Martí a Fidel” (to raise the literacy rate), campaigns to reduce child mortality, improve access to safe drinking water, more popular housing¹⁰⁰. Many of these programmes and campaigns receive financial support from international donors.

These social programs have contributed to social stability. Together with the labour stability that go with constructive relations between employers and workers’ organization (as exemplified in the minimum wage agreements for the Zona Franca) this has helped make Nicaragua one of the safer countries in Central America as several pointed out to me.

The Ministry of Labour

The Ministry of Labour has a key role in the implementation of the Governments’ policies. It is active in many areas. It promotes entrepreneurial skills training for the unemployed and vocational training to improve employability. The Mi Primer Empleo project focuses on young people in search of their first job. The Ministry organises courses in strategic planning of marketing and sales, and in vocational orientation for those registered at the employment office. Some of these courses are organised in collaboration with INATEC. It organises courses in labour rights for women workers. The number of labour inspections more than doubled between 2006 and 2010. It is active in combating child

¹⁰⁰ Critics have argued that the beneficiaries of these programmes are being selected by the *Consejos de Poder Ciudadano* (CPCs), grass roots organizations linked to the FSLN, the party in power (Spalding, 2009.p. 376). See also on this: Howard et al (2011)

labour. Nicaragua has signed a tripartite roadmap with the ILO to eliminate child labour. It is making the employment services more responsive to the needs of its clients.

Through its Labour Market Observatory it keeps track of the number of jobs created and lost, using data from the social security institute INSS, from the Free Zone (Zona Franca) authorities, and from the three-months rolling household survey by INIDE101, the latter supplying some insight into developments in the informal sector. Unfortunately, the data gathered and the analytical works based on them remain largely in house. They may reach the Presidency but they are not made available to a wide audience.

This illustrates a wider problem that came up in several interviews: the non-availability of vital statistics. This is widely seen as a major handicap when informed policy decisions are to be taken or discussed. It is unclear whether the non-availability of key statistics is due to a lack of capacity or because the matter is given low priority (possibly both). But several of those interviewed wondered how one can possibly have a broad debate on such pressing problems as unemployment, un- and underemployment when relevant, reliable, up-to-date figures are not widely available.

This feeling of unease turns into frustration where data appears to be collected but not disseminated. This is seen as counterproductive as it severely hampers attempts to formulate and evaluate policies.

Employment policies, projects and strategy

Since 2007, new areas for the generation of job opportunities and defense of workers' rights against employer abuses have opened up. Tripartite arrangements are being promoted as an effective mechanism for managing labor relations. Starting in 2010, the National Minimum Wage Commission meets every six months and as a result the minimum wage has risen on average for 145,673 workers. The National Decent Work Plan is being implemented, following discussions with Citizen Power Committees in all Nicaragua's departments, municipal authorities, trade unions, employers' associations and government institutions. As part of the process of restoring the rights of indigenous communities, the Labor Code was published in the Miskito language. In connection with the Joint Youth, Employment and Migration Program, 11 Municipal Roundtables on Youth Employment have been installed to facilitate employment and self-employment for 5,000 youths between the ages of 15 and 24. A National Youth Employment Commission was also established. It reports to the National Labor Council where, with the participation of the stakeholders, a National Youth Employment Program is being developed.

In the area of employment (creation) the Employment Directorate at the Labour Ministry considers that in the past the Ministry's approach had been too passive. Mandated by the Presidency, it does not want to limit itself to being an intermediary but be an active participant by, inter alia, making available work tools to the self-employed in such areas as bakery, automobile mechanics and electricity, cooling, building, etc. through dedicated projects. Poor families receive equipment and cows to raise their earnings capacity and their nutritional status. Resources for these projects come (or have come) from the BID, the Spanish government and more recently the Venezuelan government.

On the whole the Ministry's responsibilities (analysis and gathering of data, labour intermediation, labour inspection, training) and the way it discharges them are undisputed.

¹⁰¹ The "Encuesta Continua de Hogares", which started in 2009, covers 8,000 households every three months (one third every month).

But this is not the case with the Ministry's initiatives to actively create employment. Other sectors place in doubt the Ministry's capacity to execute projects, at the risk of putting in jeopardy their sustainability.

The Ministry's focus on projects as a means to create employment and promote self-employment must be seen against the magnitude of the problem. Considerable resources are being used for beneficiaries who are counted in their dozens, perhaps their hundreds. Compare this number to the yearly inflow of new entrants into the labour force who are counted in their tens of thousands. It also points at a broader phenomenon: the absence of a comprehensive employment strategy.

There appears to be no systematic employment strategy. There are activities, projects, but no strategy. I have found no trace of attempts to make a comprehensive analysis of the country's employment situation, a broad discussion of the options available, or criteria for choosing the best among those options. Perhaps the lack of up-to-date statistics played a role in this. Governments' focus on poverty eradication may also be a factor.

In these circumstances, it comes as no surprise that the discussion on jobs gives disproportionate attention to those sectors where numbers can be counted: employment in the public sector and in the Free Zone (and the role that the minimum wage supposedly plays in the latter).

The role of the ILO

As was noted earlier, the ILO has to a significant extent assisted successive Nicaraguan Governments with the preparation of Employment Plans. It has been involved in the preparation of all of the Plans. This involvement has been of different types. The Office took the initiative for preparing the 2005 Plan. It supplied international experts who prepared background documents and who were actively involved in the preparation of and the consultation on the Plan. Throughout, technical support was provided by the San José Office (Ferreira, Dierckxens). The Office financed a national expert to assist in the preparation of the 2008 Plan (Tránsito Gomez).

Nicaragua participates in the activities of the ILO's Sistema de Información y Análisis Laboral (SIAL) that has its headquarter in Panama.

It exchanges experiences, information and analysis related to employment and conditions of work with other Labour Ministries and training institutes of the (sub-) Region through www.observatorio.oit.or.cr financed by the Spanish government.

3. Conclusions and recommendations

The Government of Nicaragua has formulated a number of Employment Plans but it does not have an explicit employment strategy. The Presidency has passed on the responsibility for employment to the Labour Ministry that considers that for more and better jobs to be created it needs to provide more efficient employment services, apply the labour law more strictly, and improve the skill level of the workforce. It seeks to contribute to solving the unemployment problem by stimulating self-employment, above all among young professionals and women from a poor background, by providing them with work tools. These projects receive financial support from international donors.

Implicitly the Government does have an employment strategy. By providing a little capital, it enables poor project beneficiaries to work themselves out of poverty - or at least to improve their situation. Indirectly, its investments in infrastructure will benefit all producers - including potential producers - and create jobs. In the long run, its efforts to raise the educational level of the population and the skill level of the workforce will also have a positive effect.

In the short run, the government is making great efforts to attract foreign investors into the Free Zone and improve the business climate through a constructive dialogue with the large enterprise sector. Its efforts to ensure on one hand macro-economic stability, and on the other hand labour stability by stimulating dialogue between employers and workers' organizations should also be seen in this light.

Why, nonetheless, domestic enterprises are reluctant to invest is the subject of controversy. Perceptions differ. Legal uncertainty and difficult access to credit for small and medium enterprises were often mentioned. Large companies have been accused of risk-averse behaviour as exemplified by a preference for investments in distribution and commerce rather than production, or in (slow growing) activities that benefit from limited competition. The employers' organization COSEP notes that since 2009 the business climate has significantly improved, but that in the political sphere the government's actions lack transparency; that its political agenda is ill-understood; and that on the whole it is sending mixed signals to the productive sector.

Have the Employment Plans made a difference? This question is hard to answer as none of the Plans has ever been implemented. But preparing a plan serves many purposes. It can be a means to get the main local and central government actors together, raise the public awareness of critical issues, agree on priority action, and assign responsibilities. It can also be a means to take into account the views of workers' and employers' organizations, and to enlist their support. Here the evidence is mixed. The degree to which there was broad-based consultation (and thus ownership) varied from Plan to Plan. Poor data availability is a deterrent when it comes to discussing policy proposals and evaluating their effectiveness.

Why were none of the Plans ever implemented? Answers differ. The Youth Employment Plan is not ready yet. The 2010 Plan was more a project document that could not be implemented when the hoped-for external funds did not materialize. The 2005 Plan - the most comprehensive of them all - was approved just before the Government changed. This placed the new Sandinista Government in a dilemma. It had promised change and new directions. At the same time, it was hard to ignore the solid work that had been done under the previous Presidency in this area. The 2008 Plan must be seen in this light. The 2009 Plan was an answer to the rapid downturn of the Nicaraguan economy that, with hindsight, may have proved less dramatic than appeared at first sight. Overall, it can be argued that none of the Plans was a complete Plan as it is usually defined (analysis of the situation and of current policies; defining the need and the priorities for action; assigning responsibilities and setting clear targets; making available a budget and providing the co-ordinating agency with adequate resources; setting up a programme of monitoring and evaluation).

One lesson to be learned from the Nicaraguan experience is that, to have an impact, medium-term Employment Plans should be drawn up early on in the Presidency and without delay since the next Government may want to do things entirely differently. However, such an approach may clash with another policy objective. The sense of ownership of a Plan increases with the number of people and institutions that is being consulted during its preparation, and with how careful the process is being organized. Inevitably, such a broad, careful process takes time.

The analysis of Nicaragua's successive Employment Plans has highlighted several variables that are critical for the success or failure of such Plans: Budget, Coordination, Data Availability, and Priority.

Budget. With the exception of the October 2010 Plan, itself more a project document drawn up because of the prospect of external financing, none of the Plans had a separate budget allocated to it. The absence of an autonomous budget clearly weakens the position of whichever agency is charged with co-ordinating the implementation of the Plan.

Coordination. For the co-ordinating agency to be successful it needs to have a certain standing among its peers or be placed above them. The agency must be seen to have both the

power to enforce participation and the intellectual and technical resources to steer the Plan's execution in the desired direction. In Nicaragua the responsibility that the Presidency laid in the hands of the Labour Ministry may not have been matched by the perception of other government agencies –not to mention the private sector- that the Labour Ministry was sufficiently equipped to turn that co-ordination responsibility into a success.

Data Availability. Without reliable, up-to-date statistics on the supply and demand for labour, the merits of different policy options or policy alternatives can at best be approximated. In its turn, the lack of good statistics may be a reason why successive governments have been reluctant to draw up detailed plans or to formulate a detailed strategy.

Priority. For an Employment Plan to make a difference it is helpful if a Government gives priority (and is seen to give priority) to the goal of employment promotion. Yet, a government may consider employment creation a priority, but still give even more priority to achieving economic growth and poverty eradication. These goals overlap to a significant extent but not entirely. On one hand, many of the poor are not un- or underemployed, but are simply unable to earn a decent income from their work. On the other hand, all the unemployed are not necessarily poor, particularly among the educated. The relationship between employment and poverty is thus far from unambiguous. Many poor people are in work because they cannot afford to be unemployed. Also, when prevailing rates of wages and earnings are low, achieving “full employment” will not in itself lead to eradication of poverty¹⁰². There is considerable overlap between the goals of poverty alleviation and employment creation. As the senior adviser to the Labour Minister said, for the Nicaraguan Government “Employment is essential to fight poverty”. The Government is committed to promoting full, productive and freely chosen employment despite the limited resources it has at its disposal. But it focuses on reaching poverty more than employment targets. The Presidency's focus on poverty alleviation dates back a long time. It has been the cornerstone of the *Sandinista* movement's policy objectives for over three decades. In addition, the policies and programmes of the international donor community also tend to prioritize poverty alleviation.

Recommendations to the ILO

It can be asked whether the ILO should have tried to persuade the Nicaraguan government to pay more and more explicit attention to the employment objective. For this it would have had to approach the Presidency. The Labour Ministry –as indeed all Ministries – has limited autonomy in setting policy objectives. All major strategic decisions are taken at the top, by the Presidency.

It may be argued that ILO action could make a difference in two areas:

- The availability of good, up-to-date labour and employment data is widely seen as a problem. Through SIAL and RECAP the ILO is assisting the Nicaraguan government in the collection, processing and analysis of social and employment data. The ILO may want to insist that the data and analyses that result from this assistance become available to a wide audience without delay.
- Youth unemployment is a big problem in Nicaragua. Currently, the ILO together with a number of other UN agencies and government agencies are in the process of drawing up a Youth Employment Plan. Yet for a problem of this magnitude it would seem essential to tap *all* knowledge and *all* expertise available in Nicaragua, both inside and outside the

¹⁰² See on this also Papola, 2008

Government and the UN. The ILO, together with its sister UN organizations, may want to push for opening up this process and insist that, for example through public hearings, all available expertise in the country is consulted and given a chance to contribute to formulating solutions.

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Annex 1: Political History and Key Events

1937	Anastasio (“Tacho”) Somoza G. President
1956	Luis Somoza D. President
1967	Anastasio (“Tachito”) Somoza D. President
1972	Managua struck by an earthquake, killing 6,000 people
1978	Pedro Joaquín Chamorro, opposition leader, assassinated- beginning of a broad based popular uprising
1979	Somoza flees the country. A coalition that includes the FLSN (<i>Frente Sandinista de Liberación Nacional</i>) takes over. The properties of the Somoza family and its allies are nationalised. Large scale land reform started. The state controls a large share of the agricultural land, and industrial, commercial and financial activities
1981	Non- FSLN affiliated persons leave the government. Daniel Ortega S. becomes coordinator
1981-1988	Guerilla war with the opposition “contras” receiving support from the US
1984-1990	Daniel Ortega elected President
1985-1990	US trade embargo
1988	Peace agreement signed
1990-1996	Violeta Chamorro (widow of Pedro Joaquín) elected President. She drastically reduces the size and the role of the State. State and cooperative lands are parcelled out to individual producers, including in some cases to former owners, resulting in a strong reduction in the number of salaried workers. Trade in agricultural products, both internal and international trade, is being privatised. Unilateral cuts in trade barriers.
1998	Hurricane Mitch hits Nicaragua
1996-2001	Arnoldo Alemán F. elected President
2001-2006	Enrique Bolaños G. elected President
2006-	Daniel Ortega re-elected President

Annex 2: People interviewed

Public sector:

Ministry of Labour	Mr. Fernando Malespin, Asesor de la Ministra Mr. Odel Gonzalez, Director General Empleo y Salarios Mr. Sandór Espinoza, Observatorio del Mercado Laboral
PRONICARAGUA	Mr. Javier Chamorro R., Director Ejecutivo
Ministerio de Fomento Industria y Comercio (MIFIC)	Sra. Veronica Rojas Berrios, Vice Ministra

Workers Organisations Mr. José Espinoza (“Chepon”), Confederación de Unificación Sindical, Miembro del Consejo Nacional de Trabajo (CNT)

Mr. Luis Barbosa, Central Sandinista de Trabajadores

Mr. Nilo Salazar Aguilar, Sec. Gen. Confederación General de Trabajadores Independientes de Nicaragua

Employers Organization Mr. Freddy Blandon, Legal Adviser COSEP, Miembro del CNT, ILO Delegate

Other Nicaragua:

Dr. Ing. Raúl Fajardo	MC2 Group, Gerente General
Dr. Arturo Grigsby Vado	Nitlapan, Director Ejecutivo
Dr. Nestor Avendaño	COPADES, Director
Prof. Alejandro Serrano Caldera	Jurist, former University Rector, former ILO Official
Sra. Ana Cecilia Tijerino	FUNIDE
Sr. Hans Scholte	Hotel Intercontinental, Gerente General,
Dr. Tránsito Gómez	Consultor OIT, ex Director General de Empleo

Other, non- Nicaragua

ILO	Sra. Berta Rosa Guerra, Oficial Nacional de Proyecto
BID	Mr. Dougal Martin, Senior Country economist
United Nations	Sra. Maria Rosa Renzi, Chief UNDP Economic Section
	Ms. Minna Kuivalainen, Responsable Sector Juventud
Netherlands Embassy	Mr. Jan Bauer, First Secretary

Chapter V. National employment policy-making: Lessons from Uganda¹⁰³

Uganda is a landlocked country in East Africa. It is best known among its African peers for its sustained economic growth (over 6.5% in the last two decades), its success in the fight against HIV/AIDS (HIV/AIDS prevalence fell from 18% in 1992 to 6.4% in 2008), and its prolonged period of political continuity (President Yoweri Museveni has been in power since 1986). Uganda has a rapidly growing population of an estimated 31.8 million people (2010), up from 24.2 m in 2002 and projected to increase to 38m by 2015. Urbanization is still low but it is increasing at a steady pace; most people (85.2% in 2010) live in rural areas. The population is very young; 75% of the population is younger than 30 (GOU, 2011); 50% is younger than 15 years. Approximately 25% of the labour force is illiterate but the percentage for illiterate women (34%) is much higher than that for men (16%). GDP per capita stood at USD 478 in 2009.

The number of people living below the poverty line dropped from 56% in 1992 to 24.5% in 2009/10 (GOU, 2011). The income inequality worsened in the 1990s but then slightly improved. The Gini coefficient increased from 0.365 in 1992/93 to 0.428 in 2002/03 and then declined to 0.408 in 2005/06 (UBOS 2010). Life expectancy at birth increased from 46 years in 2000 to 53 years in 2009.

The current president, Yoweri Museveni, came to power in 1986 after years of instability and decline both in human and in economic terms. Between 1971 and 1986, hundreds of thousands of Ugandans were killed by state security forces and in internal conflict. Many more were displaced. Chaotic and dictatorial rule resulted in the destruction of productive assets, diversion of resources towards the military and away from development, widespread uncertainty, disruption of markets (Kabanankye et al, 2004) and a reluctance to invest. The Asian community, a key component of the professional and entrepreneurial class, was expelled; their property nationalised. With the exception of 1981 to 1983, economic growth was negative every year from 1971-1986. Per capita incomes declined by 40% in the period. The focus of this paper is on the period after 1986.

This chapter on Uganda's employment policy-making is divided into three sections. Section One provides an overview of Uganda's economic development since 1986 and looks at Uganda's employment situation. Uganda's economy grew by over 6.5%. What caused the economy to grow? Could it have grown faster than it did? Which were the main contributing sectors? Up-to-date labour market data is scarce but a few trends stand out nonetheless. Section two discusses the formulation of the National Employment Policy (NEP). The NEP was adopted thanks to a growing awareness of the seriousness and persistence of the unemployment problem, strong pressure from the Labour Sector, and obligations stemming from the East African Community's (EAC's) Common Market Protocol. Section three draws the main conclusions and recommendations from the analysis.

¹⁰³ The full version of this report was prepared by Gijsbert van Liemt (email: gbyanliemt@yahoo.com). It is based on a mission to Kampala from 19 June to 1 July 2011 facilitated by Mohamed Gassama of ILO Geneva, Alexio Musindo of the ILO office in Dar es Salaam and Grace Rwomushana of the ILO project office in Uganda. The author gratefully acknowledges comments by Michael Mwasikakata, Mohamed Gassama, Claire Harasty and Carin Håkansta.

1. Recent economic and employment performance

1.1 *The Ugandan economy in brief: the post-1986 period*

Sustained economic growth since 1986 is due to a number of factors. The return to peace, the elimination of internal conflicts and the restoration of law and order were key factors initially. Infrastructure needed repair and agricultural production started again in former conflict areas. Museveni's government brought peace and stability even though it was not until 2006 that the whole country was placed under government control¹⁰⁴.

Other factors that played a role are:

- *Macro-economic stability* (inflation reached single digits in 1993 down from 163% in 1987) after stabilisation and structural adjustment programmes agreed with the IMF and World Bank.
- *High levels of funding released by foreign donors* once the agreements with the IMF/World Bank were signed. Between 1990 and 2005 international aid averaged USD 738m per year (Allen et al, 2010). Donors and creditors have for years contributed a significant percentage of the state budget: around 50%, or roughly 10% of GDP, and 80% of development expenditures throughout the 1990s. Currently [2008/09] donors finance 40% of the state budget (Sjögren, 2007; PSFU, 2010).
- Uganda was the first country in the world to benefit from the HIPC¹⁰⁵ initiative for debt relief. Total debt service (interest and amortization paid as % of exports of goods and services) dropped from 27.5% in 2000 to 4.0% in 2007 and 2.1% in 2009 (AfDB 2010).
- *Measures taken to encourage investment and to rebuild investor confidence.* Most Asian properties were returned to their former owners in 1991. Business procedures were simplified. The Uganda Investment Authority was set up in 1991 to promote and facilitate investment. Investors receive a range of benefits (particularly for investments at 30 km or more away from Kampala), including a ten years tax holiday, import of raw materials and machinery at zero percent import duty, VAT deferred at point of production and help in finding suitable land.
- *The elimination of foreign exchange, trade and price controls.* The tariff system was simplified; all quantitative trade restrictions were lifted; the marketing of coffee (Uganda's key export product) and cotton was liberalized; public enterprises were privatized.

Economic growth could have been faster

Against these positive factors must be set other factors that kept the economy from growing faster than it did.

- *High population growth* has kept per capita income from growing faster. Annual population growth at 3.2% shows no signs of coming down. Total fertility rate at 6.7% is by far the highest in East Africa and only slightly below the 6.9% of 2000 (EAC 2011). The high population growth has led to a high dependency ratio; Uganda's dependency rate is the

¹⁰⁴ In that year, the Lord's Resistance Army (LRA), the main remaining rebel group, fled the country. The Ugandan army never defeated the LRA. Nor was a peace agreement ever signed. What is left of the LRA is now believed to be active in the border area between the Democratic Republic of Congo (DRC), the Central African Republic (CAR) and the Republic of South Sudan (ROSS).

¹⁰⁵ Heavily Indebted Poor Countries

highest in the world with 1.12 dependants per worker (Joughlin et al, 2010). Rapid population growth places strain on education and health services and on food production. Uganda has had free primary education since 1997 but pupil-teacher ratios (49 in 2009) and pupil classroom ratios (68 in 2009) are high. As a result of HIV/AIDS and the prolonged civil war many children have lost one or both of their parents. There is both a high percentage of orphans (15.7% in 2009) and a high percentage of pupils with disabilities in primary school (11.3%).

- *Women (and widows in particular) lack control over major productive assets* resulting from the traditional roles ascribed to them by society, the burden of many dependents, and land or property grabbing by relatives upon the death of the spouse. Girls suffer from problems associated with early marriages (Kabanankye et al, 2004).
- *Infrastructural bottlenecks.* There has been little investment in power generation for over 40 years (NDP 2010). Uganda has one of the lowest electricity consumption rates per capita in the world. At 69.5kWh per capita in 2009 estimated consumption is significantly below Africa's average of 578 kWh (NDP 2010). Electricity costs and outages adversely impact the whole economy. Manufacturing subsectors that produce perishable goods that require refrigeration or have heavy demand for continuous power supply are particularly disadvantaged (ROU 2008). Only 11% of the population is connected to the power grid (AfDB et al 2011).
- In land transport, only 321 km of a total national rail network of 1266 km is functioning (NDP 2010). Poor financial conditions, over-staffing and lack of institutional incentive structures prevent the railways from competing effectively for traffic with road transport (Mwambutsya 2011). 95% of Uganda's overseas exports and imports transit through Mombasa harbour in Kenya but poor transport connections to Mombasa and congestion in the harbour have been a source of frustration for decades (Mwambutsya 2011). The costs involved are significant¹⁰⁶ as are those of delays at the border due to customs, administration, immigration, quality inspection and transiting procedures¹⁰⁷. The poor state of rural feeder roads holds back rural income generation¹⁰⁸.
- *Low tax revenue.* In 2008/09, Uganda's tax-to-GDP ratio was 12.2%, lower than the average for Sub-Saharan Africa (20%), Kenya (22%) and Tanzania (15%). A large part of the economy, such as the informal sector and subsistence agriculture, goes untaxed. Incentives in the form of tax exemptions have also eroded the tax base. The low tax-to-GDP ratio contributes to the high donor funded share of Uganda's budget.
- *Low labour productivity,* which is due to "negative attitude to work, poor managerial practices and poor working conditions" (GOU 2011 p.15) and the low level of education. Close to 77% of the labour force has either no formal education at all or only primary education. Those that do receive education and training may not get the right type. "Most of

¹⁰⁶ The IMF estimates that transport costs amount to effective trade protection of 20% and an implicit tax on exports of over 25% (AfDB et al 2011)

¹⁰⁷ The line of trucks queuing to cross from Kenya into Uganda at the Malaba border- the busiest in East Africa- ranges from three kilometres on good days to ten in particularly busy periods. The typical charge for a stationary truck is between US\$ 200 and US\$ 400 a day. The transporter will pass on the cost for the truck sitting idle at the border to the importer. This will, in turn, be passed on to the importer's client and ultimately, to the consumer (Pearson 2011 p.1). More expeditious handling at the border seems in everyone's interest. The recently established Joint (Ugandan-Kenyan) border operations through the One-Stop-Border-Post (OSBP) has reduced but not eliminated delays.

¹⁰⁸ The lack of roads in rural Uganda has a strong gender dimension say Ddumba et al. "In the absence of roads, farmers in general, and women in particular, are dependent on middlemen with sufficient capital to own a truck. With roads, bus companies will step in and the women themselves can go to the nearest market and get a better price for their products" (Ddumba et al, 1999, p.102)

Uganda's employees have inadequate technical and professional qualifications." (GOU 2010: 206).

The Private Sector Foundation (PSFU), an influential lobby group, makes a direct link between low labour productivity and the poor state of Uganda's training system. In their view, productivity is low because of:

"...a lack of technical and vocational skills in the middle and lower level managers...there is a mismatch between what people are trained in, and what the market demands. The problem of inadequate technical skills is worse in the MSMEs [micro- and small- and medium enterprises] who are the largest employers...low levels of education and specialisation cannot allow technology transfer and growth in production levels. (PSFU, 2010, pp. 16, 17).

In the view of the PSFU, these are the reasons why firms in Uganda remain engaged in low value added, labour-intensive areas of production. "Although wages are low, productivity is even lower" (PSFU, 2010, pp. 16.17)¹⁰⁹.

Peace dividends

The restoration of peace stimulated the economy although it was by no means the only factor, as we saw above. Domestically, the progressive return to political stability enabled the country to regain economic growth thanks to pent-up demand and a better use of installed capacity that had been idle. A return to peace in surrounding countries favoured Uganda's exports.

In fact, the country benefited not just from one, but from a succession of 'peace dividends', both inside and outside the country. The first of these was the stability provided to much of Uganda after Museveni's NRM/NRA took over power in 1986 (see Annex 1). This was followed by the impact of the reconstruction of Rwanda after 1994. Post 2006, a new wave of peace dividends stimulated the Ugandan economy after the elections in the Democratic Republic of Congo, but above all after the cessation of hostilities in Southern Sudan following the signature of the 2005 Comprehensive Peace Agreement between the government in Khartoum and the Sudan People's Liberation Army (SPLA). Equally important was the end of the conflict in Northern Uganda and the peace talks held between the LRA and the Ugandan government after July 2006. These led to the LRA's retreat from Northern Uganda and the progressive re-integration of Northern Uganda into the rest of the economy.

The growth impulse that has resulted from the return of peace has also changed the way Uganda perceives itself and how it is perceived by its neighbours. At the periphery of East Africa, this landlocked country situated 800 km from the Indian Ocean depends on slow transport connections through Kenya for its exports to and imports from the rest of the world. But today Uganda itself has also become a key transit country for the Great Lakes region and South Sudan.

Sector performance

Uganda's good economic performance since 1987 is due to several factors, the contribution of each differing in weight over time. Moreover, in different periods, different

¹⁰⁹ Nathan-MSI Group (2001, p. 12) makes the same point. It adds, though, that low worker productivity in Uganda is also caused by "...lack of information on the part of managers of efficiency standards in other parts of the world, ineffective wage incentives..., small-scale production..., and use of outdated equipment that breaks down frequently..."

industries and sectors played the role of growth engine (see below section 1.4). In the 1990s agriculture and industry were booming. In the first decade of the new century tourism and telecommunications were dynamic sectors. Building (and the production of and trade in building materials), fuelled by remittances and by people employed by the donor community played a big role all along. In the post-2006 period, exports have been the most dynamic sector.

Table 1. Structural change in the Ugandan Economy: Sector share of GDP (and Labour Force employed) (in % of the total):

	1988	2000/01	02/03	05/06	2008/09
Primary sector		34	(66.4)	(75.1)	25
Agriculture	51.1				15.4*
Forestry	2.2				3.4*
Industry		18			23
Manufacturing	5.9		(6.8)	(4.2)	7.2*
Mining	0.1			(1.0)	0.4*
Construction	4.1				12.2*
Services		48	(26.8)	(20.7)	52
Hotels and Rest.	1.1				4.1*
Post and Telecoms	0.2				3.4*
Transport	3.0		(2.8)	(1.6)	3.4*
Energy and water	0.6		(6.5)	(4.2)	4.1*
Trade	14.7				14.3*
Financial Services	2.3**		(2.1)	(2.0)	3.2*
Education	2.8		(2.8)	(2.7)	5.5*
Health	0.9		(0.8)	(0.7)	1.1*
		100			100

* 2008; **1997

Source: based on NDP, 2010

The discussion on sector performance that follows is mainly based on NDP 2010. In view of the question marks surrounding the surge in exports since 2005 and where these came from (domestic production or re-exports? - see section 1.5), production and export figures are approximations at best. Production volumes may have been understated.

Agriculture. Uganda is a very fertile country; agriculture is the single most important economic activity. Quality of the harvest and fluctuations in commodity prices (particularly in those of the coffee price) thus greatly influence aggregate economic and export performance. Uganda exports mainly agricultural products such as coffee, cotton, tea, tobacco and hides and skins. Many farmers have only small plots. Large scale estates are only significant in tea and sugar production. 80% of the farmers cultivate less than two hectares (Ddumba-Ssentamu et al. 1999).

Agriculture grew on average at 3.9% between 1988 and 1997, accelerated to 5.4% between 1998 and 2002, but then slowed down to 1.1% between 2004-2008 and even registered a 1.8% decline in 2006. Coffee is the single largest export product but its share in the total keeps going down. About 1.1 million households allocate some land to coffee production. It employs up to 5 million people (Sender et al, 2009). Coffee production was stagnant between 2000 and 2009. Tea, unlike coffee, is mainly produced on large estates. It employs upwards of 50,000 people. Tea production increased by 50% between 2001 and 2008 (ibid.). The cattle population increased from 6.1 million in 2000 to 11.4 million in

2008. Total milk production increased from 365 million litres in 1991 to 1.5 billion litres in 2007 (UIA)

Uganda's agricultural growth since 2000 has been well below the 4.9% average annual labour force increase. Nonetheless, many of the rural underemployed appear to be taking a dim view of their chances of finding a job in urban areas because, remarkably, the share of people active in rural areas appears to have *increased* from 66.4% in 2002/03 to 75.1% in 2005/06. These people may also feel that living in rural areas better protects them against the impact of food price inflation, which has been high in recent years.

Several reasons have been mentioned to explain agriculture's decelerating growth.

Inadequate infrastructure. Electricity is one example: only 6% of the households in rural areas have access to grid power. Roads are another. More than 30,000 kilometres of rural community access roads are unpaved, rendering them hardly usable in rainy seasons, yet these happen to be the most important roads for agriculture development and marketing (Mwambutsya 2011).

Complex and multiple land tenure systems limit land use planning and utilization, and discourage investment¹¹⁰. The ambiguity of different systems of land ownership complicates access to land as a factor of production. The majority (95%) of land owners do not have land titles to guarantee their security of tenure. In addition, problems of alteration of land titles have caused land disputes. PSFU has some harsh words to say:

"..only 18% of Uganda's land is registered. The Land registry is still not yet fully automated to provide the economy with information needed to make informed decisions. Storage and management of existing records is archaic, manual and in a very bad shape. Search and verification of claims is slow and prone to errors, thereby creating opportunities for graft and corrupt practices" (PSFU, 2010, p. 19)

- *Productivity is low* and land degradation appears to be getting worse. Farmers' yields are typically well below the yields obtained in research stations¹¹¹. The rate of soil fertility depletion in Uganda is among the highest in Sub-Saharan Africa. Agriculture is undercapitalised.
- *Fertilizer use is low.* Its use has increased to 1 kg per hectare from 0.37 kg per ha in 2000, but this is still well below the 6 kg per ha in Tanzania, and the 31.3 kg per ha in Kenya. More intensive use of fertilizer would clearly boost yields.
- *Irrigation.* Currently irrigation is carried out on 14,418 hectares of land against an irrigation potential of 400,000 hectares. This represents 3.6 % of irrigation potential exploited
- *Lack of extension services.* Government policy appears to focus on large farms. The government launched the foreign-donor-sponsored NAADs (National Agricultural

¹¹⁰ Much land is cultivated under customary holding and thus cannot be used as collateral to secure credit. However, says Mpuga, 2010, (p. 117-118), the reluctance of formal financial institutions to lend must be seen in the context of the widespread use of 'traditional sources of finance' for micro and small businesses in rural areas which include relatives and friends, rotating savings and credit associations (ROSCAs), various 'club' systems which pool members' savings for loans, village banks, and buyers' advances (in cash or in kind).

¹¹¹ According to the Agricultural Sector Investment Plan 2009-2010 (quoted in Mwambutsya, 2011) the gap between the yields on farmer's gardens and the yields at research stations (and thus the potential for reaching higher levels of productivity) is considerable, with research station yields being over ten times those attained on farmer's gardens in the case of maize, almost ten times for coffee, between four and ten times for beans, and two-and-a-half times for bananas

Advisory Services) programme in 2002 that, *inter alia*, provides farmers with seed and tractors. It is seen as a step in the right direction but it has also been described as bureaucratic and slow and criticised for being used for opportunistic purposes. In terms of its own finances the Government appears less committed than official statements may lead one to conclude¹¹².

Forestry and Fishing. Forestry growth rates have also been declining from an average of 7% between 1998 and 2002 to 3.9% p.a. between 2004 and 2008 *inter alia* due to declining forest cover which decreased from 4,9m hectares in 1990 to 3,6m hectares in 2005, a 27% reduction.

Fish catch has been declining between 2005 and 2009 from 411,000 tons to 367,000 tons in 2009 with the 32,000 tons decline in fish caught in Lake Victoria being responsible for much of the decline. Around 100,000 people worked in fishing in 2005 (Sender et al., 2009)

Manufacturing. Manufacturing production growth has also slowed down in the past two decades. The sector grew rapidly at 13.2% p.a. between 1988 and 1997 but growth slowed down to 6.3% p.a. on average between 2004 and 2008.

The manufacturing sector is comparatively small. It employed 480,000 people in 2005 according to Sender (2009). Around 40% is engaged in the processing of agricultural export products (coffee, cotton, tea, tobacco, grains, dairy products and fruit juices). SMEs account for over 90% of all establishments in manufacturing (PSFU, 2010). It suffers from low productivity and high (imported) input prices. Inadequate electricity supply cannot support heavy industries like steel mills, textile mills and aluminium processing plants.

“Uganda’s industry sector is largely informal, characterized by production of low quality goods; gross deficiencies in technology; lack of indigenous capacity; little attention to research; low development and innovation; lack of foundational engineering industries and foundries necessary for the manufacture of tools and spare parts for use in different industries and the generally poor state of roads and rail infrastructure that makes supplies and distribution of goods costly” (NDP 2010 p.205).

In addition, agro-based manufacturing suffers from inconsistency of supply. This is essentially a farm level problem. Subsistence farmers are not used to the requirements (steady supply, quality control etc.) of agro-processors. Still, the potential for more agro-processing is generally considered very favourable (mangos, flour, cotton, vegetable oils, citrus products, beef, sugar).

Building materials is another promising subsector. Cement production increased from 482,000 tonnes in 2001 to 1,162,000 tonnes in 2009 (EAC 2011). There is large unmet demand for steel but the steel industry suffers from high costs of raw materials, inadequate supply and high costs of energy, and transport (rail) constraints.

High growth sectors. Sectors that have shown above average growth rates since 2000 are:

- *Hotels and restaurants* (which the National Development Plan NDP calls the “tourism sector”) grew by 13.1% p.a. on average between 1988 and 1997 and after slower growth

¹¹² The need to improve agricultural production and productivity is often stressed but in actual fact the share of the budget that goes to agriculture (broadly defined so as to also include forestry and fisheries) keeps going down (from 8% in 2001/02 to 3.7% in 2008/09) (Van Waeyenberge et al., 2011, p.29)

between 1998 and 2002, accelerated again to an average of 12.5% p.a. between 2004 and 2008. The number of foreign visitors (“tourist arrivals” in the words of the NDP) in the country increased from 512,000¹¹³ in 2004 to 844,000 in 2008. AfDB (2010) estimates that tourism brings in about USD 500 m annually. Growth might have been higher had it not been for the poor state of Uganda’s roads and inadequate accommodation (MTTI 2008). 179,000 people worked in the hotel and restaurant sector in 2005 (Sender et al, 2009). See also the recommendations section.

- *Construction*. Private construction, especially of residential buildings, is the engine of growth in this sector whose share of the economy tripled from 4.1% in 1988 to 12.2% in 2008/09: “the construction industry has been the fastest growing industry since the 1990s” (PSFU, 2010, p.45). Construction employed 150,000 Ugandans in 2005 according to Sender et al (2009).
- *Post and telecommunications* (which the NDP calls “ICT”) showed rapid growth (initially from a low base): 10 % on average between 1988 and 1997; 22.8% p.a. between 1998 and 2002; and no less than 26.2% between 2004 and 2008. The main reason for this growth has been the rapid rate of telephone penetration (see tables 2 and 3 below). The deep penetration of mobile telephone and internet has opened up many possibilities to leapfrog traditional development paths. It has for instance enabled the banking sector to roll out innovative products to ease business transactions including mobile money banking, e-banking, SMS-banking, internet banking, leasing and mortgage products (PSFU, 2010). Uganda is now linked by optical fibre to Kenya and South Sudan (and to Rwanda in the near future). Low- cost high-speed Internet will support information technology services such as Business Process Outsourcing¹¹⁴. Rwanda’s determination to bring the whole population into the digital age as exemplified by the *ICT Bus project*¹¹⁵ should be a source of inspiration. Mobile phones and the internet (in addition to local radio) help farmers stay informed of prices, technologies and other market information. This makes them less dependent on traders, improves their bargaining position, thus improving their income earning potential.

¹¹³ According to UNCTAD (2008, p. 223) these 512,000 also included business people, transit, “and others”. Only 86,000 of them were what UNCTAD called “holiday tourists”

¹¹⁴ Edris Kisambira “Uganda: Internet Cable Launched” in: *East African Business week (Kampala)* 17 October 2011

¹¹⁵ The ICT Bus is promoted by the eRwanda project. These ICT buses operate as a mobile telecenter to help bridge the digital divide affecting Rwanda’s rural population. These buses are fully equipped with computers, printers, photocopiers, a scanner and other multi-media facilities. They have their own generator so as to be independent from energy supply. In addition, each of Rwanda’s 30 districts has its own telecenter, each with up to 50 computers (www.focus.rw)

Table 2. Telephone subscribers and talk time, 2005-2009

Service	2005	2007	2009
Subscribers	1,625,902	5,329,202	9,617,267
Fixed telephone	100,777	165,788	233,533
Cellular Phone	1,525,125	5,163,414	9,383,734
Lines per 100 population	6.1	18.9	31.9
Talk time (traffic, million minutes)	1,724	3,005	7,147
Of which international	n.a.	88	121

Source: UBOS, 2011

Table 3. Internet Users and subscribers, 2005-2009

Subscribers and users	2005	2007	2009
Fixed Internet subscribers	9,500	15,500	30,000
Mobile Wireless Internet Subscriptions	n.a.	n.a.	358,828
Estimated Internet users ('000)	1,000	2,000	3,000

Source: UBOS, 2011

- Mining and oil.* Mining grew by 34.6% between 1988 and 1997 (from a low base), 8% between 1998 and 2002, and 13% between 2004 and 2008 (NDP 2010). Oil. Uganda does not produce any oil but it is expected to do so starting in 2015/16. Some estimates indicate that the country has the potential of producing up to 200,000 barrels of oil per day, sufficient to generate in excess of USD2bn annually in export earnings. The oil revenues are expected to revitalise the economy and reduce donor dependencies to minimal levels (PSFU, 2010). But while in the medium- to long term the country stands to benefit from the oil discoveries which, if spent wisely, could provide a welcome boost to the financing of Uganda's economic growth, in the short term the necessary inputs for getting the oil flowing will nearly all need to be imported, adding to the country's current account deficit (see below section 1.5). There is also the need to negotiate fair agreements with the oil exploration and exploitation companies as indeed the process of selecting the best companies for the work. By Uganda's standards the sums involved are considerable and the possibilities for corruption obvious. At the time of writing there is a debate going on between the legislative and the executive branch of government over the lack of transparency surrounding the oil deals and the financial benefits that certain groups and individuals may have received in the negotiating process.

International trade and remittances

Uganda's international trade has increased significantly in the last two decades, and particularly in the post-2005 period. This is largely due to Uganda's enhanced trade with its immediate neighbours which, as a group, now are Uganda's main trading partner. By how

much external trade has gone up and which products account for the increased volume is hard to say as informal exports make up a significant share of the export increase.

Uganda consistently imports more than it exports. It runs a sizeable current account deficit. Main imports are fuels, food, steel, chemical and pharmaceutical products, machinery and transport equipment. The Asian continent is the main source of Uganda's imports and accounted for 34.8% of the total in 2008.

Uganda's trade statistics distinguish between on the one hand formal exports - subdivided into traditional and non-traditional exports- and on the other, informal, unrecorded exports. Traditional exports (coffee, tea, cotton and tobacco) increased from 267m USD in 2005 to 420m USD in 2009 through a mix of volume and price effects. Non-traditional exports grew faster and more than doubled in value between 2005 (545mUSD) and 2009 (1,147mUSD) despite a 28% decrease in its largest single component, fish exports (to 103m USD). Cocoa beans exports tripled to 27m USD. Cut flowers stagnated at 26m USD in 2009. Cement exports increased from 15,000 tonnes in 2004 to no less than 390,000 in 2009. Unfortunately, the Uganda Bureau of Statistics UBOS classifies 65% of non-traditional exports under "Other products".

While exports to all the neighbouring countries increased drastically, those to (South) Sudan increased the most. By 2009, fully 44.6% of all Uganda's exports went to Sudan (UBOS 2011). Most of these exports are informal exports (AfDB 2010). The European Union saw its share of the total decline from 24.9% to 11.0% in 2009.

Informal trade is nothing new to Uganda (Ackello-Ogututu et al., 1997). High sales taxes, lack of working capital, cumbersome procedures and 'rent seeking behaviour' among public officials at major border crossing points encourage traders to pass their goods through undesignated routes (ibid.). Transactions are mainly done on a cash basis. Trade is characterized by a quick turnover of stocks. Traders rely on hired transport and third party storage facilities. Typically, they hire porters to carry small quantities of their merchandise through footpaths (ibid.).

But the drastic increase in informal exports in recent years is a new development. According to Uganda Bureau of Statistics UBOS, the fact that Uganda's total exports tripled (to 3.125m USD) in the period 2005-2009 was due above all to an upsurge in informal exports from 200m USD to 1558m USD (formal exports nearly doubled in the period). According to the same source *Uganda's 2009 informal exports reached half the total of 3.125 m USD*¹¹⁶.

There is some uncertainty as to the composition of the informal exports. BOU/UBOS reports that the informal exports are mainly industrial products (shoes, sandals, maize flour, and beer) and to a lesser extent agricultural commodities (fish, beans, maize, cattle and bananas) but that the composition differs by country of destination (BOU/UBOS 2011 p. ix). According to Mwambutsya (2011) 60% of informal exports are agricultural exports (mainly maize and beans) and 37% are industrial exports. Both sources may be right as the composition may vary over time.

No data are available on the share of re-exports in the total. The question marks surrounding the size, the origin, and the composition of the informal exports make it hard to estimate with precision the level of both domestic production and consumption. To the extent that they are not *re-exports*, informal exports may lead to domestic production being

¹¹⁶ These are preliminary figures. BOU/UBOS 2011, while also noting a rapid upsurge in informal exports puts the 2009 total at only half the UBOS figure, or 798mUSD (BOU/UBOS 2011)

understated, domestic consumption being overstated, or both. Similarly, informal trade may lead to employment being under-, and unemployment being overstated

Large-scale informal exports can also lead to (local) shortages of certain items and contribute to higher prices for the domestic population. More cash gets into the economy. But State revenue clearly suffers. Other potential problems are quality control and adherence to phytosanitary requirements due to poor handling during transportation and storage of goods, and the number of times that the goods are shifted from one mode of transport and/or storage to another (Ackello-Ogutu et al., 1997).

Remittances have gone up considerably in the last decade and are estimated to have reached between 773m USD and 1,392m USD. Despite the publicity surrounding former army personnel working as security guards in Iraq and medical staff having emigrated to North America and Southern Africa, most expatriate Ugandans appear to be active in neighbouring countries. In South Sudan, for example, Ugandans operate small-scale businesses, work as taxi drivers, construction workers, administrative and service personnel and import most of the food into Juba (CSOPNU, 2011).

Inflation and real wages

After having come down to single digits by 1993, inflation started to accelerate again after 2005. It has been in the double digits since 2008 (+40% between 2005 and 2009). The main cause for inflationary pressure is food inflation (basic food prices went up sharply in 2008; all in all, food prices have gone up by 60% between 2005 and 2009) with fuel being a good second (+45%). These are precisely the two items that affect the urban poor the most (UBOS 2010).

Ugandan rural households produce much of the food that they consume and this softens the impact of high food prices to that part of the population. But it does not take it away entirely: 57% of rural households are net- buyers of staple foods. Still, this is much better than the situation in urban areas where 92% of households are net buyers of staple foods (Simler 2010, p.4). By mid-2011 yearly inflation was over 20%.

The acceleration of inflation has had serious consequences for real wages. Few low-paid private sector employees have been able to increase their money wages since 2007, despite sharp increases in the prices of basic foods over 2008-09 (ROU 2011 p.8). There has been large fall in real wages since 2007 (GOU 2011 p.14).

1.2 Employment in Uganda

The long period of economic growth has helped create many jobs in Uganda. But questions such as how many jobs have been created, where, in which sector (formal; informal?) or type of activity these jobs have been created, and what kind of jobs they are, are harder to answer. There is not much detailed, up-to-date labour market information available in Uganda.

In Uganda the quality and the timeliness of labour and employment data collection is a problem. The long intervals between the collection of data through household surveys (not to mention the ten-yearly census) make it hard to quantify the different dimensions of employment, unemployment and underemployment. Assessing the effects of different policy alternatives is complex. As the Uganda Bureau of Statistics UBOS admits “The absence of statistical data on economic activities of the population as regards the magnitude and nature of unemployment makes it extremely difficult for the government and other stakeholders to formulate appropriate programmes and allocate the necessary resources for improving the situation and eventually solving various problems relating to the unemployed” (UBOS 2003 p.31)

Box 1. A note on data availability and data consistency

The main sources of labour market statistics in Uganda are (1) the 10-yearly Census -the last one of which was held in 2002 and the next one to be held in 2012-, and (2) the UBOS organised household surveys, which have a labour force module. The results of the 2002/03 and 2005/06 surveys are available in full. The results of the latest survey (2009/10) are only available in part (see e.g. Musana 2010). Labour force data are thus not up-to-date. Nor are they particularly detailed. For the post-2006 period, estimates for some key indicators (such as the size of the labour force) have been made but these vary considerably. Moreover, there are considerable differences between, for example, the outcome of the 2002 Census and the 2002/03 household survey (the overall labour force participation rate was reported as 80% by the 2002/03 UNHS, while the census showed a rate of only 56% -see MGLSD 2006 for further comparisons and inconsistencies)

What we do know through a mixture of anecdotal evidence and simple arithmetic is that the number of yearly new entrants to the labour market is high and growing whilst the absorptive capacity of both the urban and the rural labour market has trouble keeping pace. Hence the growing numbers of unemployed in the cities and underutilized (underemployed and unpaid family members) in rural areas.

The skills mismatch

An additional, oft-mentioned problem is the mismatch between the schooling and training system on the one hand, and the type of skills demanded by the private sector on the other. This problem affects the Ugandan labour market across the board.

A survey of the tourism industry found that although Uganda has a national training institution for the sector, the Hotel and Tourism Training Institute in Jinja, “none of the respondents mentioned sending their employees to that institution for training. This could be attributed to the low quality of training it provides” (UNCTAD, 2008, p. 239).

A survey of the fish processing industry noted the difficulties that firms faced in finding local technicians for repairs and maintenance “let alone finding personnel with industrial food processing expertise and experience” to conclude that “the formal or vocational education institute in Uganda has failed to provide adequate numbers of graduates qualified for industrial food processing” (Kiggundu 2007, p. 165).

In addition to the skills mismatch, employers complain of applicants’ attitudes. In a survey of agri-business, firms were found complaining of the negative attitude of university trainees towards hands-on field work- “many seem to despise work that involves getting dirty” (Kibwika et al 2009, p. 178). Other sources confirm this picture.

A specific case of mismatch is the problem of the *educated unemployed*. Politically, this is a potentially explosive issue. The educated unemployed are found mainly in urban areas. Their number increases rapidly.

From educated unemployed to educated self-employed

Government officials, aware of how few jobs are available for these university graduates, want them to become self-employed entrepreneurs. But these officials admit that few graduates have the mindset to become entrepreneurs and that little in their education prepares them for this. Meanwhile, Kenyan and other foreign investors in supermarkets, hotels and banks, who are welcomed because of the jobs that they create, bring in their own people with the desired skills and education, to the annoyance of Ugandan job seekers.

Some people have made it their business to change the mindset of the unemployed as Box 2 shows.

Box 2. Enterprise Uganda and how to turn the highly-educated into entrepreneurs

Enterprise Uganda is a small (22 people) public-private institution designed to make Small and Medium Sized Enterprises (SMEs) the main vehicle for expanding production and providing sustainable jobs. It was established by the UNDP and receives funding from a number of local and international donors. Its director is Charles Ocici, an enthusiastic former international bank manager.

Enterprise Uganda confronts the mismatch between the expectations raised by advanced education and the necessary requirements for becoming a successful entrepreneur head on. Its stated goal is to change the mindset of the young educated unemployed, and give them back the self-esteem that they have lost after not finding the job they were expecting after graduation.

During one week courses ("clinics") Ocici and his team try to convince participants that having the right attitude is essential for becoming an entrepreneur. "Don't count exclusively on what you have been trained for. Identify your talents and exploit them". "Go help your parents and find out how they made the money they did. Try and learn from them." This approach aims to combat the widespread perception among the educated that family business is not really business (they only perceive foreign business as such).

Ocici tells them to be modest. "If you are an engineer, start repairing radios at home (and combat the public notion that your education was too costly for doing such humble things). Forget about making a career and ask yourself how you can make money. Attitude is the key; if you don't create the right mindset, all other solutions will hit the wall".

Key is his plea to do away with the excuses for not starting your own business: he gives examples of successful Ugandan and foreign business people who did not go to University; "entrepreneurs are not born, they are made". There is no need to be unique, but try to be better than the others. There is room for everybody.

Where to get the necessary capital for investment? There are seven sources of capital and going to the bank is number seven. Consider the other options first ("show me one successful businessman who started with a bank loan").

A good business plan should not be a document for someone to read. You need a maximum of four pages that answer basic questions such as: what business are you in? Who are you going to supply? (i.e. know your customer) Who is currently supplying these customers? Which factors make customers switch suppliers? "The educated make fewer mistakes than the non-educated but the non-educated make them earlier in life."

So far, 15,800 people have followed an Enterprise Uganda clinic. Unusually, participants do not receive a facilitation allowance, transport allowance, or accommodation allowance. In fact, they have to pay a (low) fee. Another aspect that sets these clinics apart is that, according to Ococi, unlike in comparable activities where attendance typically peaks at day one and then tapers off, his clinics have 60% more participants in day two than in day one.

Casualisation and the minimum wage

Those who do find employment run the risk of ending up in precarious jobs with little security and poor working conditions and from which they are easily fired. With so many applying for so few good jobs the risks of "casualisation" are evident. An aggravating factor is that enforcing the labour law does not appear to feature high on the Government's agenda. The decentralisation of the labour inspectorate and the inactivity of the Industrial Court are seen as illustrations of this.

Casualisation has been rampant in hotels, the construction industry, many manufacturing industries and most work places of the so-called new investors following liberalization according to Barya (2007, p.32), a well-informed Ugandan academic. Casual labourers, without contract, are subject to summary dismissal and not able to benefit from any of the normal conditions of employment, and rights guaranteed by law. The non-recognition of trade unions is a problem. Despite lip service for the idea that workers are free to organize, most employers refuse to recognize workers (Barya 2007 p.ii).

Should Uganda have a minimum wage? Barya, for one, believes that it does. Many workers have no contract and can thus easily be cheated. A daily minimum wage would not help everybody but would make a difference in sectors such as mining and quarrying, construction, and private schools. The Ministry of Finance is reportedly sceptical of the idea.

The employers, in contrast, take a pragmatic view and see the minimum wage issue as part of a broader picture that also takes into account the need to raise productivity. The Flower Exporters Association negotiated a minimum wage with its unions. The influential Private Sector Foundation (PSFU) is in favour of (negotiated) sector-wide minimum wages. It sees these as an essential step towards solving the mismatch between skills attainment and skills requirements (PSFU, 2010). On the whole, the PSFU seems to take a more sophisticated view than many in Government of the salaries, productivity and skills debate. For instance, it pleads for raising the salaries of Uganda's skilled workers *and especially those in the public service* [my italics] in order to retain "such a critical mass of resources" (PSFU, 2010, p. 24).

Employment, unemployment and the Ugandan labour force¹¹⁷

"The unemployment problem in Uganda is a very complex one and a great deal of controversy exists concerning the reliability of available data and therefore the real level of unemployment in Uganda" (Ministry of Gender, Labour and Social Affairs MGLSD 2006 p.45)

According to Uganda Bureau of Statistics UBOS (based on the 2009/10 National Household Survey UNHS), unemployment in Uganda went up from 1.9% to 4.2% between 2005/06 and 2009/10. Unemployment was 9.5% in urban areas and 3% in rural areas (Musana 2010). In a country such as Uganda where being officially unemployed does not make one eligible for some form of financial assistance, the unemployment rate does not fully capture the degree to which labour is being underutilised. The bulk of the population has no choice but to engage in some economic activity, however little or inadequate it may be. A better yardstick would be un- and underemployment¹¹⁸ put together.

Unemployment appears to be above all a problem for the urban educated. MGLSD found an inverse relationship between education and employment. The lowest unemployment rate is found among those with no schooling (2%), followed by those whose education level is below secondary. The highest unemployment rate is among those with secondary education and above. (MGLSD 2006). The rate of unemployment of graduates stood at 17.4% in 2005.

The unemployed are not necessarily poor. They *can* be unemployed because they are financially supported by their family or relatives. Open unemployment is a luxury that the really poor cannot afford. "Really poor households cannot afford to remain out of work and its members may end up taking any work that is available, including that which is poorly remunerated. Hence, those reporting as not working are not necessarily poor, while those in such sectors as food crop production might be facing heavy underemployment and low earnings." (Kabanankye et al, 2004 p.25)

Ugandan statistics subdivide the employed into three categories:

- Wage and salaried workers (employees)

¹¹⁷ The labour performance should also take account of discouraged workers and emigrants. The latter number is considerable. Estimates vary from 757,000 (World Bank) to 1.5 million (COFTU) Ugandans living abroad. However, a number of these may have acquired another nationality or have double nationality. The examples of former army personnel working as security guards in Iraq, and Ugandan medical staff working in Southern Africa or Canada are well-known. Most Ugandans, however, live and work in neighbouring countries.

¹¹⁸ UBOS regards a person as "underemployed" if she or he worked less than 40 hours in a week, prior to the survey (UBOS 2003, 40). A "visibly" underemployed person is someone who worked for less than 40 hours in his or her particular activity, while being available for additional hours of work during the last 7 days prior to the survey period (UBOS 2003 p.41)

- Self-employed (employers and own account workers)
- Unpaid family workers

The bulk of those categorized as employed are either self-employed or unpaid family workers. According to the 2002 Census, 43% of the employed population was self-employed (57% according to the UNHS). Unpaid family members made up 41% of the total. The vast majority of the latter are women.

The unpaid family workers are young: 50% of the economically active youth are not engaged in income generating employment (paid- or self-employment). Of these, 6% are looking for employment while the rest are employed as unpaid family workers. Fully 70% of the young female population (14-30 yrs) is engaged in unpaid family work (NDP 2010)

Waged and salaried workers are thus a small minority (around 15% of the total in 2002/03) or between 27 and 32% of non-agricultural employment according to MGLSD 2006 (p.12). ROU 2011 estimates that about 20% of the total workforce is in wage employment, of which 14% are permanent employees and 86% are temporary (ROU 2011).

These data tell us little about how many people are active in the formal sector, i.e. employees who are in a pension or retirement fund; are entitled to paid leave and medical benefits; and who pay income tax. The total number of contributors to the national pension funds provides us with a minimum. The National Social Security Fund NSSF had about 500,000 people insured in 2008/09. In addition there are the about 300,000 civil servants who fall under the Public Service Pension Scheme or PSPS (BOU 2011 p.18). There may be other pension schemes, such as company schemes which, when put together, leads to the conclusion that by this yardstick at least 800,000 people, or some 8% of the labour force are in formal employment¹¹⁹. These people have in general higher and more regular earnings, better benefits and more social protection than the self-employed. They are bound to provide financial support to unemployed and unpaid family members. On the other hand, some of the self-employed (accountants, doctors, lawyers) also belong to the formal sector.

The Informal sector: the main engine of job creation

Most non-agricultural workers thus work in the informal sector. According to UBOS fully 67% (M: 64%; F: 71%) of those in non-agricultural employment are informally employed¹²⁰ (Musana 2010). This would imply that formal employment makes up less than 10% of the total labour force. A rough estimate would thus place the number of people active in the formal sector at somewhere between 8 and 10% of the labour force. In other words, despite more than two decades of sustained economic growth the number of people absorbed in the formal sector every year has been low. The majority of new job seekers are absorbed outside the formal sector, in the informal economy¹²¹.

¹¹⁹ NDP 2010 reports that the share of the permanently employed in the total labour force went down from 4.8% in 2003/03 to 4.6% in 2005/06 (NDP 2010, p.204)

¹²⁰ Informal employment includes; own-account workers and employers employed in their own informal sector enterprises; contributing family members; employees in informal jobs, whether employed in formal sector enterprise or households; members of informal producer cooperatives; own-account workers engaged in production of goods exclusively for own final use (ibid)

¹²¹ MGLSD 2006, p. 19 defines the informal sector as comprising small-scale businesses not registered in government, characterised by self-employed activities, with or without hired labour (fewer than 5 persons). It operates with a low level of organization, low capital, and low technology

With annual labour force growth estimated at between 4.7 and 4.9%, and the size of the labour force at between 11.5 million (Musana 2010) and 13.4m people in 2009/10 (ROU 2011), the number of new entrants each year must be somewhere between 540,000 and 660,000 people (which is higher than the oft-quoted figure of 390,000).

Where will these people find a job? Not in the public sector. The public sector has not been a source of labour absorption and, judging by the position of the current government, is unlikely to be even a minor source in the future. In 2009 the public sector employed 259,650 people, i.e. fewer than the 300,000 in 1990. The annual average growth rate of government wage employment was negative (-0.6%) (GOU 2011, p.9). The private sector must thus absorb the new entrants.

Within the private sector, foreign investments have been creating a respectable number of jobs. But the average 39,000 jobs per year created by foreign investors between 2000 and April 2009 (according to ROU, 2011 p.8) are less than ten percent of the total new entrants to the labour market.

Good jobs may well be created in the new and emerging opportunities, such as physical infrastructure; oil refinery and the pipeline; energy infrastructure; construction of dams; improving the transportation network; or ICT infrastructure, trade, tourism and commerce as GOU (2011 p.13) suggests, but the bulk of the new entrants will find a job in the informal sector¹²².

There seems indeed broad agreement that in terms of job creation the informal sector will be Uganda's most dynamic sector in the foreseeable future. Or as MGLSD (2006 p.40) put it: "Given the existing structure of the Ugandan economy, it is probably more realistic to assume that the informal sector will continue to remain the main engine of job creation in the coming decade." This is a sector where generally wages and productivity are low, enterprises are small-scale and undercapitalised and social protection absent.

Given the combination of rapid labour force growth and the certainty that many if not most jobseekers will end up working in the informal sector there is an urgent need to get a better picture of the functioning and the dynamics of this sector. The government recognizes the need for more information on which sectors *within the informal sector* grow fastest, and which have the greatest job creating potential. "[m]ore information is required that covers the full range of its activities, as well as trends in its capacity to generate decent wage earning opportunities" (GOU (2011, p.9). Other urgent questions are: how to raise productivity and earnings of enterprises in this sector and what type of interventions from the government, NGOs and other stakeholders are needed (MGLSD 2006, p. 19)?

But there are more questions. It is frequently assumed that all workers in the informal economy are self-employed whilst in actual fact many work for wages; just how many do? What are labour conditions like? Which skills are required (and which supplied) and what are the consequences in terms of training needs? See also the conclusions and recommendations section. Lastly, once it is recognized that the informal sector is not a transitory phenomenon in the development process, waiting to be absorbed by the formal

and often on temporary premises. Overall, formal financing institutions do not support those enterprises.

¹²² And be active in agriculture, of course

sector, and that formal and informal sectors will cohabit, there is a need to know more about how the two sectors are interlinked¹²³ (Guha- Khasnobis et al 2006).

2. The national employment policy process

Uganda's National Employment Policy (NEP) was launched on 1 May 2011. It is an attempt to formulate a comprehensive policy on employment. It emphasises the importance that the government attaches to the promotion of employment; to the protection of the basic rights and interests of workers; to the need for a well-functioning labour market; and to the need to improve the productivity of workers.

The National Employment Policy aims to attain full employment coupled with decent work and equitable economic growth. As these documents do, it highlights all the key elements of a well-functioning formal labour market, thus placing the bar fairly high. "The policy will consolidate, and create synergies among different sectors and anchor employment creation as a key indicator of economic development" (p.22). It provides "a framework to promote productive and decent employment and enterprise development, compliance with labour standards by employers, investors and workers, social protection and social dialogue". Key dimensions of the policy are multi-skilling, entrepreneurship development and, broadly, growth of "permanent (non-casualised) employment in the private sector" (p.23). The purpose of the policy is to guide all stakeholders on the creation and the enhancement of quality jobs (p.23). Stated policy objectives include the promotion of macro-economic policies and investment strategies for job creation; increased productivity, competitiveness and employability of the labour force; the promotion of in-employment skills development, apprenticeships, and "purposeful and functional vocational training"; as well as ensuring the availability of reliable and timely labour market information.

This section's focus is on the process of policy making. As a start, Box 3 describes the procedures involved in the formulation and adoption of Policy documents.

Box 3. The Process of Policy making in Uganda

In Uganda, the formulation and adoption of Policy documents take place according to an established procedure. The general process of policy making consists of the following steps:

The need for policy measures is usually identified by the concerned Ministry (although the President and/or the Cabinet have also initiated action) which prepares the outline of the proposal

The proposal by the Ministry is submitted to the Cabinet for discussion and approval in principle

After the in-principle approval by the Cabinet, the Ministry of Justice in collaboration with the Ministry concerned prepares a draft Bill for presentation to the Cabinet

The Cabinet has the authority to approve the Bill which is then published in the Official Gazette as an approved policy measure

On issues requiring legislation, the Bill approved by the Cabinet is then presented to the Parliament. Parliament debates and adopts the Bill in three readings and submits it to the President for assent

After the assent by the President, the legislation is published and comes into force on the indicated date (CUTS International, 2009 p.145).

¹²³ Guha-Khasnobis et al 2006 (p.159) point out that many households are engaged in both the formal and informal sectors and that intra-household transfers can be an important source of capital for investment in informal enterprises

2.1 Adopting the NEP has taken a long time

The NEP was adopted some fifteen years after the idea was first suggested. That is comparatively long. For instance it took the Ministry of Trade Tourism and Industry MTTI three years (2004-07) to have Uganda's Trade Policy adopted (CUTS, 2009). There are several reasons why it took so much time before the NEP was adopted. Naturally, the different actors involved differ in the weight they allot to each.

Schematically speaking, in Ugandan politics, long-serving President Museveni sits at the apex of the power pyramid. Immediately below him are the Ministry of Finance, Planning and Economic Development (MOFPED) and the Office of the Prime Minister. Next down come the line Ministries. The position of the National Planning Agency (NPA) is not entirely clear since MOFPED –as its name indicates- is also responsible for planning. In actual practice MOFPED seems to be concerned more with short- to medium term budget-related issues and the NPA more with long-term issues (but these overlap, of course). The Parliament, the Bank of Uganda, the International Financial Organizations and international donors are other important players.

A principal reason why the Employment Policy took time to be adopted appears to be a lack of conviction at the highest level (Head of State; Ministry of Finance) of the need for such a Policy. Free Market ideology and being attractive to foreign investors are key underlying principles of the Government's economic development policies. An Employment Policy might strengthen the labour sector and this in turn might scare away investors.

The adoption of documents such as the Employment Policy in Uganda is the result of intensive lobbying by the sector concerned. The fact that the labour sector (the responsible ministry; the trade unions) is weak (and may well have weakened over time) is thus another explanation. There is no Labour Ministry proper; the Labour portfolio is part of the responsibilities of the Minister for Gender, Labour and Social Development (MGLSD).

Another important reason is that the Employment Policy aims to be an inclusive policy. The actions and policies of different sectors with a bearing on employment need to be consolidated in a comprehensive policy that takes account of the evolving realities and needs of the country. This process offers different constituencies an opportunity to ensure a broad endorsement of their concerns and of the policy measures they suggest. It promotes dialogue among different sectors and makes them aware of the linkages that bind them. Naturally, this process takes time. It has been a long drafting process.

The Labour Ministry coordinated the actual drafting of the NEP. Its preparation was done by a task force that included and consulted a wide range of other government agencies - including the Ministries for Justice, Education, Public Service, Local Government, Industry, Agriculture, as well as the Investment Authority and the Planning Agency- and non-governmental agencies – including employers and workers organisations. The ILO has been the only international agency called upon for assistance and comments¹²⁴ (see Box 6).

¹²⁴ A trade union source mentioned that the Friedrich Ebert Stiftung organised two workshops with local experts on EP, social security, strengthening labour administration, the Industrial court and increased awareness, but this may not have been directly related to the NEP drafting. Indirectly – through the Ministry of Finance- the views of the World bank and IMF have also been influential.

Box 4. The ILO and the preparation of the National Employment Policy (NEP)

On a number of occasions the ILO has provided technical and financial assistance to the preparation of the NEP. This assistance intensified in the years immediately prior to the adoption of the NEP. The suggestion that Uganda draft a National Employment Policy first came up following a 1995 ILO-JASPA multidisciplinary mission that made an inventory of Uganda's employment and poverty problems and made suggestions for improvement. Further inputs were provided by a 1996 ILO-EAMAT Technical memorandum to the Government of Uganda on civil service reform, structural adjustment and social development. The 1998 joint ILO/UNDP "Jobs for Africa" initiative actually drafted an employment plan. Additional ILO assistance came in 2002 through the ILO *Jobs for Africa Programme's* Report on Investment for Poverty Reducing Employment. The 2009 ILO's *Rapid Impact Assessment of the Global Economic Crisis* prepared by Sender et al. (Sender et al, 2009) provided valuable inputs as did the ILO's assessment of Uganda's macroeconomic policy for full and productive employment (van Waeyenberge et al. 2011). The results of the latter exercise were discussed in an ILO sponsored workshop held in November 2010 in which Geneva ILO personnel participated. ILO staff was also invited to comment on drafts of the NEP.

Lastly, inter-agency rivalry appears to have been another reason for delay. At one point the National Planning Agency NPA felt that it should be responsible for the Employment Policy. However, after a tug of war with the Ministry responsible for Labour the Cabinet decided in favour of the latter.

2.2 Which factors led to the NEP being adopted?

What then was the reason for the Policy to be adopted in the end? A fundamental explanation is that unemployment, and the growing number of unemployed, educated youth in particular, has steadily moved up the ladder of pressing political issues. The fact that in spite of many years of over five percent economic growth there are not enough good jobs available is more and more widely debated. In Kampala, many decision makers have unemployed youngsters in their family or among their relatives. The 2010-2011 elections campaign made clear that youth unemployment had become one of Uganda's most pressing issues. Creating jobs for young people was part of the ruling party's manifesto.

The theme of the National Development Plan (NDP) for the period 2010/11 to 2014/15 is "Growth, employment and prosperity for socio-economic transformation".

The trade unions are widely credited for having played an active role. Every Labour Day they reminded politicians and the public at large of the need for a national employment policy. They lobbied hard and sought dialogue with politicians, including with the Head of State¹²⁵.

Then there is the effect of the East African Community EAC (box 5) and in particular that of the EAC's Common Market Protocol (Box 6). The Protocol on the establishment of an East African Common Market (Box 6) calls, inter alia, for the harmonisation of labour policies and, eventually, for the adoption of a common employment policy. As a signatory of the Protocol the Ugandan Government would sooner or later be obliged to adopt an employment policy.

¹²⁵ One source suggested that the President simply may have tired of this dialogue with the unions and gave in.

Box 5. The East African Community EAC

The East African Community (EAC) that came into being on 7 July 2000 is quite different from its predecessor with the same name. That attempt to keep a number of joint agencies (railways; communications; airline) operational was officially ended in 1977.

The new EAC is more ambitious. It has more member states. In 2007, Burundi and Rwanda joined Kenya, Tanzania and Uganda to become full members of the EAC; the Republic of South Sudan may soon follow. It has among its organs and institutions the East African Court of Justice and the Lake Victoria Basin Commission. There is an East African Business Council and an East African Trade Union Confederation (EATUC).

Uganda has become an important transit country. As a landlocked country, Uganda has always depended on good contacts with and efficient means of communications in Kenya and Tanzania for the transportation of its goods to and from overseas markets. But thanks to strong demand in Rwanda and South Sudan it has also become an important transit country in its own right.

The process of economic integration is proceeding at a steady pace. *De facto* integration has accelerated. Uganda's trade with its immediate neighbours has expanded fast since 2005. Nonetheless, more intense intra-east African competition also brings risks. Tanzania and Kenya are considered to be more productive. Kenya has a bigger home market. Rwanda is East Africa's most business friendly country¹ and East Africa's number one ICT nation. After a five year transitional period, on 1 January 2010 EAC's Customs Union took effect.

Box 6. The EAC Common Market Protocol and labour and employment policies

EAC Partner States signed the Protocol for the establishment of the EAC Common Market on 20 November 2009. This protocol established a framework for the free movement of goods, persons and services within the EAC region. Once in place, the Protocol will have important implications for Uganda's labour market given that Partner States agreed, inter alia, to:

Remove restrictions on the movement of labour; harmonise labour policies, legislation, and social services; establish employment promotion centres and *eventually adopt a common employment policy* [my italics] (Art. 2 (c))

harmonise and mutually recognise professional qualifications (Art. 3 (a))

Guarantee EA workers free movement in all Partner States and the same social security benefits as workers of the host Partner State (Art. 10).

The Annex containing the regulations governing the Free Movement of Workers states that:

The Partner States shall collect and disseminate information on job vacancies¹ and *put in place labour market information systems* [my italics] to facilitate access to employment opportunities by EAC citizens (Art 12 (1))

The EAC Secretariat shall collaborate with the Partner States to exchange information concerning job opportunities and employment statistics (Art. 12 (3)); undertake manpower surveys to determine available skills and gaps in the EAC labour market (Art. 14 (1)); and *develop a database to facilitate monitoring of the labour market* [my italics] (Art. 14 (2))

2.3 After the NEP's adoption

How significant is the adoption of the National Employment Policy? The Labour sector and the trade unions in particular, hail its adoption as a major victory. They see it as a window of opportunity, a breach in what the unions perceive as the Ugandan Government's near-exclusive focus on market-oriented policies.

Others have reservations. Experienced civil servants call the adoption of the Employment Policy "the end of the beginning". The Policy has no budget and sets no targets. The Labour Ministry has been given a limited period of time to come up with an Action Plan.

It can be argued that the NEP is a significant document for several reasons. The document is an opportunity for the labour sector to draw the attention of a broad audience to

some key labour market aspects, such as the high number of new yearly jobseekers and how this number will accelerate sharply in the years to come. It offers the opportunity to explode some myths, such as the labour absorption capacity of foreign investments (which provide jobs to fewer than 10% of the new jobseekers every year) or, more generally, the belief that the formal sector can absorb all new entrants (it can't), and what this entails for policy. It officially assigns the NEP's coordinating mandate to the Labour Ministry. The new National Employment Council provides a framework for the collaboration between different arms of government and with non-state actors for dealing with such pressing issues as the responsiveness of training and education to business needs, and the need for better labour market information.

But, indeed, in many respects the adoption of the NEP is just the end of the beginning. Its adoption caused a mixture of anxiety, excitement and pressure in the Labour Ministry, as a senior Labour Ministry official put it. Now the answer must be found to such questions as: How best to guide the policy process? How to get the employment objective included in other sectors? How to approach the informal sector? How to ensure more and better vocational training? How to stimulate entrepreneurship?

It is up to the Labour Ministry, as the coordinating agent, to bring on board the other line ministries and the social partners, and to work effectively with them. There is broad agreement that the implementation of different components of the NEP can only be successful through pressure by coalitions of interested parties within and outside the Government¹²⁶. The fact that there is no separate Labour Ministry makes this lobbying exercise more cumbersome. Does the Ministry have the administrative capacity and the political weight necessary for implementing different elements of the NEP? Resource availability is another constraint. The Ministry of Finance has in the past been less than generous in the financing of initiatives suggested by the Ministry responsible for Labour.

In addition, it is not certain that high unemployment and the increased official attention being given to employment-related issues will automatically lead to the Labour Ministry receiving more resources. A scenario that cannot be excluded is for the Labour Ministry to be at most partially involved in actions initiated by the Finance Ministry. The Finance Minister's announcement in the 2011 Budget Speech that the Government is making available Shs. 44.5 billion to combat youth unemployment might be seen in this light (see Box 7). At the time of writing the role of the Labour Ministry in this was unclear.

¹²⁶ Barya (2007, p. 30) offers a glimpse of what such pressure by a coalition of interested parties might look like when he earlier discussed the implementation of new labour legislation: "Government position as represented by the President and the Ministry of Finance still view these new enactments as 'populist laws' that are a hindrance to investment and economic growth, which are the key interests of its neoliberal policies...The Ministry of Finance will therefore continue to starve the Ministry responsible for labour of the resources necessary for the enforcement of these laws. They will not adequately fund the Ministry and they will likewise stave the Industrial Court which is now the only court empowered to enforce labour laws. *Therefore, a concerted struggle by trade unions, sympathetic forces in parliament, civil society and foreign union federations and trade secretariats will be necessary in order to ensure enforcement* [my italics]"

Box 7. Youth employment and the 2011 Budget speech

In her 8 June 2011 budget speech, Ms. Maria Kiwanuka, the Minister of Finance, Planning and Economic Development MOPED announced that “as a first step to address employment challenges” she had allocated Shs. 44.5 billion (approx. USD 18 m.) towards creating jobs in the next financial year. This total amount is to be divided as follows:

25 billion towards a *Youth Entrepreneurship Venture Capital Fund* to be established with the *DFCU bank* to provide loans to young people starting or expanding their business

3.5 billion to *Enterprise Uganda* (see box 2) to undertake the *Youth Entrepreneurial Training Programme*

1 billion to *Enterprise Uganda* to undertake *Business Development Skills Clinics* in collaboration with the *Uganda Small Scale Industries Association (USSIA)*

16.5 billion to create work spaces in markets around the country in which young people and “other small scale manufacturers” will undertake “manufacturing and other processing activity”

2.4 Implementing the NEP

The NEP takes an inclusive approach to implementation. “The government shall take the overall responsibility for the implementation of this policy with the participation of other actors, including, the private sector, employers and workers organizations, development partners, NGOs, CBOs, communities as well as individuals.

The Government promises to (“shall”) mobilize resources but no specific commitments are made - with the notable exception of the Shs 45 bn. announced in the 2011 budget. In 2011 the Government decided to make 45bn. shillings available to combat youth unemployment by sponsoring entrepreneurship training and providing facilities to young people wanting to start their own business. Compared to the National Employment Policy, which took years to draft and is still without a budget, the Government worked at great speed and nominated an executive director and a budget before even a work programme or guidelines were announced. The contrast is stark.

Interestingly, the Government promises to be a “best practice” employer. “As an employer, Government will seek to demonstrate to all other employers the advantages of following best practice in labour relations, including dialogue with labour unions, ensuring the health and safety of the workers it employs, the provision of in-employment skills training and non-gender discriminatory wage setting” (p.34).

The NEP then goes on to specify the responsibilities agency by agency:

- a) The **Ministry responsible for Labour** shall spearhead the implementation of the policy in collaboration with other ministries, social partners and agencies that have a key role in employment creation to make sure that employment issues are integrated in the implementation of the National Development Plan. The Ministry shall develop a five year multi-sectoral National Programme of Action on Employment to guide all stakeholders on the implementation of the policy; ensure the availability of timely quality labour market information; build capacity and provide support to district based staff.

Assessment This is an ambitious task for a Ministry that by all accounts is seriously underfunded and understaffed, and for which labour issues are only one part of its portfolio.

The situation of the district labour officers would appear to be a priority task for action. Only 37 out of 112 districts employ a labour officer. These lack resources and institutional support; work long hours for little pay; and often cannot afford to travel to problem sites. In addition, as these labour officers no longer report to the Labour Ministry but are employees of the districts where they are active, they lack institutional back-stopping. Another consequence of their new status is that they may find it difficult to enforce the law against their own employer (the local government) and the politically well-connected employers in their jurisdiction.

- b) The **Ministry for Finance, Planning and Economic Development** shall ensure that employment is a priority goal of all national economic and social policies; make available financial resources for budget interventions; and help attract employment generating investments.
Assessment The labour sector takes a dim view of the MOFPED's willingness to make available additional funding. Funding the Labour Ministry was not given high priority in the past. And as we saw in the previous chapter, MOFPED may decide to make available funds to employment-related initiatives and *not* channel these through the Labour Ministry.
- c) The **National Planning Authority** shall ensure that labour and employment matters are incorporated in the national development plans and mainstreamed in the sectoral plans.
- d) *The Ministry for Education and Sports* shall ensure that the education system provides for acquisition of basic skills and competences relevant for self- or paid- employment, giving special emphasis to the education of rural girls.
Assessment Vocational training is not the responsibility of the Labour Ministry and that alone has been mentioned as a good reason for having the framework offered by the NEP. The Ministry for Education is responsible for the bulk of the vocational training, with tourism training being the responsibility of the MTTI, agricultural training the responsibility of the Ministry for Agriculture, and nurse training (possibly soon) the responsibility of the Ministry of Health.
 Officials responsible for organizing and re-organizing vocational training and education depend on up-to-date data on the current and future demand for particular skills. They need to know whom to train, how many and at what level, and they need to train the trainers. In the absence of such information, decisions to reduce or increase the supply of courses may become the subject of controversy.
 The NEP offers a framework for consultation and exchange of information between employers, those responsible for labour market information, and those responsible for vocational training. At the local and sector level exchanges of information between employers, training institutes and suppliers of labour market information will enhance the quality of the courses provided. A macro framework should establish the responsibilities of all the actors involved.
- e) *The Uganda Bureau of Statistics* shall work closely with the Ministry for Labour and other ministries to generate timely quality labour and employment statistics inter alia through expanding the questions on labour in the National Household Surveys.
- f) The **Federation of Employers and Workers Organizations** are encouraged to include a larger number of members from small-scale unregistered enterprises, including employers with one or two workers and casual/seasonal union members.
- g) **Civil Society Organisations** shall contribute to research, capacity building, advocacy, lobbying and provide legal and counselling services [*note that the academic community is not explicitly mentioned*]

2.5 Coordination, monitoring and evaluation, and financing the NEP

Coordination

The coordination of the NEP is to be the responsibility of the National Employment Council. This Council shall guide and monitor efforts towards the implementation of this policy. More specifically, the National Employment Council will identify priority areas for action; suggest ways for integrating the employment objective into all sectors of the economy; help raise awareness of different dimensions of the employment problem; suggest guidelines; and set employment targets.

The Ministry responsible for Labour will chair the Council and do the secretariat. Members include a large number of Government Ministries and Agencies (including UBOS) as well as the two main trade unions, the Federation of Employers, and Enterprise Uganda. The Private Sector Foundation is not explicitly mentioned. More specifically, membership of the National Employment Council shall be at the Permanent Secretary or Chief Executive Officer level and be drawn from:

- The Ministry responsible for Finance, Planning and Economic Development

- The Ministry responsible for Public Service
- The Ministry responsible for Agriculture, Animal Industry and Fisheries
- The Ministry responsible for Tourism, Trade and Industry
- The Ministry responsible for Works and Transport
- The Ministry responsible for Education and Sports
- The Ministry responsible for Local Governments
- The Ministry responsible for Health
- The Ministry responsible for Foreign Affairs
- The Ministry responsible for Lands, Housing and Urban Development
- The Ministry responsible for Internal Affairs and Immigration
- The Ministry responsible for Energy and Mineral Development
- The Ministry responsible for Information, Communication and Technology
- The Ministry responsible for East African Community
- The National Planning Authority
- The Uganda Bureau of Statistics
- The Uganda Investment Authority
- The Federation of Uganda Employers (FUE)
- The National Organisation of Trade Unions (NOTU)
- The Central Organisation of Free Trade Unions (COFTU)
- Enterprise Uganda (Ltd)

Monitoring and Evaluation, financing

The NEP shall be reviewed every five years to take account of impact, performance and emerging challenges.

No additional funding is foreseen. The financing of the NEP is spread over the line Ministries, departments and agencies as well as local governments, social partners and Civil Society Organisations. As the NEP points out: “Each sector Ministry shall identify employment concerns, budget and fund them within their MTEF [Medium Term Expenditure Framework] ceilings”.

2.6 Assessment of the employment agenda

In general, the NEP shows a good understanding of the key challenges to increasing productive employment. It makes a strong plea for employment-intensive growth. In the NEP the Government commits itself to placing job creation at the centre of national policies, plans and programmes. To achieve this, it will set employment targets; make job creation a key criterion when selecting between investment alternatives; and ensure that rural infrastructure investments use labour-based techniques. It intends to undertake research on employment generation in both the formal and informal sector. However, the NEP is silent on the priorities and the sequencing of the implementation of different measures. These are meant to be the responsibility of the National Employment Council, which has yet to meet (see below section 4.4).

The Government commits itself to encouraging joint ventures with the private sector; establishing Export Processing Zones and industrial parks; supporting private sector initiatives that provide jobs to vulnerable youth, women and people with disabilities; reducing the costs of doing business so that the private sector remains viable and absorbs more labour; and encouraging private investments that generate decent jobs.

Assessment: Given the Government’s ideological stance, it comes as no surprise that the private sector features prominently in the NEP. The reference to the informal sector is

encouraging. But given its resource constraints the Government may also want to stimulate agencies outside the public sector to undertake research on employment in both the formal and the informal sector.

1. On Labour market information the NEP states that timely labour market information shall be generated by strengthening the Labour Ministry¹²⁷'s role as a depositary for labour and employment management information through, inter alia, the issuing of "computerized employment permits"; supporting private and public sector institutions in the production of labour market information; and collaborating with UBOS to develop "early warning indicators that would capture sharp falls in real wages".

Assessment The suggestion to support private labour market information providers is important in view of the government's resource constraints. See also the recommendations.

2. On enforcement of the labour law and other forms of labour protection the NEP states that the government shall be "implementing the labour laws, regulations and the fundamental principles and rights at work"; set up a mechanism to monitor real wage trends; establish a Minimum Wage Advisory Board to investigate the impact of minimum wages on employment, productivity, wages in key sectors; develop "a labour administration and employment services system that is pro-active, effective, impartial and service-oriented"; reactivate the National Tripartite Council to promote social dialogue and tripartism; strengthen the Industrial Court, the Labour Advisory Board, the Medical Arbitration Board and the Occupational Safety and Health Board; regulate, monitor and promote the establishment of private employment services.

Assessment The call for the government to implement the Labour Law and regulations is timely. Uganda is considered to have a good set of Labour Laws but enforcement of the law is weak. The trade unions are not particularly strong. The Labour Ministry is not particularly powerful. Many districts do not have their own labour inspector. The Industrial Court is inactive.

Setting up a minimum wage advisory board is also timely. As we pointed out in chapter 2, the absence of a minimum wage has made it easier for labour to be exploited. Many employers appear not to be against a minimum wage, provided it is negotiated and not imposed. Certain sectors (e.g. the flower sector) have such a (negotiated) minimum wage. Tanzania and Kenya have minimum wages.

The suggestion to promote private employment services is pragmatic in view of the limited capacity of the public sector. These private employment services can be a valuable source of labour market information- see also the recommendations at the end of this report.

In short, the NEP is full of ideas, suggestions for action, and good intentions. Many of these initiatives are in need of some type of funding. Other types of National Policy initiatives were expected to rely heavily on private funds or private-public partnerships. But such is the nature of the employment and labour initiatives that- with the exception of the training levy- it is unlikely that these will attract many private funds.

¹²⁷ The original text talks about the Ministry responsible for Labour. For the sake of brevity I am using the term Labour Ministry but (much to the regret of the union movement and others) Uganda does not have a special Labour Ministry; labour is among the responsibilities of the Minister of Gender, Labour and Social Development (MGLSD).

3. Conclusion and recommendations

3.1 Conclusion

The Ugandan economy has been growing at a respectable rate in the past two decades. A succession of reforms and one-off events such as ‘peace dividends’ have stimulated economic growth. The return to stability in Uganda and in neighbouring countries has been good for the Ugandan economy. The challenge is to keep up the momentum (which, admittedly, is partly outside the control of the Ugandan government) and turn the succession of one-off boosts into a lasting contribution to the economy and to employment. The prospect of becoming an oil producer and exporter is attractive. This can create some good jobs but, given that oil is a skill- and capital-intensive industry, many of these jobs need not necessarily be filled by Ugandan nationals because of the experience required.

Uganda’s employment problems are many. Arguably the most important one is the continued pressure that comes from the high and growing number of new jobseekers every year, itself the consequence of high population growth. A close second is the dearth of up-to-date labour market indicators and how to generate these. With so few hard data available it is difficult to decompose the general employment problem into more manageable sub-problems. In turn, this makes it difficult to assess the success (or lack of it) of the different policies that are being suggested in the public debate. The most *acute* problem is the decline in real incomes of the last few years, its magnitude, and how different groups have been affected.

The mismatch in the labour market is another big challenge. How can demand for and supply of skills be brought closer to each other? Uganda has on the one hand a large and growing reservoir of educated people looking in vain for a job, and on the other many employers who cannot find qualified technicians and middle managers. Groups of employers have approached selected learning institutes in an effort to bridge the skills gap but there is also a clear role for the government. A functioning, regional and nation-wide framework is needed to bring together employers’ associations, suppliers of labour market information, and suppliers of vocational education and training. The benefits of fine-tuning the demand for and supply of skills are immense. The costs to the country of failing to do so are high. There appears to be much goodwill all around but a well-functioning, flexible structure has yet to be put in place. Employers demand fiscal compensation for the costs of on-the-job training, and a say over how the proposed training levy will be spent but these are but two of several elements in which the productive sector needs to be involved in vocational training.

The 2011 National Employment Policy (NEP)

Depending on who is asked, the adoption of Uganda’s National Employment Policy in May 2011 was a major breakthrough, or just the “end of the beginning”. In a sense it was both. It is now up to the Labour Ministry to formulate a Plan of Action and for the Labour sector to continue to draw attention to key dimensions, to propose policy measures, and to pressure for their early adoption.

The NEP is a significant document for several reasons. It offered the Labour Sector the opportunity to draw attention to some key labour market aspects, such as the high number of yearly new job seekers and how this number will accelerate sharply in the years to come. It also offered the opportunity to explode some myths, such as the labour absorption capacity of foreign investments (which provide jobs to fewer than 10% of all new jobseekers) or, more generally, the belief that the formal sector can absorb all new entrants (it can’t), and what this entails for policy. The NEP officially assigns the coordinating mandate to the Labour Ministry. The new National Employment Council provides a framework for collaboration between different arms of government and with non-state actors for tackling

such pressing issues as the responsiveness of training and education to business needs, and the need for better labour market information.

Much of Uganda's future employment growth will come from the informal sector. It is encouraging that the NEP makes reference to the needs of the informal sector and how to make it more productive. The problem is that so little is known about employment status, occupations, and earnings in the informal labour market (Sender et al. 2009). Research should map out the full range of its activities, trends in its capacity to generate decent wage earning opportunities (GOU 2011) and the type of interventions needed to raise productivity and earnings of enterprises in this sector (MGLSD 2006).

3.2 Recommendations

On the economy

To create more jobs there is a need to broaden and deepen Uganda's production and export base. Productivity enhancing measures in agriculture (more irrigation, fertilizer, and extension services), where most people are active, and industry are essential. Sectors that look promising from an employment perspective include

- those for which being landlocked is no handicap (tourism; high value horticulture);
- sectors that make intensive use of Uganda's resource endowments such as food, other agriculture, food processing, and mining
- sectors that are linked to Uganda's 'new' status as a transit country (more efficient, more rapid, and higher-value transport and communications services); and above all
- Internet and telecommunications services that, once available country-wide, offer even greater potential than they already do now, both on their own, and in combination with banking (e-banking) and in rural areas (market information; extension services).

It may be tempting to identify specific products and industries for their economic and employment growth potential ("picking winners"), but at present priority attention should be given to typical cross-cutting elements, i.e. elements that benefit the economy as a whole or a broad range of economic sectors. These include both "hard" elements such as adequate and reliable electricity supply, and reliable and efficient communications infrastructure -both within the country and in Kenya; and "soft" elements such as adult education, customer-orientation, a hands-on attitude, quality consciousness, and respect for delivery schedules, as these are critical for success in production for both the domestic and the export market.

But if there is one winner to be picked it should be tourism. Over 800,000 people visit Uganda each year. Only part of these (around one-sixth according to UNCTAD) are 'holiday tourists'. Most foreign visitors are related to the Diaspora (to visit friends and relatives), to foreign trade and investment, to East African integration, and to the aid industry.

Tourism has low barriers to entry. People without much education but with good interpersonal and organizational skills have through enthusiasm and hard work ended up in responsible positions. Many tourist businesses do not need much start-up capital and are thus well-suited for people wishing to set up their own business (Van Liemt 2005). With tourism, 'exporting' becomes possible anywhere in the country, including in remote, underdeveloped rural areas. The potential "dual benefit" of tourism infrastructure (roads, airports, medical clinics, electrical and transmission facilities, water treatment plants, telecommunications and financial services) is another advantage (Horneck, 2008). There is a demonstration effect: foreign hotels train local people and demonstrate local establishments how to improve customer service and food hygiene (UNCTAD, 2008). But it should be kept in mind that tourism is a complex, interlinked chain of many different service elements (Horneck, 2008). One weak link in the tourism services chain, e.g. lack of high-quality telecommunications or unreliable electricity supply, weakens the sector's competitiveness (ibid).

On labour market information, education and training

The absence of detailed, reliable, up-to-date labour market data is a source of concern. There is an urgent need to improve the availability and the quality of information on the Uganda labour market. Plans to set up an EAC-wide labour market information system seem to have stalled for lack of funds¹²⁸. But something needs to be done. The labour module of the household surveys could be expanded. With more resources these surveys could be held more frequently and their results published more quickly. But even in the best of circumstances it will take time before the information thus collected will become available.

The labour market information problem affects the skills mismatch at three levels: (a) the supply and demand of skills for the formal sector, (b) the supply of and demand for skills for the informal sector; (c) the supply of and demand for professionals. This is not the place to deal with these issues in any detail but below we offer some pointers to help the discussion forward.

Successfully matching demand and supply of skills in the formal sector requires close contact between the authorities responsible for training on the one hand and associations of employers on the other, at both the regional and the sector level. These contacts, which should be regular and institutionalised, should make sure that training courses are as up-to-date and as relevant as possible; help build confidence among the partners; and provide a framework for the active participation of employers in training efforts through apprentice- and internships.

For the informal sector the situation is more complex. This sector is all-important because many Ugandan jobseekers will find their first job in this sector and yet so little is known about it. Which are the dynamic activities? What is the nature of their links to the formal sector? What kinds of jobs are on offer? How many people are self-employed and how many work for wages? How are people currently trained for work in the informal sector? Until and unless more light has been shed on these questions it is hard to be specific on the training needs for this sector. Policy-oriented research is thus a priority. Training courses for this sector will need to be short as many workers cannot afford to forego wages during training. Should these courses be integrated into regular vocational training courses or is a parallel set-up needed?

For professionals, the situation is again different. There may not be a sophisticated, integrated labour market information system available in the country, but bits of timely labour market information *are* available. UBOS scans the job ads in the newspapers. The Uganda Investment Authority asks potential foreign investors about their skills needs. Private employment agencies have a good view of what type of specialisation is in demand in their line of business. District labour officers have a view of local demand and supply for skilled workers. The Uganda Manufacturers Association has a computerized human resources (managers, engineers, technicians) data base for members. Production ministries, the Ministry of Education, the trade unions are likely to have snippets of information that they can contribute. Academics undertake labour market research.

It is recommended that all these bits of information are brought together at a central point. This point should be Internet-based and be 'collectively owned'. The ownership dimension is important. Participants should feel part of the project and not be asked to contribute because they have to. This will require an open approach. Participants could be asked to provide a short monthly report on what they see as the most important labour

¹²⁸ And in any case the EAC is mainly concerned with professional and skilled workers

market trends. Where possible, they may want to quantify these trends. In the first instance, no attempt at analysis of the raw data will be made¹²⁹. In due course, when the system is up and running, gaps will be identified. Key words are: voluntary, flexible, non-hierarchical, internet-based and low cost. The project could even be cost-neutral; one or several of the parties involved (private employment agencies?) may want to sponsor it.

Such an initiative would be a beginning, an effort to come up with some beacons which will make the Ugandan labour market for professionals a bit more transparent and thus efficient. The advantages of the suggested approach are obvious. It need not cost much; it will require, but also create goodwill and a sense of ownership; and because of its low profile and low cost it could start without delay.

On labour force growth

The Uganda labour force is growing at a fast rate and will continue to do so for years to come, thus significantly aggravating the job creation problem. From an employment perspective it seems urgent to bring down the rate of population growth. The reason for the urgency is that such a drop will only start affecting the growth of the labour force in another two decades. This requires political will but it can be done. One observer drew a parallel with the much-lauded reduction in cases of HIV/AIDS, a reduction that owes much to the single-minded determination of the Head of State.

To the Ministry responsible for Labour

The adoption of Uganda's National Employment Policy in May 2011 was a major achievement. However, the text of the NEP is not widely known within the country. The Ministry is therefore recommended to make this text more widely available to other parts of the public sector, the productive sector, as indeed the public at large. It should continue to keep these constituencies informed of progress on the Plan of Action and the decisions and deliberations of the National Employment Council. By doing so, it will stimulate debate on employment, draw attention to what the Government is doing to improve the situation, and raise its own profile in the process.

On ILO assistance on employment promotion

As is the case in other African countries, ILO assistance on employment promotion in Uganda faces two dilemmas. ILO constituents represent mainly if not exclusively the formal sector and this is seen as one reason why less attention is given to the informal and more to the formal sector, even when the former is the most dynamic labour absorbing sector.

The institutional conduit for contact between the ILO and the Government is the Ministry responsible for Labour. ILO assistance in the area of employment promotion is channelled through this Ministry because it is seen as almost the natural thing to do. Nonetheless, this Ministry is seriously underfunded and understaffed. Also, the NEP is meant to deal with a range of concerns, from macro-economics to the setting up of industrial parks, from improved labour market information to labour law reform, from minimum wage monitoring and social dialogue promotion to enhancing labour productivity and skills development.

In light of this it is fair to ask whether ILO employment assistance should be directed exclusively at the Ministry responsible for Labour. The Government of Uganda assigned the overall co-ordination of the National Employment Policy (NEP) to the Labour Ministry and

¹²⁹ but individual participants and third parties should not be dissuaded from doing so

this should help serve the ILO as a channel for reaching out to the other sectors concerned. But Government initiatives that bypass the Labour Ministry, as occurred with the MOFPED Youth Employment initiative, cannot be excluded. The ILO may want to adopt a pragmatic approach in its choice of agency to work with and be ready to respond to calls from other sectors, including from the National Planning Authority NPA.

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Annex 1: Key dates and events

1962	Independence from the UK
1962	First Obote Government
1967	Uganda becomes a Republic. Obote president
1971	Idi Amin Dada president. Asian citizens expelled.
1979	The Ugandan army invades Tanzania. Combined forces of Ugandan exiles and Tanzanian army in turn invade Uganda
1979-1986	Several governments led by messrs. Lule, Binaisa, Muwanga, Oyite-Ojik, Obote (II), and Okello. Between 1971 and 1986 several hundreds of thousands of Ugandans are killed by state security forces and in internal conflict. Poor economic policies and political instability leave the economy in a sorry state.
1986	Yoweri Museveni, the leader of the NRM (National Resistance Movement- the political wing of the National Resistance Army NRA) assumes power. However, in several parts of the country rebel groups continue to be active, the Lord's Resistance Army (LRA) operating in Northern Uganda being the most prominent. Museveni rules under a 'no-party' arrangement. Neoliberal policies are introduced that welcome foreign investment and tourism. Public enterprises are privatized. Public service workers retrenched.
1996	Museveni elected president.
2001, 2006, and 2011	Museveni re-elected president.

Annex 2: People interviewed

Public sector:

Ministry of Gender, Labour & Social Development (MGLSD)	Ms. Christine Guwatudde, Permanent Secretary Mr. Ojja-Andira, Acting Commissioner Labour, Industrial Relations & Productivity Ms. Harriet Luyima, Acting Director for Labour Mr. Milton Turyasiima, Senior labour Officer/Employment
Ministry of Education and Sports	Mr. Ilahi Mansoor, Assistant Commissioner, Technical Education
Ministry of Tourism, Trade and Industry	Eng. Samuel Ssenkungu, Commissioner, Industry and Technology
Ministry of Agriculture and Fisheries	Mr. Godfrey Kivunike, Principal Policy Analyst Mr. Onuku Augustine, Principal Personnel Officer
National Planning Authority	Mr. John Kavuma, Economic Analyst
Uganda Investment Authority	Mr. Lawrence Byensi, Director
Enterprise Uganda	Mr. Charles Ocici, Executive Director
Uganda Bureau of Statistics (UBOS)	Mr. Wilson Nyegenye, Principal Statistician

Trade Unions:

National Organisation of Trade Unions (NOTU)	Mr. Peter Christopher Werikhe, Secretary General Mr. Owere Usher Wilson, Chairman General
Central Organisation of Free Trade Unions (COFTU)	

Dr. Sam Lyomoki, MP, Secretary General
Mr. Christopher Kahirita, Chairman General
Mr. Robert Wanzusi Matukhu, Dept. Secretary General
Mr. Justin Talenga, Director of Education and Training
Mr. Joseph Mbabazi, Treasurer General

Employers:

Private Sector Foundation	Mr. Gideon Badagawa, Executive Director
Uganda Manufacturers Association	Mr. Andrew Luzze Kaggawa, Manager Policy Research & Advocacy
Federation of Uganda Employers	Ms. Nyachwo Julian, Employment Relations Officer
Wagagai Farms	Mr. Olav Boenders, manager

Other Uganda:

Platform for Labour Action	Ms. Dorah Mafabi
Foundation for Advancement of Small Enterprises and Rural Technologies (FASERT)	Mr. Alex Menyha, Executive Director
Dr. John-Jean B. Barya	Associate Professor of Law, Makerere University

International:

ILO	Ms. Grace Rwomushana, Project officer
Netherlands embassy	Mr. Arne Brandsma, First secretary
	Mr. Michael Nsereko, Finance and results analyst
UNDP	Ms Regina Akello, Programme associate
World Bank	Ms. Rachel Kaggawa Sebudde, Senior Economist

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