This chapter examines the impact of the global economic crisis on labour markets in emerging economies and the role of employment and social policies to support workers and their families affected by the crisis. The increase in unemployment and underemployment has put considerable pressure on existing social support systems in all emerging economies. Even in normal times, social safety nets in emerging economies have great difficulty in providing effective support to all those who need it. This raises concerns about the administrative capacity and fiscal resources available to scale up social safety nets rapidly enough to meet the increase in needs, while maintaining their effectiveness. Most emerging countries are also facing the challenge of providing support to workers directly affected by the global crisis while also helping poor households that may have become ever poorer. This means that employment and social policies should be prepared to address the needs of very different groups. Three different types of employment and social policy measures are considered: unemployment compensation schemes; cash transfers programmes and public works programmes. The most important lesson from this chapter is that in order to respond effectively to the sudden increase in social needs, it is crucial to already have social protection programmes in place.
Introduction

The world economy is now emerging from the worst economic downturn since the Great Depression. The consequences of the crisis have been felt in virtually all economies, although the extent of the economic impact differs significantly across countries. This chapter examines the impact of the global crisis on labour markets in emerging economies and the role of employment and social policies to support the incomes of those affected by the crisis. The focus is on key emerging economies, in particular, Brazil, Chile, China, India, Indonesia, Mexico, the Russian Federation, South Africa, and Turkey. These countries are either member of the OECD (e.g. Chile, Mexico and Turkey) or in a process of “enhanced engagement” with the OECD.1 The economic importance of these nine economies is substantial. Together they account for half the world’s population and a fifth of the world’s exports and GDP. Moreover, all countries except Chile are members of the G20.

The global crisis presents important challenges for employment and social policies in these emerging economies.2 First, the overall increase in unemployment and underemployment has put considerable pressure on existing social support systems. Even in normal times, social safety nets in emerging economies have great difficulty in providing effective support to all those who need it. This raises concerns about the administrative capacity and fiscal resources available to scale up social safety nets rapidly enough to meet the increase in needs, while maintaining their effectiveness. Second, most emerging countries are also facing the challenge of providing support to workers directly affected by the global crisis while also helping the households that may have become ever poorer. This means that employment and social policies should be prepared to address the needs of very different groups.

The remainder of this chapter is organised as follows. Section 1 provides an initial assessment of the economic and social impact of the global economic crisis in the nine emerging economies. In order to get a better understanding of the mechanisms involved, Section 2 reviews previous crisis episodes in the selected emerging economies and discusses to what extent these past episodes are comparable with the most recent downturn. It also analyses the sensitivity of different groups to macroeconomic shocks and their risk of becoming informal during the recent crisis. Section 3 analyses the role of employment and social policies in times of crisis. The discussion is structured around three policy areas that have a major role to play in addressing the needs of different groups of workers in times of crisis: unemployment compensation schemes, cash transfers and public works programmes.

Main findings

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

- The social impact of the global economic crisis may have been particularly severe in emerging economies as workers tend to be more vulnerable to shocks than their counterparts in advanced economies. Absolute poverty is still a major concern in several emerging economies and poor households have a more limited ability to cope with adverse income shocks. Moreover, employment and social policies have a more limited reach due to widespread labour informality and their effectiveness to protect the incomes of those covered tends to be more limited. Finally, the social consequences of the crisis may be long-lasting due to the presence of poverty traps (e.g. education, health).

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

- The current crisis had a strong impact on labour markets in most of the emerging economies considered in this chapter:
  - The employment rate declined and the unemployment rate increased in all emerging economies except Indonesia. However, the response of the employment and unemployment rates to the fall in aggregate demand has been relatively weak in the majority of the emerging economies compared with the OECD. This reflects to an important extent the weakness of social protection systems in emerging economies and the strong incentives for workers to stay in employment, even if this is only possible at a reduced income. As a result, changes in employment and unemployment tend to hide a significant part of the labour market adjustment that has taken place in emerging economies.
  - Cyclical adjustments in real earnings have been relatively important in some emerging economies compared with the OECD average (e.g. Mexico, Russian Federation, South Africa, Turkey). In some countries, particularly in Turkey, this is driven by substantial reductions in average hours worked. It is still too early to assess to what extent job losses and lower earnings have had an impact in reversing the recent progress in reducing absolute poverty. However, consumption growth has suffered substantially in five of the emerging economies, both in absolute terms and relative to the size of the shock.

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

- Simulation evidence for Brazil and Mexico suggests that the **negative impact of the crisis of 2008-09 on formal employment is likely to be much larger than that during previous crisis episodes**. In Brazil, this reflects both the larger size of the recent shock compared with the crisis of 1998 and 1999 and the substantially larger concentration of the current shock in the tradable sector. In Mexico, the size of the recent shock is similar to that of the mid-1990s crisis. The larger expected decline in formal employment in the recent crisis is, therefore, entirely driven by the greater concentration of the 2008-09 crisis in the tradable sector.

- The simulations further suggest that, similar to past crisis episodes, the risk of becoming **informal increased particularly for disadvantaged groups**. More specifically, young and relatively low-skilled formal workers in Brazil and Mexico were at high risk to lose their jobs, while the risk of job loss among high-skilled and older formal workers was comparatively limited. The quantitative differences in the risk of job loss among formal workers across population groups are large. For example, the expected increase in the risk of job loss among formally employed youth is more than three times that of formal high-skilled workers in Brazil or that of formal older workers in Mexico.

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

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

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

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

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

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

1.1. The economic crisis in emerging economies

The world economy is now emerging from the worst economic downturn since the Great Depression. The downturn was exceptional in terms of its depth as well as its synchronised nature. Between 2008 and 2009, the world economy contracted by 0.8% (IMF, 2010), the first such drop since World War II. The consequences of the crisis have been felt in virtually all economies irrespective of their direct exposure to the turmoil in financial markets that led to the crisis. A concise way to summarise the economic impact of the crisis in the nine emerging economies is by means of the cumulative output and growth losses. The cumulative output loss captures the total loss in output during the recession period, while the cumulative growth loss captures the total loss in output relative to the growth in output that would have occurred in the absence of the global crisis. The two measures provide the same qualitative picture (see Figure 2.1).3, 4

The cumulative output loss varies widely across countries. In Turkey, Mexico5 and the Russian Federation, the total output loss was largest, amounting to 14.2%, 8.9% and 8.8% respectively. This is considerably larger than the equivalent output loss of 4.6% for the OECD as a whole. In the other emerging countries, the recession tended to be shallower than for the OECD average. Three countries, China, India and Indonesia, never went into recession – defined as having at least two consecutive quarters of negative output growth – although India’s output growth dipped briefly into negative territory during 2008 Q4. However, looking at the cumulative output loss associated with recessions is potentially misleading as it does not take account of the very different starting points at which countries were hit by the global crisis. Indeed, all selected countries tended to outperform the OECD area in terms of their underlying GDP growth at the onset of the global economic downturn, with average growth rates ranging from 4.0% in Mexico to 11.4% in China during the three years before the crisis compared with 2.9% for the OECD area as a whole. As a result, the absolute output loss tends to understate the economic impact of the global crisis in the countries considered in this chapter.
The economic impact of the global crisis is considerably larger when looking at the cumulative growth loss which takes account of cross-country differences in pre-crisis growth rates at the onset of the global crisis. As before, this measure singles out the Russian Federation and Turkey as the most severely affected economies. Using GDP trends from 2005 Q1 to the start of the crisis as a benchmark, GDP was about 20% smaller in those countries than what would have been in the absence of the crisis. This is approximately 2.5 times the cumulative growth loss of the OECD as a whole which amounted to about 8%. The growth loss in Mexico was also substantially larger than that for the OECD, amounting to 13%. In Chile, South Africa and Brazil, the cumulative growth loss was similar to that of the OECD. In China, India and Indonesia, the growth output loss was relatively modest, ranging from 2% in Indonesia to 5% in China. As the cumulative growth loss provides a more accurate description of the economic impact of the global crisis, a similar method is also used to assess the cyclical impact of the crisis on labour markets in Section 1.2.

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

Export demand plummeted...

The first main channel through which the economic downturn in advanced economies has been transmitted to emerging economies is international trade. The importance of trade has increased across the globe in recent decades, but particularly so for the emerging economies. Due to a combination of political, economic and geographic factors, many of these economies were not closely linked to the world economy in the
early 1980s. However, as a result of significant political changes, increasingly export-oriented economic policies and declining trade costs, these countries have all become important trading economies. Yet, the increased integration in the world economy has also meant that they have become more vulnerable to adverse economic shocks in advanced countries. This may be particularly important for Chile and China where exports accounted for about 40% and 35% of GDP respectively in 2008, considerably above the OECD average, while the vulnerability to trade shocks of Brazil and India remains modest, with exports accounting for around 15% of GDP. While the ratio of exports to GDP may provide a first indication of the exposure of emerging economies to economic shocks in advanced economies, a full understanding of the role of trade also requires an examination of bilateral trade patterns and the domestic content of exports.8

As a result of the economic crisis in the US and other advanced economies, world trade plummeted during the last quarter of 2008 and the beginning of 2009. The contraction in world trade was more than eight times larger than that in world output. The proportional response of world trade to world demand also appears to have been substantially stronger than that observed in the past. This is attributed to the growing importance of international production networks and the impact of the credit crunch on trade finance (Cheung and Guichard, 2009; Freund, 2009). Consequently, foreign demand for domestic production has been hit hard in all emerging economies. In addition, large net exporters of natural resources and agricultural commodities such as Chile and the Russian Federation also suffered from a substantial deterioration in the terms of trade brought about by the fall in prices for primary commodities. Over the year to 2009 Q3, the decline in the value of exports in terms of 2008 Q3 GDP ranged from almost 4 percentage points in Brazil to more than 11 percentage points in the Russian Federation compared with almost 6 percentage points in the OECD area (Figure 2.2).9 The relatively modest decline in Brazil, India and Indonesia reflects a combination of relatively low export openness at the onset of the crisis (particularly the former two) and relatively high importance of South-South

Figure 2.2. Impact of the global financial crisis on exports

[Graph showing percentage change in exports from 2008 Q3 to 2009 Q3 for various countries.

Source: OECD calculations based on OECD Main Economic Indicators Database.
StatLink: [http://dx.doi.org/10.1787/888932292574](http://dx.doi.org/10.1787/888932292574)
trade for those countries. Despite the sharp fall in world trade, world exports have rebounded fairly quickly.

... and credit has been severely restricted in some emerging economies

Financial linkages represent the second main channel through which the crisis was transmitted to emerging economies. While the direct effect of the credit crunch in advanced economies on the availability of domestic lending in emerging economies has been relatively modest due to the lack of exposure of domestic financial institutions to subprime mortgages and other complex derivatives, credit has been severely restricted in a number of emerging economies, due to “sudden stops”, the rapid and drastic decline in international private capital inflows. Financial linkages represent the second main channel through which the crisis was transmitted to emerging economies. While the direct effect of the credit crunch in advanced economies on the availability of domestic lending in emerging economies has been relatively modest due to the lack of exposure of domestic financial institutions to subprime mortgages and other complex derivatives, credit has been severely restricted in a number of emerging economies, due to “sudden stops”, the rapid and drastic decline in international private capital inflows. The largest proportional declines are observed for bank lending and portfolio investment (IMF, 2009a). However, even foreign direct investment inflows, which traditionally have tended to be less sensitive to the business cycle and tended to be the most important source of external finance in emerging economies before the crisis, have declined sharply between 2008 and 2009 in all countries except China (see Figure 2.3). This is particularly important for Chile and the Russian Federation where FDI inflows as a percentage of 2008 GDP fell by around 2 percentage points, reflecting the relatively high importance of FDI for those economies before the crisis. In emerging Asia, the decline in the availability of external finance, as measured by FDI inflows, has been limited. These trends play an important role in explaining the steep decline in private sector investment and output growth.

Figure 2.3. Impact of the global financial crisis on foreign direct investment and remittances inflows
Change from 2008 to 2009 as percentage of 2008 GDP


International transfers in the form of remittances or public aid also declined during the economic downturn. While the overall importance of remittances in emerging economies in terms of GDP tends to be relatively limited, a decline in such transfers may have important distributional implications as they tend to be more important for poor households. The
World Bank estimates that remittances declined in all selected emerging economies between 2008 and 2009 (see Figure 2.3). The reduction in remittances inflows in terms of 2008 GDP was most important in India and Mexico, which are also the two emerging economies that relied most heavily on remittances inflows before the crisis. The recent decline stands in contrast to the experience in previous economic downturns during which migrants tended to increase remittances to support the incomes of their relatives. This reflects the global nature of the 2008-09 crisis, as migrants in advanced economies and their relatives in emerging economies are both suffering from the crisis. Moreover, development aid may also be expected to decline. An obvious reason for this is that the level of official development aid (ODA) is tied to the level of GDP, which has declined in most donor countries. However, according to OECD estimates, several large donors are also expected to fall short in 2010 of their aid commitments made at Gleneagles in 2005, which may partly be a result of the large increase in fiscal deficits in these donor countries.

**Macroeconomic stabilisation efforts prior to the crisis helped to dampen the impact of the global crisis**

Most emerging economies considered in this chapter have made significant progress towards macroeconomic stability. This helped to dampen the economic impact of the global crisis. Low current account and fiscal deficits have helped to limit the reduction in capital inflows, re-establish financial stability and prevent wider systematic damage (IMF, 2009a). Moreover, low inflation levels at the onset of the crisis enabled a strong monetary policy response whereas relatively low fiscal deficits enabled countercyclical fiscal policies to operate. Compared with OECD countries, where policy interest rates soon approached zero, there has generally been more scope for monetary easing in emerging economies. Table 2.1 provides an overview of the role of fiscal policy during the global crisis in the selected emerging economies. It shows that, while the role of counter-cyclical fiscal policy has tended to be more important in advanced economies, fiscal policy also has been

<table>
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<th>Table 2.1. Fiscal policy during the global financial crisis</th>
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<td><strong>Overall fiscal balance</strong></td>
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<td>Advanced economies</td>
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<td>Emerging economies</td>
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strongly counter-cyclical in emerging economies. The larger overall reduction in fiscal balances in advanced economies is likely to reflect the role of automatic stabilisers as the role of discretionary fiscal stimulus measures related to the crisis has tended to be somewhat more important, on average, in emerging economies. Discretionary fiscal stimulus packages have been particularly important in China, the Russian Federation and South Africa.\(^\text{15}\) Compared with advanced economies, discretionary measures are more heavily weighted towards infrastructure (e.g. China and South Africa) and social transfers (e.g. the Russian Federation) and less towards personal income tax cuts (IMF, 2009b). Importantly in the context of this chapter, social spending levels have generally been maintained, although it is not clear to what extent social spending has also increased in proportion to the increase in needs (see Section 3).

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

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

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

The emerging economies considered in this chapter all have substantially lower levels of GDP per capita than the OECD area as a whole (see Figure 2.4). In the Russian Federation, the most developed of the emerging economies, GDP per capita amounted to just 45% of the OECD average (or slightly less than USD 14 000 at 2005 constant prices), while in India, the least developed of the selected countries, GDP per capita only amounted to 8% of the OECD

![Figure 2.4. GDP per capita is much lower in emerging economies than in the OECD area](http://dx.doi.org/10.1787/888932292612)
average (or USD 2,600). Nevertheless, most emerging economies have made significant progress during recent years. In China, GDP per capita increased by 175% over the period 1995-2007 (equivalent to 15% per year), raising its GDP per capita relative to the OECD from 8% in 1995 to 16% in 2007. In India and the Russian Federation, GDP per capita also increased rapidly by 86% and 77%, respectively (or 7% and 6% per year), while in Chile, Turkey and Mexico, it grew substantially more rapidly than in the OECD as a whole. In Brazil, Indonesia and South Africa, growth was somewhat slower than that of the OECD average.

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

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

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

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

In order to provide empirical content to the conceptual definition of informal employment presented above, two measures of informality are used in this chapter. The first measure focuses on social security registrations. This is the preferred definition for the purposes of this chapter as it gives an indication of the extent to which workers can access social security provisions when they confront adverse labour market outcomes. The main limitation is that information on social-security registrations is not available for all countries. To address this shortcoming, a second definition is used based on the occupational status of workers, and in particular, the share of self-employed in total employment. While this definition is often used for cross-country comparisons, it only provides a very rough indication of the importance of precarious jobs in the economy. Figure 2.6 presents the level of informality according to the two definitions in 2005, as well their evolution during the past decade. For details on the precise definitions for each country, see Annex 2.A3 of OECD (2010c).

Figure 2.6 confirms that informality is widespread in emerging economies irrespective of the particular measure used. The share of workers at the onset of the crisis not affiliated to any social security programme in total employment ranges from 26% in South Africa to 54% in Mexico, while the share of self-employment over the total ranges from 7% in the Russian Federation to almost 64% in Indonesia. There is some evidence of a decline in informality in recent years as illustrated by the decline in the share of workers not affiliated to any social security programme, although the share of non-salaried workers has tended to increase in some countries. The rise in the share of workers affiliated to social security programmes is encouraging in its own right as this means that an increasing share of the workforce will be entitled to social security benefits, but also may indicate that average job quality has increased as workers who are entitled to social security benefits also tend to benefit from better wages and working conditions. Indeed, the growing formalisation of emerging economies in recent years is likely to have contributed to the decline in poverty documented in Figure 2.5.
Bearing in mind the often widespread informality and persistent poverty among working households, aggregate labour market indicators hide significant differences among emerging economies and with respect to the OECD (see Table 2.2). In most emerging economies, the share of the working-age population in employment tends to be somewhat lower than that for the OECD as a whole and in some cases much lower (e.g. Turkey and India). Lower employment rates typically reflect lower female participation in the labour force related to cultural norms and high fertility rates. In most of the emerging economies considered here, unemployment rates tend to be similar or slightly higher than that of the OECD. A notable exception is South Africa where high and persistent unemployment presents a major social concern, with unemployment rates consistently above 20%.

Cyclical unemployment increased in all emerging economies except Indonesia

In order to get an idea of the impact of the global financial crisis, Figure 2.7 represents the cyclical changes in the employment and unemployment rates during the slowdown in economic growth. Cyclical changes are calculated as deviations from the pre-crisis trend over the period during which output growth declined. Annex 2.A2 in OECD (2010c) provides data on pre-crisis trends, cyclical changes in labour market outcomes during the growth slowdown, and the cyclical response in labour market outcomes to the slowdown in economic growth.

- All countries for which comparable data are available except Indonesia, where the economic impact of the crisis was marginal, experienced a cyclical reduction in employment. The cyclical decline in employment has been particularly strong in South

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Figure 2.6. Informal employment is widespread in most emerging economies

Source: OECD calculation based on national labour force surveys: Brazil (PNAD), Chile (CASEN), Indonesia (SAKERNAS), Mexico (ENEU), Turkey (LFS), Russian Federation (LFS), South Africa (LFS) and India (Employment and Unemployment Survey of Households). For more details on the definitions used, see Annex 2.A3 of OECD (2010c).
Table 2.2. **Recent trends in labour market outcomes**
Population aged 15 and above, not seasonally adjusted

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**Panel A. Employment rate**

**Panel B. Unemployment rate**

**Panel C. Participation rate**

- a) Quarterly data refer only to the metropolitan areas and are therefore not representative of the entire labour market. Annual data come from a different source and refer to the entire economy.
- b) The unemployment rate is measured as a percentage of the estimated urban non-agricultural labour force.
- c) Data for Indonesia are not harmonised. The unemployment rate is higher than it would be based on the harmonised definition as it includes discouraged workers.

Source: National labour force surveys. Data for Mexico prior to 2005 for employment and participation come from the SEDLAC Database. Annual data for Brazil come from the PNAD (Pesquisa Nacional por Amostra de Domicílios); quarterly data come from PME (Pesquisa Mensal de Emprego).

Africa, where the decline was largest in absolute terms (e.g. over 3.5 percentage points) as well as relative to the size of the economic shock. In Mexico, the absolute decline in the cyclical employment rate was slightly above that of the OECD average, while the decline relative to the size of the shock was somewhat smaller. In all the other emerging economies for which comparable data are available, the decline in the cyclical
employment rate was smaller than that in the OECD area, both in absolute terms and relative to the size of the shock.

- All countries in Figure 2.7 that experienced a cyclical decline in the employment rate also experienced a cyclical increase in the unemployment rate. However, there is no strong correspondence between increases in the employment rate and decreases in the unemployment rate. To a large extent this reflects the role of changes in labour force...
participation. For example, in South Africa and Mexico, the cyclical increase in the unemployment rate is rather small compared with the rise in the employment rate. This may reflect the role of “discouraged-worker effects”, which arise when workers withdraw from the labour force because of lacking employment opportunities, thereby reducing the impact of the crisis on unemployment. By contrast, Turkey which experienced the weakest response in the employment rate to the growth slowdown, suffered from a cyclical rise in the unemployment rate of 4.5 percentage points, the largest rise among the emerging economies considered here. In part, this may reflect the importance of “added-worker effects” which arise when additional workers enter the labour force to compensate for the loss of household income, thereby magnifying the impact of the crisis on unemployment. However, it also reflects the relatively low level of labour force participation at the onset of the crisis.

● The relatively weak response of the employment and unemployment rates to the fall in aggregate demand in the majority of the emerging economies relative to that in the OECD is likely to reflect the relatively greater importance of adjustment on the earnings margin. In countries where unemployment insurance does not exist or its coverage is poor (see Section 3), job losers in the formal sector may move into informal employment in order to maintain some income during the slowdown. However, it may also reflect the relative importance of adjustments on the intensive margin such as reductions in average hours and pay in accommodating the slowdown in output growth. As a result, changes in employment and unemployment may hide a significant part of the labour demand adjustment that has taken place in emerging economies.

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

The relative importance of adjustments on the employment and earnings margins differs considerably across countries (Figure 2.8, Panel A). In some countries, the cyclical change in real earnings relative to that of employment has been more important than in the OECD (e.g. Russian Federation, Mexico, Turkey and South Africa), while in other emerging economies most of the adjustment appears to have taken the form of job losses (e.g. Chile, Brazil). The absence of a systematic pattern across emerging economies during the 2008-09 crisis is noteworthy. During previous crisis episodes a substantial part of the adjustment in these economies has tended to take place on the earnings margin. This largely reflects the fact that most previous crisis episodes in those countries were associated with high price inflation, which enhanced the scope for adjustment on the earnings margin without requiring a reduction in nominal wages. As a result, in the past, labour productivity was not only more variable over the cycle, but earnings were also more responsive to changes in labour productivity. The relatively smaller scope for adjustments on the earnings margin during the 2008-09 crisis may have increased the relative importance of adjustments on the employment margin compared with the past. Nevertheless, the relative importance of cyclical adjustments earnings in some countries suggests that the policy response should not just focus on job losers but also on workers who managed to stay in employment during the slowdown (not necessarily in the same job), but have seen their incomes substantially reduced.

The cyclical changes in earnings can be decomposed in the cyclical reduction in average hours worked and the cyclical reduction in average hourly wages. These are represented in Panel B of Figure 2.8. The role of changes in average hours worked in labour
demand adjustment differs greatly across the countries for which comparable data are available. In Turkey, the cyclical reduction in average hours during the economic slowdown amounted to more than 5%, more than double the average cyclical decline in the OECD area, while average hours worked also declined in Mexico and Brazil.\textsuperscript{32} Except for Mexico, where the cyclical decline in average hourly wages was similar to that in average hours worked, average hourly wages increased relative to the pre-crisis trend in the emerging economies for which comparable data are available as well as in the OECD area. This is most likely to reflect a change in the composition of the workforce due to the concentration of job losses among low-wage workers.
Job losses and reductions in real earnings have important social implications for workers and their families who see their incomes reduced. It is still too early to assess to what extent jobs losses and lower earnings have had an impact in reversing the recent progress in reducing absolute poverty and changing recent trends in inequality. One may be able to get a first indication of the impact of the crisis on poverty by looking at the impact of the global crisis on average consumption trends. Figure 2.9 shows that consumption growth has suffered substantially in a number of emerging economies. Consumption suffered most in the Russian Federation, Turkey and Mexico where the economic impact of the crisis was most severe. In South Africa and Chile, consumption also declined more than for the OECD average, while in Brazil and India the decline was very small and in Indonesia consumption continued to increase. However, a full understanding of the implications of the crisis for poverty would also require information about the way the distribution of consumption growth has been affected by the slowdown.

Figure 2.9. Cyclical changes in consumption during the crisis

The impact of the crisis on the labour market may be expected to be highly uneven across sectors and economic groups. The discussion in Section 1.1 suggests that the direct impact of the slowdown may be concentrated among formal workers as such workers represent a disproportionate share of the workforce in exporting firms and firms with high levels of leverage. To the extent that such workers tend to have better access to social security provisions, this may help to reduce the impact of the global crisis on average consumption relative to previous crisis episodes. However, it also raises important questions about the effectiveness of social security programs in supporting formal workers who lose their jobs or see their earnings seriously reduced. The indirect effects beyond exporting or leveraged firms are more difficult to predict. However, the social consequences are potentially important as the scope of formal mechanisms to mitigate the impact of shocks among informal workers is much more limited. Given the precariousness of informal work, it will be crucial to ensure that informal workers do not fall back into

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Figure 2.9. Cyclical changes in consumption during the crisis

Cyclical changes are calculated over the economic slowdown period with respect to the pre-crisis trend. Data are seasonally adjusted.

Source: OECD calculations based on OECD Main Economic Indicators and National Quarterly Accounts Databases. 

StatLink: [http://dx.doi.org/10.1787/888932292707](http://dx.doi.org/10.1787/888932292707)
2. The impact of previous crisis episodes on labour markets and demographic groups

The 2008-09 slowdown, as described in the previous section, is expected to have had profound effects on labour markets in emerging economies. Unfortunately, no up-to-date data exist that provide information on the way job quality and formal employment have evolved during the crisis or that allow one to identify which population groups have been hurt the most. One may, however, be able to get some handle on these issues by looking at previous crisis episodes. Although there are important differences between past crises and the recent one, careful comparisons can help identifying the mechanisms through which demand shocks are transmitted to the labour market and identify the groups that are the most vulnerable.

The analysis in this section focuses on recent economic downturns in five out of the nine countries covered in this chapter. The objective of this section is three-fold: i) to discuss the nature of previous crisis episodes and their implications for labour markets; ii) to document which groups are most vulnerable in normal times and which groups were most affected in past crises; and iii) to simulate the possible impact of the current crisis on the share of formal employment in total employment by population group.

2.1. How did past crisis episodes affect aggregate labour market outcomes?

As the current crisis originated from abroad, it is quite different in nature from past demand shocks experienced by many of the emerging economies over the past decade which had primarily internal origins. Indeed, the crises in the mid- to late 1990s in Brazil, Chile, Indonesia and Mexico, were balance-of-payments crises triggered by broader economic developments in Asia in the first three, and domestic imbalances in Mexico. Importantly, all these crises resulted in large currency devaluations, resulting in high inflation and a boost to net exports. The left panels of Figure 2.10 show that the declines in aggregate demand between 1997 and 1998 in Indonesia and between 1994 and 1995 in Mexico were both associated with an improvement in the trade balance. A similar pattern is observed during previous crises in Brazil, Chile and Turkey (see Annex 2.A4 of OECD, 2010c).

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

- Financial crises hit first cyclical sectors, such as construction and manufacturing, and were associated with increases in unemployment. The magnitude and duration of the impact on unemployment varied greatly across countries (see the right panels of Figure 2.10 for Indonesia and Mexico and Annex 2.A4 of OECD 2010c, for Brazil, Chile and Turkey). While Chile, Mexico and Turkey experienced substantial increases in unemployment, in Indonesia and Brazil, the demand shock translated into only mild increases in unemployment.35
- The share of informal employment in total non-primary sector employment increased in all countries.36 It increased substantially in Mexico and Turkey and moderately in Brazil, Chile and Indonesia during the years following the economic downturn. Among emerging economies, Mexico experienced the most important and persistent rise in the poverty. It will be a major challenge to ensure that both the needs of those most affected and those of the most vulnerable are addressed effectively.
share of workers not covered by social security as well as in the share of the self-employed in total employment.  

- In countries where past crises were accompanied by currency devaluations and high inflation, the adjustment through declines in real wages was relatively more important than that through changes in (un)employment. This was especially the case in Indonesia and Mexico, where real wages declined by 30% and 13% between 1997 and 1998 and between 1994 and 1995, respectively (Dhanani et al., 2009 on Indonesia; and McKenzie, 2003 on Mexico).
Part of the adjustment operated through declines in hours worked. Average hours fell as a result of the Asian crisis in Indonesia, with the proportion of those working less than 35 hours increasing from 35.8 to 39.1% in 1998 (Dhanani et al., 2009).

The recent global crisis and past crises both represent substantial reductions in aggregated demand associated with a credit crunch – even if for different reasons – but differ in one important dimension: previous crisis episodes were balance-of-payments crises, whereas the current crisis is not. This has two important implications. First, the global crisis in emerging economies is not systematically associated with higher levels of price inflation, as was the case during balance-of-payments crises in the past. This is likely to reduce the scope for adjustment on the wage margin and may have increased the role of other margins of adjustment (e.g. employment reductions, formal job losers moving into informal jobs, average hours reductions). Second, the sharp reduction in external demand combined with the absence of large currency devaluations/depreciations during the global crisis in emerging economies implies that the tradable sector has been hit much harder during this crisis than during previous crisis episodes (see Section 1).\(^38\) As workers in the tradable sector are much more likely to be formal than workers in the rest of the economy (see Annex 2.A4 of OECD, 2010c), this suggests that the adverse impact of the global crisis on the share formal employment in the total may be even larger during the recent downturn than during the earlier episodes described above.

2.2. Which groups were most vulnerable and which groups most affected during previous crises?

This section uses historical data for past recessions to assess which population groups tend to have the weakest labour market performances and, as a result, may be most vulnerable to negative income shocks and which population groups are most sensitive to the business cycle in terms of their labour market outcomes.

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

In order to identify the most vulnerable groups in terms of their initial labour market position, Figure 2.11 presents data on the main labour market outcomes for different population groups in emerging economies, e.g. formal employment, informal employment, unemployment and inactivity. Population groups are defined by age, education, gender and rural/urban location.\(^39\) For expositional purposes, the figure represents averages across three countries: Brazil, Chile and Mexico.\(^40\)

- **Gender.** Similar to the situation in some OECD countries, women in emerging economies face barriers to employment. Not only do they have a higher probability of being out of the labour force relative to men, but they are also more likely to have an informal job when employed. Moreover, Chen et al. (2004) argue that they tend to be more represented in the lower segment of the informal sector, implying lower earnings relative to informal male workers. In addition, subcontracting, especially to home-based workers, may further contribute to the lower coverage of social protection among women and their limited protection by labour laws.\(^41\)

- **Age.** As in OECD countries, youth in emerging economies fare worse than prime-age and older persons in terms of their labour market outcomes. Youth have the highest unemployment and inactivity rates compared with prime-age and older workers. In countries with a small formal sector, many youth are queuing for formal jobs and, during the wait, are often pushed into precarious and informal employment.
Skill. The low- and semi-skilled are more likely to be inactive relative to the high-skilled, and also have lower employment rates. Moreover, the probability of being employed in an informal job decreases strongly with higher skills.

Location. Workers in rural areas face lower unemployment rates compared with their urban counterparts but substantially higher rates of informality.

In sum, women, youth, and the low-skilled tend to have weaker labour market outcomes compared with other groups. As a result, such individuals are more likely to be poor and are more vulnerable to income shocks. However, due to the relatively weaker level of labour market engagement, they may also be less exposed to cyclical fluctuations in the labour market, especially if these are concentrated in the formal sector.

**Which groups were affected most during past crises?**

In order to identify which groups were affected most during previous crises, this section documents the business-cycle sensitivity of different population groups in terms of various labour market outcomes. Business-cycle sensitivity is measured by relating the time variation in labour market outcomes to the time variation in economic conditions at the regional level within a country. The analysis focuses on regional demand shocks rather than national ones to ensure sufficient variation in the data. This is appropriate in the present context as the focus is on large emerging economies, with substantial regional differences in economic structure and labour market conditions, which implies that the magnitude of a demand shock can vary dramatically across regions. As above, socio-demographic groups are identified on the basis of gender, age, education and location. The analysis covers Brazil, Chile and Mexico (for more details on the data and the years included in the analysis, see Annex 2.A1 in OECD, 2010c). Table 2.3 summarises the

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**Figure 2.11. Labour market performance across different population groups**

(Brazil, Chile and Mexico)

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[http://dx.doi.org/10.1787/888932292745](http://dx.doi.org/10.1787/888932292745)
estimated level of business-cycle sensitivity for each group in terms of different labour market outcomes.

- In all three countries, employment is found to be pro-cyclical, as is the case in more advanced economies with small informal sectors and more effective social safety nets. However, the estimated coefficients tend to be statistically insignificant. This, however, hides significant differences in the business cycle sensitivity of formal versus informal
employment. Indeed, formal employment is found to be strongly pro-cyclical in both Brazil and Mexico. Unemployment is found to be counter-cyclical as was expected.

- Despite certain differences in the results by population group for the different countries, certain common patterns are found. Overall, the most vulnerable groups in normal times are also those that are most hurt by downturns, especially in Brazil and Mexico. For instance, youth, semi-skilled and women’s unemployment in Mexico, women’s unemployment in Chile and employment and participation of the low-skilled in Brazil are more sensitive to changes in GDP relative to the population as a whole. Moreover, in Brazil and Mexico, the share of formal employment in total employment is more sensitive to the cycle for youth relative to the population as a whole. In Chile, the share of formal employment is more sensitive for both young and older workers relative to total population.

Overall, the evidence suggests that already disadvantaged groups, such as youth and the low- or semi-skilled, are also most likely to enter into informal employment in an economic slowdown. New entrants into the labour market, such as youth, have smaller chances of finding employment in the formal sector in times of crisis, because of the low hiring rates and the strong competition they face from more experienced and qualified job seekers (see Maloney, 1999, on Mexico). This evidence is even more worrying considering that the probability of leaving informal employment declines over time, suggesting the existence of an “informality trap”, as has been found for Brazil by Szerman and Ulyssea (2006). These results for the emerging economies are in many ways similar to those found for the OECD countries, pointing to youth and the low-skilled as the demographic groups that are most likely to be adversely hit by the economic slowdown (OECD, 2009a).

2.3. The implications of past crisis episodes for the crisis of 2008-09

To simulate the impact of the crisis on the evolution of the share of formal employment during the period 2008-09, account is taken of both the overall economic impact of the global crisis (this is referred to as the “scale effect”) and the sectoral distribution of the shock (the “trade effect”). The scale effect measures the impact of the overall contraction in GDP on the share of formal employment under the assumption that the shock is evenly distributed between the tradable and the non-tradable sector. In practical terms, the scale effect can be calculated by multiplying the marginal effect of a 1% increase in GDP on the overall share of formal employment as documented in Section 2.2 by the total change in GDP over the period of interest. The trade effect measures the impact of the crisis on the share of formal employment that can be attributed to the sectoral bias of the shock. This requires information for the tradable and non-tradable sectors on the probability of being formally employed as well as on the sensitivity of workers to economic shocks. This information is reported in Annex 2.A4 of OECD (2010c) and provides the following insights:

- All population groups are more likely to have a formal contract when employed in the tradable sector. However, the effect of being employed in the tradable sector for the probability of being formally employed differs across population groups and is greater for younger and less skilled population groups. This implies that the different sectoral impact of the global crisis compared to previous crisis episodes may be particularly relevant for youth and low-skilled workers.
- The share of formal employment in total employment in the tradable sector is much more sensitive to change in the business cycle than in the non-tradable sector.
implies that a greater the concentration of the shock in the tradable sector will magnify the adverse impact of the crisis on the share of formal employment.

The simulation analysis is limited to Brazil and Mexico, the only two countries for which it has been possible to accurately identify the effects of aggregate shocks to the share of formal employment. In order to emphasise the nature of the global crisis, the simulated impact of the crisis of 2008 and 2009 is compared respectively with the Tequila crisis in Mexico (1994-95) and the crisis of 1998-99 in Brazil. The aggregate results are reported in Figure 2.12.

- The crisis of 2008 and 2009 is likely to have had a negative impact on formal employment in both Brazil and Mexico. More specifically, the simulations suggest that the share of formal employment may have declined by almost one percentage point in Brazil and over three percentage points in Mexico.

- The simulated negative impact on the share of formal employment is much larger during the 2008-09 crisis than during previous crisis episodes. In Brazil, this reflects both the larger size of the shock (e.g. the “scale” effect) and the substantially larger concentration of the shock in the tradable sector (e.g. the “trade” effect). In Mexico, the size of the shock is similar in the two crisis episodes. The larger negative impact in the recent crisis, therefore, exclusively reflects the role of the trade effect, which was positive during the crisis of 1994 and 1995 and negative during the most recent crisis.

The results from the simulation exercise by population group are reported in Figure 2.13.

Figure 2.12. Simulated aggregate impact of the crisis of 2008-09 on formal employment in historical perspective

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

Notes: The “scale” effect refers to the impact of a crisis on the share of formal employment that is due to the economy-wide change in demand. The “trade” effect refers to the impact of the crisis on formal employment due to the sectoral distribution of the demand shock as well as the pre-crisis sectoral composition of the economy. The total effect refers to the sum of the scale and the trade effects.

“Recent” refers to changes in demand and sectoral output shares in the most recent crisis between 2008 and 2009. “Past” refers to changes in demand and sectoral output shares in earlier crisis episodes. For Brazil, this corresponds to the annual change between 1998 and 1999; for Mexico this corresponds to 1994-95.

Formal employment is defined on the basis of social security coverage (see Annex 2.A3 of OECD, 2010c, for more details on the definition).

All population groups are likely to face an increased risk of becoming informal. However, there are large differences across groups. The negative effect of the demand shock on the share of formal employment is expected to be greatest for youth and the low-skilled in Brazil and youth and the semi-skilled in Mexico, while it is expected to be smallest for the high-skilled and prime-age workers in Brazil and the high-skilled and older workers.
in Mexico. The quantitative differences in the risk of becoming informal across population groups within countries are large. For example, the expected decrease in the share of formal employment among youth is more than three times that of the high-skilled in Brazil or that of older workers in Mexico.

The observed pattern across population groups for the global crisis is fairly similar to that observed in previous crises. The reasons for this differ across the two countries. For Mexico, this is because the variation across groups is mainly driven by the scale effect, which captures differences in the size of the shocks, but otherwise assumes that the past and current shocks are similar in nature. While the trade effect is fairly small, it has very different implications for the share of formal employment across different populations. The trade effect disproportionately raises the probability of becoming informal among women, young and older workers, and low-skilled workers. In Brazil, where the trade effect slightly dominates the scale effect, the pattern across population groups looks similar to that during the previous crisis because the relative sensitivity to the business cycle across population groups in the tradable and the non-tradable sector is quite similar.

The relatively large expected decline in the share of formal employment during the 2008-09 crisis is likely to lead to higher informal employment and increased unemployment. Both may have important consequences for household income and transient poverty. Moreover, the increased absorption of formal job losers in the informal sector may also lead to a fall in the market wage in the informal sector, thereby extending the impact of the crisis to those in already precarious jobs. Protecting the poor from the effects of the crisis is important because income declines would further deteriorate their situation, which may have long-lasting consequences. Hence, policy needs to respond to the downturn with different measures for different groups. The following section discusses the range of policy instruments available in emerging economies, with the objective of identifying the most suitable ones to tackle the adverse effects of the global crisis.

3. Labour market and social policies at times of crisis

The discussion so far suggests that the social impact of the global crisis may be substantial due to the relative vulnerability of the working population in emerging economies. As in previous downturns, one of the main risks is a substantial deterioration in labour income for those who manage to keep their job and a reduction in job quality for those who are forced to take up a low-quality job in the informal sector. However, compared with previous downturns, the risk of job loss and increased labour informality may be larger at present, reflecting the specific nature of the current shock. Addressing these risks effectively clearly represents a major challenge for employment and social policies.

The social and labour market impact of the crisis is determined by the overall institutional framework. After a review of the key features of social protection systems in the emerging countries studied in the chapter, to keep the scope of the chapter manageable, this section focuses on three specific types of employment and social policies that may be used to support the incomes of households in time of crisis: i) unemployment compensation schemes which provide the first line of defence for jobs losers in formal employment; ii) the main cash transfers programmes which provide an essential source of support to the most vulnerable; and iii) public works programmes which provide temporary income support to those who lose their jobs while often involving them in a local development project.
However, this implies that a number of important employment and social policy instruments will not be discussed in detail. For example, most emerging economies have a variety of active labour market policies in place that provide support to help job seekers reintegrating into employment (e.g. training). Other institutions affecting labour market performance are not reviewed either. This is the case of employment protection legislation and minimum wages, which may not only affect the formal/informal employment distribution, but also may have important consequences for the way the labour market adjusts to the decline in aggregate demand. Other important omissions include income-support specifically targeted at low-earning individuals, short-time work schemes which provide income support to workers whose hours are temporarily cut during recessions, and food programmes targeted at poor families.

3.1. A general overview of social protection in emerging economies

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

Social protection is generally much lower in the emerging economies

Social protection is generally much weaker in terms of coverage and generosity in the emerging economies studied here than in most OECD countries. As shown in Figure 2.14, Panel A, public social expenditure as a share of GDP is consistently lower in all the emerging countries studied in this chapter than the OECD average. But disparities among the countries are large, with public social spending being respectively about four and three times lower than the OECD average in India and China, while it represents about three quarters of the OECD average in Brazil and the Russian Federation.

There are large cross-country differences in the composition of public social expenditure across contributory insurance schemes financed out of employers and/or employees social contributions (i.e. social insurance) and programmes financed out of general taxation (i.e. social assistance) (Figure 2.14, Panel B). In most of the emerging economies considered here social insurance accounts for the bulk of non-health public social expenditure. To a large extent this reflects the role of contributory pension schemes, while unemployment insurance tends to account for a rather small part of total social insurance expenditure (see Section 3.2). Eligibility to social insurance programs differs across countries and programs but is crucially based on some kind of contribution requirement. By contrast, social assistance programmes tend to be means-tested and targeted to the most vulnerable individuals and households, independent of their labour market status.

Coverage of social insurance tends to be limited...

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

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

- Social insurance is most comprehensive in scope in Turkey, including health, old-age, unemployment, disability, etc., while it covers only unemployment in South Africa.\textsuperscript{51}

- Social insurance schemes can be more or less unified. In China, despite growing coverage, the various schemes are fragmented, \textit{de facto} limiting the pooling of risk across individuals and the redistributive impact (for example, there are three different medical
Box 2.1. Main features of the social protection systems in the nine countries studied

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

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

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

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

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

**Indonesia**: social insurance schemes based on social contributions were only recently established; they offer (low) old-age pensions, life and health insurance, and job-related disability and illness compensation. Participation in health insurance is optional, if the enterprise has alternative arrangements. The scheme covers only workers (and their families) employed in firms with more than ten employees or a payroll of more than one
Box 2.1. **Main features of the social protection systems in the nine countries studied** (cont.)

million rupiah (OECD, 2008c). In 2008, about 8% of the workers were registered to the scheme *(Jakarta Post, 19/08/2009).* Informal workers can register on a voluntary basis, but contribution rates are high, and only very few actually do. Some safety nets targeted at the poor have been in place since the 1997 Asian crisis, some with relatively high coverage, notably a food security programme providing subsidised rice and a cash transfer programme.

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

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

**South Africa:** the only social insurance scheme is for unemployment. The pension system is a fully-funded scheme managed by private pension funds. According to the labour force survey, about 75% of the workers were covered by a pension scheme or the unemployment insurance in 2007. Public health expenditure is financed out of general taxation. Social assistance is rather developed, notably through a (relatively generous) basic old-age pension, and means-tested child allowances and disability grants (covering respectively 5%, 10.5% and 3% of the population in 2008, source National Income Dynamics Study). A public works programme is also available for the unemployed.

**Turkey** has a comprehensive social security system based on social contributions, funding health care, pensions, disability, etc. The various existing funds have been recently unified under a single scheme meant to cover all employees and self-employed. Contributions for those deemed unable to pay premiums would be paid from public funds on the basis of a means-test. According to LFS data, 58% of the employed population was covered by the social security in 2008. There is also an unemployment insurance scheme. Social protection also comprises a (very small) basic old-age pension. A conditional cash transfer programme (the Social Risk Mitigation Programme) is available for children of poor families identified by the local authorities. A public works programme is also available for the unemployed.
insurance schemes for urban employees, non-salaried urban residents and farmers, managed by two different authorities, each with its own infrastructure; contribution rates and benefits of most schemes vary across provinces or even localities. Besides having a very low coverage, social insurance schemes are also very fragmented in India.

... and social assistance expenditure remains limited

Despite significant efforts aimed at improving the safety net for the poor in many of the nine countries studied, social assistance expenditure remains limited (Figure 2.14, Panel B), especially when considering the large share of the poor in the total population (Section 1.2). Social assistance is provided under various types of programmes: basic old-age pensions of varying size are provided to the elderly in Brazil, Chile, South Africa and Turkey; public works programmes of varying size also exist in Chile, India, Indonesia, Mexico, the Russian Federation, South Africa and Turkey; food programmes play an important role in India and Indonesia; means-tested cash transfers to the poor are available in China and Indonesia, as well as means-tested child support in the Russian Federation and South Africa; finally, conditional cash transfer programmes, aiming mainly at improving child school attendance and health status of mothers and children, have been implemented in Brazil, Chile, Indonesia, Mexico and Turkey.

Overall, the weak social protection systems and the (often very) limited automatic stabilisers built into the system imply that governments have generally had to use discretionary spending to respond to the employment and social consequences of crises. Considerable efforts have been made to maintain social spending levels during the crisis which was not always the case in the past in Latin American countries (Green et al., 2010). The increase in social spending reflects the relatively sound state of public finances in most emerging economies compared with that during previous crisis episodes (Section 1). However, it is not clear to what extent more strongly counter-cyclical fiscal policies also have helped to preserve the level of support available given the increase in needs. In addition to fiscal constraints, there may also be institutional constraints to scale up social programmes in times of crisis. Indeed, available research suggests that in times of crisis, the social policy response to shocks is likely to be more effective if it consists in expanding existing programmes rather than implementing new and untested programmes (Paci et al., 2009; and Green et al., 2010). The lack of existing social programs may explain why some fiscal stimulus packages have tended to mitigate the social impact of the economic downturn indirectly through the use of labour-intensive infrastructure projects rather than social spending directly.

In order to get a more comprehensive overview of the role of employment and social policies to protect the incomes of the most vulnerable and those most affected during the present crisis, this section draws on the responses to country questionnaires submitted to the nine emerging economies to consolidate information on their policy responses. Table 2.4 provides a schematic account of the programmes in each of the three subject areas (unemployment compensation schemes, cash transfers and public works programmes) at the onset of the crisis and whether any measures have been taken or announced in response to the crisis. In addition, it distinguishes, when possible, between temporary measures that were taken as a short-term response to the crisis and those with a longer horizon.

Most policy measures introduced in 2009 consisted in expanding or modifying already existing programmes. Only Russia and Turkey introduced a new public works programme
to mitigate the impact of the crisis. The information available does not always allow distinguishing between temporary and permanent measures. Temporary changes made to the unemployment compensation schemes in Chile and Brazil, as well as the exceptional cash transfers introduced in Chile, China and Indonesia all constitute short-term responses to the crisis. By contrast, the permanent changes in the cash transfer schemes in Brazil, Mexico and South Africa and in the unemployment compensation scheme in Chile were often the result of structural development of the programmes. Yet, although not conceived as specific answers to the crisis, these measures have nevertheless played some role in alleviating the crisis impact for their beneficiaries. By contrast, the permanent change to the unemployment scheme in Russia was motivated by the crisis.

### 3.2. Unemployment compensation schemes

In most OECD countries, unemployment benefits have historically played an important role in reducing the social costs of a recession. Being strongly counter-cyclical, they serve as an important automatic stabiliser during a downturn while providing income support to the rising numbers of unemployed (OECD, 2009a). The situation differs in the group of emerging economies reviewed in this chapter, as coverage and/or benefit levels are generally quite limited. In fact, only six of the nine countries considered in this chapter can actually be considered to have such schemes in place, with Indonesia and Mexico having no unemployment compensation system and India a scheme with extremely limited coverage.54

#### Coverage and benefit levels are often limited

China, South Africa and Turkey have unemployment insurance schemes financed out of social contributions, quite comparable in principle to those existing in most OECD countries. Brazil has a similar scheme, but financed only by employers through a levy on business revenues.55 The Russian scheme is financed out of general taxes and also includes an unemployment assistance benefit accessible to unemployed workers running out of rights or not meeting the entitlement conditions. Finally, the Chilean scheme differs significantly from all the others: it combines individual accounts from which the accumulated contributions are paid out on job separation and a subsidised solidarity fund providing complementary supports to those unemployed dismissed for economic reasons with modest previous earnings (Box 2.2).
The coverage of the schemes – defined as the share of the unemployed effectively getting unemployment benefits – is limited, ranging from about 23% in Russia to 6% in Turkey (Table 2.5) and almost nil in India. Four main factors concur to explain the limited access to benefits:

- As seen in Box 2.1, a significant share of the workers is not affiliated to the social security schemes in Brazil, China and Turkey.
- Eligibility conditions are very strict in Turkey, where workers should have contributed 20 months to the scheme in the previous three years, and relatively strict in Chile and China.
- A large share of the unemployed are either long-term unemployed or without work experience in South Africa (respectively 25 and 55% in 2007), and thus not entitled to benefits.\(^{56}\)
- Despite very open access, the very low level of benefits in the Russian Federation simply discourages unemployed workers to apply for it.

The generosity of unemployment benefits depends both on the benefit level and its duration. Compared with most OECD countries, initial replacement rates of previous incomes and maximum benefits are relatively low in the nine countries considered (Table 2.5).\(^{57}\) There is substantial cross-country variation, however, with very low benefits in the Russian Federation (due to a very low cap) and relatively high benefits in Brazil and South Africa. The maximum duration of benefits also tends to be lower than in most OECD countries.

---

Box 2.2. The Chilean unemployment compensation scheme*

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

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

In June 2008, benefits were paid to 135 000 workers, i.e. about one third of the survey-based unemployed. Half of the recipients were temporary workers receiving lump-sums. The average benefit was about 30% of the average wage. Due to the strict eligibility rules, the Solidarity Fund was involved in only 6% of all benefit cases.

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

* This box draws mainly on OECD (2009c).
### 2. THE GLOBAL CRISIS IN EMERGING ECONOMIES: THE JOBS IMPACT AND POLICY RESPONSE

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Rates (% of gross wage unless specified otherwise)</th>
<th>Entitlement period</th>
<th>Initial replacement rate</th>
<th>Minimum (% of AW)</th>
<th>Maximum (% of AW)</th>
<th>Duration</th>
<th>Share of unemployed receiving benefits</th>
</tr>
</thead>
</table>
| Brazil 2008      | 600 day E: 0.65% of gross revenue in service sector or 1.65% of value added in the industry sector | Six months in three years | From 80% to 50% of previous earnings, decreasing with the earnings level | 36 (1 MW)         | 67 (1.87 MW)     | • Three months if 6-11 months of prior employment  
• Four months if 12-23 months of prior employment  
• Five months if more than 24 months of prior employment | 8% 2007-08 |
| Chile 2008       | E: 3.2% for permanent workers (2.4% for individual accounts and 0.8% for Solidarity Fund) and 3% for temporary workers  
W: 0.6% for permanent workers | 12 months in two years for permanent workers  
6 months for temporary workers | Depends on the amount accumulated on the individual account  
If Solidarity Fund involved  
50% of previous wage for permanent workers | - | - | Depends on the amount accumulated on the individual account; 5 months maximum  
2 months for temporary workers on the Solidarity Fund | 20% |
| China 2008       | E: 2%  
W: 1% | 12 months | Fixed amount ranging from 60 to 70% of the minimum wage, as determined by local governments | - | - | • Up to 12 months if less than five years of prior employment  
• From 12 to 18 months if five to ten years of prior employment  
• Up to 24 months if more than ten years of prior employment | Less than 16% |
| India            | Covering also sickness and work injury  
E: 4.75%  
W: 1.75% | Five years | 50% of the insured’s average wage | - | - | Up to six months | Close to 0% |
| South Africa 2008-09 | E: 1% capped  
W: 1% capped  
Government: up to 25% of E and W contributions capped at 7 million rand a year | Three months in 12 months | 38% to 58% of average earnings over the previous six months depending on the length of contribution | - | - | Up to eight months depending on contribution records (one day of benefit for every six days of contribution) | Significantly less than 10% |
| Russian Federation 2008 | None. Financed from federal and local government budgets | 26 weeks in 12 months; if not, unemployment assistance | • 75% of previous earnings  
• Minimum benefit for those who do not meet the entitlement conditions | 4.5% | 18% | • 12 months after which entitled to unemployment assistance  
• 12 months for unemployment assistance | 23% |
| Turkey 2007      | E: 2%  
W: 1% | 600 days in three years, and 120 days of continuous contributions | 50% of average net wage, based over the last four months | 15% | 30% | Six to ten months according to contribution period | 6% in 2008 |

AW = average wage; E = employer; MW = minimum wage; W = worker

Source: OECD Secretariat based on various sources (see Annex 2.A6 in OECD, 2010c).
countries, where it typically ranges between 12 and 24 months (the shortest being six months\textsuperscript{58}). Benefit duration is particularly short in Chile and Brazil (two to five months), while it is close to OECD standards in China and the Russian Federation. Table 2.6 schematically summarises the relative generosity of unemployment benefits in the six countries.

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

<table>
<thead>
<tr>
<th>Replacement rate</th>
<th>Duration</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Short</td>
<td>Chile</td>
<td>Turkey</td>
<td>Brazil</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>Russia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Long</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Duration is qualified as short when it is less than or equal to five months, medium when it is comprised between six and 11 months, and long when it is equal to or more than 12 months; the replacement rate level is assessed considering the initial replacement rate and the maximum level of benefits (Table 2.5); for Chile, it describes the replacement rate when the Solidarity Fund is involved.

Source: OECD Secretariat.

The share of expenditure on unemployment benefits in GDP provides an indication of both the coverage and generosity of unemployment compensation systems, and of their capacity to cushion shocks, although it also depends on the level of unemployment. It is highest in Brazil (0.5%) and lowest in China (0.01%), with Turkey and the Russian Federation at respectively 0.06% and 0.04% of GDP\textsuperscript{59}. In Chile, unemployment benefits amounted to 0.1% of GDP in 2008, out of which less than 4% came from the Solidarity Fund. By comparison, OECD countries spent about 0.6% of GDP on average on unemployment benefits in 2007\textsuperscript{60}.

The scope of the response to the crisis varies across countries

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

In most of the countries studied, a substantial share of the unemployed – even of those previously working for the formal sector – do not qualify for unemployment benefits. This is especially the case for workers under non-standard forms of contracts, such as temporary or sub-contracted workers, which may be excluded by law (e.g. the so-called “falsely” self-employed), or simply de facto because they are less likely to meet contribution requirements. Although hard empirical evidence is scarce, as in most OECD countries,
non-standard forms of employment seem to have increased significantly over past decades in the countries studied. They are particularly important in Chile and South Africa, where non-permanent employees represented about 25% and 30% of all the employees with a contract respectively in 2006 and 2007, against 12% on average in the OECD in 2008. Non-standard contracts are also widespread in China and India (see Annex 2.A5 in OECD, 2010c). Given that non-standard workers are typically more easily fired, they are likely to experience a more-than-proportional share of overall job losses, which is likely to heighten the problems of non-coverage by unemployment compensation schemes. In Chile, as part of the May 2009 reform, workers on temporary contracts were permanently given access to the Solidarity Fund, although only for two months to minimise work disincentives. This measure, combined with a slight easing of the contribution requirements to access the Solidarity Fund has allowed a slight increase in the coverage rate (from 20% in the first quarter of 2009 to 21% in the last three quarters; see Figure 2.15).

Traditionally, in a crisis period, the combination of increased layoffs and reduced hiring results in longer unemployment spells. As unemployment spells lengthen, beneficiaries are confronted with expiring entitlements and/or declining benefit payments. While, in general, this is likely to increase job-search incentives, the effect is likely to be less effective in recession periods, as job vacancies dry up and demand-side restrictions become more binding (OECD, 2009a). This is especially the case for countries where benefit duration is short, such as Brazil and Chile. In fact, both countries have implemented a temporary extension of the benefit duration in response to the global financial crisis. In Brazil, as made possible by the law, the benefit duration was temporarily increased by two months for laid-off workers in a list of specific sectors determined at the state level. This was done only for workers laid-off in the months of December 2008 and January 2009, a short period which is probably to be related with the relatively small and short-lived increase in unemployment experienced in Brazil. Available data show that this has not resulted in an increased average duration of benefit in 2009. In Chile, as part of the May 2009 reform of the scheme, the benefit duration of recipients drawing from the Solidarity Fund is automatically extended by two months when the unemployment rate is 1 percentage point higher than the average unemployment rate over the previous four years.

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

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

By highlighting structural vulnerabilities, the crisis may also promote structural reforms to unemployment compensation systems or reinforce the debate about the need to establish such a scheme. When considering more long-term reforms to unemployment
Figure 2.15. **Unemployment insurance in crisis times in Brazil, Chile and Russia**

**Panel A. Brazil**

**Panel B. Chile**

**Panel C. Russia**

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

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

[StatLink](http://dx.doi.org/10.1787/888932292821)
compensation schemes, emerging economies face the same trade-off as more developed OECD countries. On the one hand, by providing an adequate replacement income, unemployment benefits allow unemployed workers to search for a suitable job to match their skills. They also allow smoothing consumption, reducing poverty and avoiding dynamic poverty traps (Vodopivec, 2009). On the other hand, unemployment benefits may reduce the job-search intensity of the worker and reduce work incentives of family members. In most OECD countries, this trade-off can be partly reduced by investing in active labour market policies (ALMP) (through close follow-up of the unemployed job search, participation to training, etc.). But this is more difficult to achieve in emerging economies. First, widespread opportunities to work informally make it easier for the unemployed to fraud the system, i.e. receive the benefits while working undeclared. Second, the administrative capacity and the budget of the public employment service is more limited, implying that it is difficult to monitor properly benefit entitlement, enforce job-search requirements and to provide effective active labour market programmes (e.g. job-search assistance, training and work-experience programmes).

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

However, such schemes also present problematic intrinsic features. First, the absence of risk pooling across workers implies that individual savings accounts do not provide adequate coverage to the workers most in need of it, i.e. those who experience frequent and possibly long-lasting spells of unemployment and are most likely not to be able to accumulate enough savings on their account. This is particularly the case in emerging economies where job tenure is lower and job turnover much greater (Berg and Salerno, 2008). This is the reason why the Chilean scheme combines individual accounts with a publicly-funded Solidarity Fund. However, not surprisingly, Hartley et al. (2010) find that this redistributive part of the scheme reintroduces the moral hazard problem. There is hence no easy way out of this adequate coverage/employment disincentives trade-off. Keeping benefit duration relatively short is probably part of the solution. In reaction to this problem, Brazil is also considering to introduce training requirements for unemployed workers receiving benefits.66

3.3. Cash transfers

Cash transfers can provide income support to the unemployed individuals not covered by the unemployment compensation scheme, either because they have not accumulated enough rights, exhausted their rights, or because they were informal workers. They can also mitigate the effect of the income deterioration induced by the crisis (see Section 1) on those who were already on very low income before the crisis. Cash transfers operate
through two main channels: consumption smoothing and avoiding strong increases in poverty rates with possible long-term negative impacts on health and children’s education that would aggravate chronic poverty and lead to irreversible losses in human capital.

Cash transfer schemes targeted at poor households have been developed in the emerging economies studied here since the 1990s. However, compared with most OECD countries, permanent programmes with appropriate finance and/or guaranteed countercyclical finance, which can act as automatic fiscal stabilisers, remain rare (Grosh et al., 2008). Some of the schemes, e.g. conditional cash transfers (CCT), not only provide income support to poor families in the short run, but also aim to improve the health and education status of children, thus forming part of the overall investment in human capital. Most of the cash transfer schemes are permanent, but there are also examples of one-off/temporary transfers to mitigate the effects of a specific shock.67

**Coverage and generosity varies a great deal across countries**

The coverage of the main cash transfer programmes vary a great deal in scope, from 5.5% of the households involved in the Turkish Social Risk Mitigation Project (SRMP), to 36.6% of the households for the Child Support Grant (CSG) in South Africa (see Table 2.7). At 34%, coverage was also relatively high for the one-off cash transfer distributed in 2005-06

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

<table>
<thead>
<tr>
<th>Name (date of creation)</th>
<th>Targeted population</th>
<th>Conditionality attached</th>
<th>Number of beneficiaries</th>
<th>Share of households covered</th>
<th>Expenditure (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Subsidio Unico Familiar</td>
<td>Poor families</td>
<td>Yes</td>
<td>2.7 million dependents (children, widowed mothers, disabled spouses, students and/or grandchildren)</td>
<td>3.9% of the population in urban areas; 6.7% of the population in rural areas (2008), 5.3% nationally; Source: OECD (2010), OECD Economic Survey: Chile</td>
</tr>
<tr>
<td>China</td>
<td>Dibao (1999)</td>
<td>Poor households</td>
<td>No</td>
<td>23.3 million individuals in urban areas; 43 million in rural areas (December 2008)</td>
<td>3.9% of the population in urban areas; 6.7% of the population in rural areas (2008), 5.3% nationally; Source: OECD (2010), OECD Economic Survey: China</td>
</tr>
<tr>
<td>South Africa</td>
<td>Child Support Grant (1998)</td>
<td>Poor households with children aged below 14</td>
<td>Yes</td>
<td>8.7 million children</td>
<td>36.6% of households (2008); Source: Leibbrandt et al., 2010; 54% of children aged less than 15</td>
</tr>
</tbody>
</table>

Source: OECD Secretariat based on various sources; see Annex 2.46 in OECD (2010c).

http://dx.doi.org/10.1787/888932293619
in Indonesia to compensate for the reduction in fuel price subsidies. Bolsa Família in Brazil (Box 2.3) and Oportunidades in Mexico, two CCT schemes originally set up in the 1990s, also cover about a fifth of the total household population. By contrast, the coverage of the Chilean CCT programme and of the Chinese Dibao programme (Box 2.3) is more limited, significantly below 10% of the households. Coverage has substantially increased for some programmes over the past decade, notably in Brazil, China and Mexico.

The cost of these programmes depends on the number of beneficiaries as well as the benefit level. Among the conditional cash transfers programmes discussed here, Oportunidades and Bolsa Família are relatively generous. The transfers under Oportunidades represented about 29.3% of total pre-transfer consumption among all beneficiaries in 2004 (33.4% among poor beneficiaries) and those under Bolsa Família, 6.1% of total pre-transfer consumption in 2006 (11.7% of the poor beneficiaries). By contrast, in Chile Solidario, both the coverage and the benefit level are relatively low because the programme places a lower weight on the direct cash transfer relative to the psycho-social support and the design of a strategy to exit extreme poverty. Total expenditure ranges from a minimum of 0.15% of GDP for Chile Solidario to a maximum of 1.1% of GDP for the CSG in South Africa. Oportunidades, SRMP and Bolsa Família represent about 0.4% of GDP, whereas total expenditure in the Indonesian Bantuan Langsung Tunai (BLT) amounted to 0.7% of GDP in 2006. In the Chinese Dibao, total expenditure more than doubled between 2007 and 2008, reaching 0.2% of GDP.

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

**Targeting is important but costly**

All the cash transfer programmes reviewed are means tested and try to target the poor (Table 2.7). This is especially desirable in countries with scarce public funds and many competing demands on public budgets, since proper targeting increases the benefits the programmes can achieve with a given budget or, alternatively, allows to achieve a given impact at the lowest cost (Grosh et al., 2008). However, given the relatively low levels of literacy and administrative registration among the targeted population, most of the programmes are based on proxy means-tests, relying on characteristics of the households to estimate an income, based on a formula generally derived from statistical analysis of household surveys. South Africa and Brazil are the only countries where targeting is made through a means-test based on actual income declarations. In the case of CCT programmes, the proxy means-test is often preceded by a geographical zoning, identifying the regions with high poverty levels, and conditioning eligibility to living in such regions.
Box 2.3. **Bolsa Família and Dibao: two examples of cash transfer programmes**

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

The very rapid increase in coverage is a significant achievement, but a majority of poor households remains uncovered (Figure 2.16). Rural migrants are explicitly excluded, due to the urban registration system (hukou). Fiscal constraints enter into the determination of local poverty lines by local governments, with the implication that entitlements cover only part of the poverty gap. This also implies that the benefit does often not cover the basic needs of the poor. Intrusive methods used to determine eligibility and administer the benefit might also discourage people from applying (Cai et al., 2010). For example, the house of the individual applicant is searched and the family and neighbours are questioned. The results of the scrutiny are to be posted upon a public board set in the midst of the community's common grounds, in order to solicit the views not just of immediate neighbours but of everyone in the community acquainted with the applicant family's true state of eligibility, and of everyone in a position to see the targeted family members' dailycomings and goings (Solinger, 2008). Some features of the Dibao programme may also be seen as preventing recipients from exiting poverty. In some cities, households having a computer or a car, using a cell phone, and arranging a child to enrol in special classes for training and studies are not eligible to the programme (Solinger, 2008). Besides, the method of calculation of the benefit implies that any increase in income results in a reduction of the benefit, implying a 100% marginal tax on labour income.

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

Overall, the programme is generally considered as having successfully increased consumption, reduced poverty and raised children attendance at school among the poor families (see below). However, the selection method has often been criticised on the grounds that it can lead to selection distortions such as patronage and leakage. Hall (2008) reports cases of clientelism and manipulation for electoral ends. It is also leading to relatively high inclusion errors compared for example with the Mexican CCT programme (Figure 2.16).
This is the case in Brazil, Indonesia and Mexico, which are large countries with wide regional inequalities.

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

One way to measure targeting accuracy is through errors of inclusion, i.e. the percentage of households who are included in the programme when they should not be, and errors of exclusion, i.e. the percentage of households who are eligible in principle but are not covered by the programme. Among the five programmes for which such data are available, errors of inclusion range from 2% in the Child Support Grant to 49% in the Bolsa Família and Dibao: two examples of cash transfer programmes (cont.)

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

Figure 2.16. Targeting errors

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

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80% 70% 60% 50% 40% 30% 20% 10% 0% Brazil Bolsa Família 2004 Chile Chile Solidario 2000s China Dibao 2004 Mexico Oportunidades 2004 South Africa Child Grant Support 2008

Errors of inclusion Errors of exclusion

Figure 2.16. Targeting errors

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

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Box 2.3. Bolsa Família and Dibao: two examples of cash transfer programmes (cont.)

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Brazilian Bolsa Família (Figure 2.16). Errors of exclusion are generally larger (and often significantly so) than errors of inclusion, reaching up to 70% in the case of Mexico. Obviously, one important cause for errors of exclusion, or under-coverage, is the limited size of the budget that governments allocate to the programme. In fact, a trade-off exists between extending coverage (reducing exclusion errors) and improving efficiency in targeting (reducing inclusion errors). In Indonesia, the BLT distributed in 2005-06 to mitigate the effects of the reduction in fuel price subsidy on poor households was found to have left 40% of the poorest households (belonging to the lowest two deciles) unattended (SMERU, 2006). Considering that budget limitations played no role there, this rate of exclusion is high. This might be explained by the fact that, to proceed quickly to the distribution of the benefit, targeting had been left to local authorities, with scant monitoring and technical assistance from the central authorities; and there was no involvement of communities and no possibility for households to verify and contest the local authorities’ decisions.

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

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

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

In most of the countries covered, cash transfer programmes have also reduced poverty. This is especially the case of Oportunidades and Bolsa Família, notably when extreme poverty is considered (Soares et al., 2007). A positive, albeit small, impact on reducing poverty is also found for Dibao in China (Cai et al., 2010). All programmes are also found to reduce inequality significantly.

... and in improving school attendance and health status for children

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

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

- CCTs also improve certain health outcomes, although this depends importantly on the availability and quality of health infrastructure (Box 2.3 on Brazil). CCTs can improve health outcomes through the obligations they stipulate for benefit recipients, but also through increased awareness. In practice, evaluation results are mixed and vary across programmes and outcomes examined.

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

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

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

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

- In Brazil, for example, Bolsa Familia has been significantly scaled up in 2009, but along the lines planned before the crisis. Following a change in the estimation methodology, the poverty line that was used to target poor families was revised upwards to better take into account the large income volatility of the poorest population groups due to their participation in the informal labour market. The 17% increase in the poverty line raised the estimated eligible population from 11.1 million to 12.9 million and, at the end of December 2009, 12.4 million households were effectively covered. The benefit level was also increased by 10%. Together, these two measures imply a 3.5% growth in the budget for Bolsa Familia.
● In Mexico, Oportunidades coverage was also scaled up by 4% in 2009 up to 5 million household, along the lines planned before the crisis. The benefit amount was significantly raised in response to the rise in food and energy prices. Overall, the Oportunidades budget increased by 16%.88

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

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

However, cash transfer programmes in emerging economies are less appropriate to reach those who fall into poverty as a direct consequence of the crisis. Apart from possible budget constraints, the administrative capacity in these countries is too low for the programmes to automatically register new households falling into poverty as eligible recipients. Means tests would have to be administered at high frequency to keep pace with changing household circumstances, which is far from being the case due to cost and capacity constraints.89 Besides, proxy-means tests are geared towards indicators of chronic poverty and will not usually identify the newly poor, who may still fall outside the proxy-means test but experience a sudden drop in household income and can no longer afford to buy medicines or pay school fees (Grosh et al., 2008). Although this is likely to result in less accurate targeting, it is nevertheless possible to rely on the knowledge of local authorities, such as in China, or on community-based assessments, to identify those who have suffered significant income losses and may have become poor due to the crisis.

3.4. Public works programmes

Compared with cash transfer schemes, public works programmes (PWPs, or public employment programmes, or workfares) can be more easily mobilised to provide support to the newly unemployed workers who are not covered by unemployment compensation schemes. PWPs have been extensively used in emerging and developing economies,90 and have in fact often been launched or scaled up during economic crises to tackle unemployment and poverty especially for the most disadvantaged groups (women, youth and the disabled).91 They tend to have two objectives: i) provide a safety net to the poor segments of the population through labour-intensive public works; and ii) contribute to local development through infrastructure investment.92 Both objectives imply that they differ from the public works programmes generally used in advanced economies. First, they tend to be more a social policy tool aimed at providing temporary income support to disadvantaged groups than an active labour market measure aimed at improving the employability of participants. Second, the projects undertaken should not only create employment but also benefit the local community, e.g. through road construction and maintenance, drainage maintenance projects, or public building maintenance (Grosh et al., 2008).
As shown in Table 2.8, the cost and coverage of PWPs vary greatly across countries (for a description of the different programmes, see Annex 2.A6 in OECD, 2010c). Emerging economies spend a substantial amount of their GDP on PWPs. By far the largest programme, is the Indian Mahatma Gandhi National Rural Employment Guarantee (ex-Maharashtra Employment Guarantee Scheme/NREGA) (Box 2.4) with a spending of about 0.51% of GDP and a coverage of about 10% of the labour force in 2008-09, against respectively 0.05% of GDP and 0.6% of the labour force on average in the OECD in 2007. South Africa also spends much more than the OECD average and the coverage of the Expanded Public Works Programme (EPWP) was about 3.4% of the labour force in 2008-09. Chile and Indonesia spend a slightly higher share of GDP on direct job creation programmes than the OECD countries on average. While coverage is low in Chile and Turkey, it reached 5% of the labour force in Indonesia in 2000, which is significantly higher than in OECD countries; in Belgium, France, Ireland and the Slovak Republic which operate the largest direct employment programmes in OECD, they cover between 1.1% and 2.7% of the labour force.

Table 2.8. **Main features of public works programmes (PWPs)**

<table>
<thead>
<tr>
<th>Name of the programme</th>
<th>Year</th>
<th>Number of beneficiaries</th>
<th>Beneficiaries as % of labour force</th>
<th>Expenditure as a share of GDP (%)</th>
<th>Wage share in total expenditure (%)</th>
<th>Average duration (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A. Pre-crisis</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>Various programmes (PIC, PEE and PMU)</td>
<td>2003</td>
<td>16 161</td>
<td>0.3</td>
<td>0.08</td>
<td>. . .</td>
</tr>
<tr>
<td>India</td>
<td>NREGA</td>
<td>2006-07</td>
<td>21 016 099</td>
<td>4.7</td>
<td>0.21</td>
<td>68</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Various programmes</td>
<td>2000</td>
<td>4 796 075</td>
<td>4.9</td>
<td>0.06</td>
<td>. . .</td>
</tr>
<tr>
<td>Mexico</td>
<td>Programa de Empleo Temporal (PET)</td>
<td>2003</td>
<td>817 000</td>
<td>2.3</td>
<td>0.02</td>
<td>79</td>
</tr>
<tr>
<td>South Africa</td>
<td>Expanded Public Works Programme</td>
<td>2006-07</td>
<td>316 814</td>
<td>1.82</td>
<td>0.10</td>
<td>11</td>
</tr>
<tr>
<td>OECD</td>
<td>Various programmes</td>
<td>2007</td>
<td>. .</td>
<td>0.6</td>
<td>0.05</td>
<td>. . .</td>
</tr>
<tr>
<td><strong>Panel B. 2008-09 crisis</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>Various programmes (PIC and PEE)</td>
<td>2009</td>
<td>45 186</td>
<td>0.6</td>
<td>0.09</td>
<td>. . .</td>
</tr>
<tr>
<td>India</td>
<td>NREGA</td>
<td>2009-10</td>
<td>47 902 280</td>
<td>10.3</td>
<td>0.51</td>
<td>68</td>
</tr>
<tr>
<td>Indonesia</td>
<td>PNPM (Rural)</td>
<td>2008</td>
<td>1 605 394</td>
<td>1.4</td>
<td>0.08</td>
<td>12.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>Programa de Empleo Temporal (PET)</td>
<td>2009</td>
<td>699 000</td>
<td>1.6</td>
<td>0.02</td>
<td>. . .</td>
</tr>
<tr>
<td>Russia</td>
<td>Public and Temporary Works Programme</td>
<td>2009</td>
<td>792 000</td>
<td>1.0</td>
<td>0.02</td>
<td>. . .</td>
</tr>
<tr>
<td>South Africa</td>
<td>Expanded Public Works Programme</td>
<td>2008-09</td>
<td>570 000</td>
<td>3.4</td>
<td>0.25</td>
<td>11</td>
</tr>
<tr>
<td>Turkey</td>
<td>Toplum Yararlna Calisma Programi</td>
<td>2009</td>
<td>45 445</td>
<td>0.2</td>
<td>0.01</td>
<td>65</td>
</tr>
</tbody>
</table>

Notes:

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

India: beneficiaries refer to number of households rather than persons; figure on wage share refers to 2007-08. Source: Chhibber et al. (2009).

Indonesia: beneficiaries in 2000 include total of all employment creation programmes and PDM-DKE; expenditure refers to all productive employment generation programmes and PDM-DKE.

Mexico: expenditure in 2008 and 2009 only includes wages and some materials and tools, but no administration costs.

OECD: unweighted average.

Russia: data refer to the period from January to October 2009; number of beneficiaries only includes the unemployed and excludes workers at risk of layoff and refers to those who have started and completed an assignment; average job duration refers to all beneficiaries; total expenditure for the two groups of beneficiaries is RUR 14.5 billion; the share of expenditure for the unemployed is estimated to 40% of the total.

South Africa: data for 2009 only refer to the period April 2009-December 2009; the number of total beneficiaries is calculated on the basis of the number of persons-year and the average job duration; job duration is calculated as an average for the period between April 2004 and March 2009.


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

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

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

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

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

The maximum duration of jobs, the type of work to be performed, the timing of the projects offered, especially in rural areas, and the level of wages paid to the participants are key design features of the programmes and determinants of their success (Subbarao, 1997). The average duration of a job in the programmes covered here ranges from 9.5 days in Indonesia to 90 days in Turkey. Wage setting, is one of the most important elements of PWPs as it affects the selection of participants through (self-) selection and the composition of participants (Paci et al., 2009). A high wage, relative to the average market wage in the area and sector of work, can create job disincentives among those already employed and lead to job rationing (for a summary of evidence on this, see Subbarao, 1997). In contrast, a relatively low wage operates as a self-selection device encouraging the participation of those who are most in need. The wages offered by the Mexican PET and the Indian NREGA are equal to the minimum wage, which ensures correct targeting as minimum wages are fairly low in these countries. Similarly, the Indonesian PNPM Rural is likely to provide appropriate targeting, as it offers wages that are lower than the prevailing market wages for unskilled labourers on construction projects. By contrast, evidence from the Indonesian Padat Karya programmes of the late 1990s suggests that setting the wage above market levels to attract workers creates disincentives for work among those already in work (Sumarto et al., 2000; Betcherman and Islam, 2001). Similar evidence is found in the case of the PWPs in Chile, where wages were equal to the minimum wage, which is fairly high by international standards. Nonetheless, the balance is difficult to find as setting the wage too low might go against the principal objective to provide a minimum income support to the poor.

PWPs have to find a balance between providing income support to the poorest and contributing to local development. The higher the labour intensity of the projects, the higher the probability of meeting the first objective and the lower the probability of meeting the second one. The higher the share of wages paid to participants in total expenditures, the larger is the impact of the programme in terms of income support provision. The wage share depends on the labour intensity of the programme, which, in turn, is determined by the type of work performed. Both the Indian NREGA, the Mexican PET and the Turkish Toplum Yararina Çalışma Programı spend a substantial share on wages (68%, 79% and 65%, respectively). By contrast, in the Expanded Public Works Programme (EPWP), the wage share is only about 11% of total expenditure in 2008-09, implying that the benefits participants derive in terms of income per rand spent on the programme are rather limited. This is due to the high capital intensity of the projects in two of the sectors concerned (economic sector and infrastructure) (Box 2.4), and might also be related to the fact that the programme provides training to participants. However, this aggregate figure hides differences across the four sectors covered by the programme: in the social sector, despite the relatively low wages paid to participants, wages represent 43% of the total cost, while they represent only 9% of total expenditure in the more capital-intensive infrastructure sector.

Design and institutional setup determine the programme’s success

The institutional framework and implementation design are key factors for the effectiveness of PWPs (Subbarao, 1997). Implementation of the programme by local communities and governments can be advantageous as they have a better knowledge of the needs of poor people in their areas and hence are in a better position to target specific groups and monitor the programme. Involving local communities in the identification of projects for implementation ensures that such projects respond to their needs (Ravallion
and Lokshin, 2008). Their involvement, as well as that of civil society groups, in the design, implementation and monitoring of programmes is crucial and should start as early as possible. Furthermore, the programmes often involve various ministries and government departments as well as other institutions, and efficient co-ordination among those, although costly, is instrumental for the success of the programmes.\textsuperscript{97} Examples of PWP where the targeting and implementation are conducted at the local level are the NREGA in India and the late 1990s PDM-DKE in Indonesia. In the former, the implementation by local governments has been seen as an improvement of the scheme compared to its predecessors (Chhibber \textit{et al}., 2009). In the latter, funds were provided from the central government directly to the communities via local governments and were determined as a function of the number of poor and unemployed in the village. Targeting and monitoring were also conducted at the village level (Lubis, 1999). However, local-level implementation and monitoring entails the risk of corruption and nepotism. For example, the PDM-DKE was heavily criticised for being linked to national politics (1999 national elections) and associated to corruption.

Close monitoring of the operation and outcomes of the schemes are necessary for the evaluation of PWPs. The outcomes that are usually considered in evaluations include the share of the unemployed and the poor among beneficiaries, the impact on participants’ incomes and the reintegration of the participants into non-subsidised employment following their participation in the programme. The way infrastructure projects were selected in the Indonesian PWPs of the late 1990s did not favour the poorest groups of the communities (Perdana and Maxwell, 2004). This has been successfully addressed by the PNPM Rural, introduced in 2007, with 73% of rural workers participating in the programme being classified as very poor by their communities (Ministry of Home Affairs, 2008). The coverage of the programmes among disadvantaged groups such as women, ethnic minorities and scheduled castes and tribes (in India) are also important parameters of their success. The Indian programme has achieved an increase in the share of women’s participation from 40% in 2006 to 49% in 2009 across the country (OECD, 2010d). A high participation of women (about 49%) in village and sub-district planning meetings is also recorded for the PNPM rural (Ministry of Home Affairs, 2008), whereas the late 1990s employment programmes in Indonesia were characterised by low female coverage (Betcherman and Islam, 2001).

No single programme discussed in this section has been successful on all grounds. While the Chilean direct employment programmes have been quite successful in increasing the incomes of participants’ households and the employment prospects of participants (Bravo \textit{et al}., 2004), they are thought to have created disincentives for work among the old and increased school drop-out rates for the young (Chumacero and Paredes, 2007). Similarly, the Indian NREGA which is considered successful in terms of jobs creation, including for marginalised groups (Chhibber \textit{et al}., 2009), has nonetheless been criticised for misuse of programme funds, ghost workers, and underpayment of wages and corruption (Ajwad, 2007). In addition, high administrative costs and uncertain returns to infrastructure investment projects contribute to the debate on its effectiveness (Chhibber \textit{et al}., 2009). Ajwad (2007) argues that guidelines for the identification of workers and projects are not always followed and days of work and wages are often lower than the ones stipulated in the programme (100 days and minimum wage, respectively). The effectiveness of the late 1990s \textit{padat karya} (employment) programmes in Indonesia was also rather poor, as it covered only 8.3% of poor households in late 1998 and 70% of the
participants were not poor, a result which can largely be attributed to the failure of the self-selection mechanism due to the high wage proposed to participants (Sumarto et al., 2003). Furthermore, limited long-term planning and weak capacity building reduced the effectiveness of those schemes (AusAID, 1998; URDI, 1999). Limited evidence (Papanek, 2007) on the PNPM Rural suggests that for the programme to have a substantial impact on the poor, it should provide additional funds to the sub-districts (as currently planned) so as to increase the average job duration from 9.5 days in 2008 to at least 60 days of work.

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

Scaling up existing PWPs can be useful in times of crises

While PWPs are not the most appropriate tools to tackle endemic poverty, they can nevertheless be quite useful instruments in times of crisis. Contrary to cash transfers programmes, a low wage ensures self-selection into PWP and hence minimises targeting errors. Along the lines of OECD countries (OECD, 2009a), Chile, Mexico and South Africa, extended the coverage of existing public employment programmes and increased the funds allocated to them to mitigate the effect of the global crisis. The expansion of the EPWP in South Africa led to a 20% increase in the number of jobs created between April and December 2009, relative to the same period in 2008. The authorities have announced a target of 4.9 million jobs from 2010 until 2014, amounting to a tripling of the number of jobs created in the first five years of the programme’s operation. It is not clear whether this increase was already planned before the crisis, but it was in any case brought forward to respond to the recent increase in unemployment. The Mexican Government scaled up the PET to cover about 700,000 persons, implying an increase in coverage by about 90% and expenditure by 71% relative to 2008. Chile has also scaled up the already operating public works schemes, such as the PEE (Programa de Emergencia de Empleo), PIC (Programa de Inversiones en la Comunidad) and PMU (Programa de Mejoramiento Urbano), to tackle rising unemployment due to the crisis, but these programmes remain substantially smaller than those in Mexico and South Africa.

Russia and Turkey, for their part, launched new programmes. The Public and Temporary Works Programme (PTWP) launched in 2009 in Russia, consists in fact of two schemes: i) a short-time work scheme for workers at high risk of dismissal involving a minimum wage payment for works done by employees at their enterprises, and ii) a public works programme in municipalities for the unemployed, with no investment content. As a result, only a small part of the overall programme would qualify as a public works programme similar to the ones operating in the other countries covered in this section. The component of the programme for the unemployed covers almost 1% of the labour force and its expenditure stands at 0.02% of GDP. The programme targets in priority unemployed not receiving unemployment benefits and those who have been unemployed for more than six months. Participation to the programme does not remove access to other benefits (unemployment benefits or social assistance). The main objective of the programme is to provide additional income support to participants.
Turkey also introduced a PWP (Toplum Yararına Çalışma Programı) in 2009 which created about 46 000 jobs in infrastructure projects. The maximum job duration was of six months, and the programme is expected to continue in 2010 aiming to create 45 000-50 000 additional jobs for a cost of about 150 million Turkish liras.

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

Conclusions

All emerging economies reviewed in this chapter have been affected by the global economic crisis of 2008-09. However, its economic impact has been very different across countries: while some, such as Indonesia, largely managed to steer clear from the global crisis, others, such as Turkey, saw total output declining by about 14%. Interestingly, most of the emerging economies considered in this chapter have now made a full recovery to their pre-crisis output growth rate. While this is clearly a positive sign, the economic costs have been huge in some countries. In Turkey and the Russian Federation, for example, the size of the total economy may be up to a fifth smaller than what it would have been had output growth continued at pre-crisis trends. More importantly in the context of this chapter, unemployment and underemployment have increased substantially during the downturn and may remain high for some time to come. This means that the labour market and social implications of the global crisis continue to affect the lives and welfare of many workers and households during the recovery in some of the emerging economies considered here.

The way labour markets have adjusted to the global crisis differs strikingly across the emerging economies considered in this chapter. A similar conclusion was reached based on a detailed analysis of labour-adjustment patterns in the OECD countries in Chapter 1 of this publication. However, in all the emerging economies for which comparable data are available the employment response to the slowdown in output growth has been weaker than in the OECD area. This suggests that an important part of the labour market response has taken the form of increased underemployment through a combination of reduced working time, lower on-the-job wages or a reduction in average job quality (e.g. increased informal employment). An accurate assessment of the relative importance of these margins, however, remains elusive. Comparable data on average hours and job quality are only available for few emerging economies, while macroeconomic data on cyclical changes in real wages are difficult to interpret due to the importance of composition effects that arise when low-wage workers are the first to lose their jobs during a recession period (Bils, 1985).

Nevertheless, this chapter has shown that the risk of increased informal employment may be particularly important during the global crisis due to its disproportionate impact on the tradable sector where jobs are more likely to be formal and formal jobs are more sensitive to aggregate demand shocks. Consequently, countries have to confront the challenge of
providing support to workers directly affected by job losses or earnings cuts while also helping poor households which may see their income falling further, even if they were not directly affected by the crisis. However, it is also shown that those most affected by the crisis and those most likely to experience economic difficulties even before the crisis share many of the same characteristics. For example, youth and low-skilled workers both have an elevated risk of being poor in normal times, but are generally also among the most affected by the crisis. This does not mean though that the poorest are also the most affected, but rather that the same characteristics that increase the risk of poverty may also help explain why certain groups are the first to lose their jobs when the economy is going down.

Perhaps, the most important lesson from this chapter is that the most effective response to the sudden increase in social needs may be to develop and improve labour market and social policy frameworks. Having social protection programmes in place obviously helps mitigating the social impact of the crisis through the existing mechanisms. However, it also allows governments to more easily and more effectively scale up or adjust such programmes to respond to the changing nature in needs. The three employment and social measures discussed in this chapter, unemployment compensation schemes, cash transfer programmes and public works programmes, all have a structural role to play in the emerging economies considered. Developing and adjusting these systems in the context of a long-term structural agenda that fits the major economic and social transformations that are taking place within the emerging economies considered in this chapter should be a first priority. By highlighting the structural vulnerabilities of social protection systems in the different emerging economies, the global crisis may provide additional momentum for making progress on the structural employment and social policy agenda.

Notes

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

2. Counter-cyclical macroeconomic policies also have a crucial role to play in mitigating the economic and social costs of the global crisis.

3. The growth loss figures for China are preliminary as, at the time of writing, this country had not made a full recovery relative to its pre-crisis trend.

4. In addition to benchmarking recent emerging economies to the OECD area as a whole, it may also be of interest to consider different OECD-country groupings. Two different country groupings were considered for this chapter: i) low-income OECD countries with below-average levels of GDP per capita and high-income countries with above-average income levels; and ii) OECD countries with a below-average trade shock, and countries with an above-average trade shock, where the trade shock is defined in terms of the change in exports over the year to 2009 Q3 as a % of 2008 Q3 GDP relative to the median change in the OECD. The results from this exercise are reported in Annex 2.A2 of OECD (2010c). As can be seen in the annex, distinguishing between these different groups does not appear to be very effective in capturing the substantial degree of heterogeneity in labour demand adjustment patterns across the OECD, as documented in Chapter 1 of this publication. These additional groupings are, therefore, not taken up in the various figures presented in this section.

5. In Mexico, the swine flu epidemic also contributed to the output loss.


7. So far, only a few studies that have attempted to assess the relative importance of different explanations. See Berkmen et al. (2009) and Rose and Spiegel (2010).
8. Indeed, the view that the increased integration of emerging economies in the world economy has increased their vulnerability to adverse economic shocks in advanced countries has been challenged by the "decoupling hypothesis" which gained popularity in the run-up to the global financial crisis. The decoupling hypothesis argues that business cycles in emerging economies have grown more independent in recent years, because of the increased importance of domestic demand, the relatively low domestic content of exports and South-South trade. The modest slowdown in output growth during the global financial crisis in emerging Asia and Brazil (see Figure 2.1) may be a first indication that this is the case. Kose et al. (2008) provide empirical evidence in support of the decoupling hypothesis.

9. The OECD area includes Mexico and Turkey, which both experienced an above-average decline in the value of exports. Excluding Mexico and Turkey from the OECD average would, thus, further reinforce the impression that emerging economies are hit particularly hard by the decline in exports during the global crisis.

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

11. The absolute reduction in the value of FDI inflows between 2008 and 2009 in the other eight emerging economies ranged from about 20% in India, Chile and South Africa to between 40% and 50% in the Russian Federation, Indonesia, Mexico and Brazil and to about 60% in Turkey.

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

13. Indeed, migrants tend to be affected much more than their native counterparts (OECD, 2009b).

14. At least, in those emerging economies with fully flexible exchange rates. The scope for using monetary policy to stimulate aggregate demand may have been more limited in Russia and China as lowering policy interest rates may not necessarily be consistent with the monetary policy objective of maintaining stable exchange rates.

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

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

17. In addition to the global financial crisis, the global food crisis may also have important implications for absolute poverty rates in emerging economies.

18. The share of workers affiliated to social security is measured across all groups of workers (e.g. salaried, self-employed, own-account). As a result the empirical definition of formal employment is not fully consistent with the conceptual definition based on compliance for Chile, China, India, Indonesia and Mexico, as self-employed and own-account workers are not required to register for social security in these countries. Social security coverage will become mandatory for self-employed in Chile between 2012 and 2015, and it is already mandatory in Brazil, South Africa, Russia and Turkey.

19. The self-employed are a notoriously heterogeneous group consisting of entrepreneurs, professionals and subsistence workers (see Perry et al., 2007; Bargain et al., 2010). As a result, in some countries average earnings among the self-employed exceed those of salaried workers, which may indicate that self-employment may well be a voluntary choice of such workers and not just the exclusion from formal sector employment. Moreover, the occupation-based definition implicitly assumes that all salaried workers have access to social security provisions, which is far from being the case in practice.

20. To an important extent, this decline may be attributed to the ongoing process of urbanisation that characterises many of the emerging economies considered here. However, also within the
agricultural and non-agricultural sectors, there is some evidence that informality has declined (see Annex 2.A3 of OECD, 2010c).

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

22. In four out of the seven countries for which data on the share of the population aged 15 and above in employment are available, the employment rate does not appear to be substantially lower than that of the OECD average. However, cross-country comparisons based on the population aged 15 and above are misleading as life expectancy tends to be considerably higher in the OECD area than in emerging economies. As employment rates among the elderly tend to be very low, this causes the OECD employment rate to look much lower than it really is. Changing the focus from the population aged 15 above to the working-age population (15-65) increases the OECD’s employment rate from 58% in 2008 to 66%. For Mexico and Turkey, where life expectancy is lower, restricting the focus to the working-age population only marginally increases the employment rate (from 58% to 60% in Mexico and from 42% to 45% in Turkey).

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

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

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

26. While the cyclical employment rate continued to rise during the decline in output growth in Indonesia, the World Bank reports that most new jobs are of low quality and concentrated in the informal sector.

27. Panel B of Figure 2.7 shows that the cyclical response in the unemployment rate to the cyclical decline in output (also called Okun’s coefficient) has been smaller in all the emerging economies for which comparable data are available than in the OECD. The difference would have been even starker when considering the percentage change in unemployment instead of the percentage point change as labour force participation tends to be considerably smaller in most emerging economies than in the OECD area.

28. For a more detailed discussion of the role of labour hoarding during the global crisis in OECD countries, see Chapter 1 of this publication.

29. The very large growth loss in earnings in the Russian Federation documented in Figure 2.8, Panel A, reflects mainly the exceptionally fast growth in real earnings during the period 2005-08, although real earnings have also declined substantially during the crisis period in absolute terms. Nevertheless, the figure also indicates that the slowdown in earnings growth exceeds that in labour productivity growth which is somewhat odd. This may reflect the fact that the various data series do not cover exactly the same population. For example, earnings only cover the manufacturing sector whereas labour productivity covers the entire economy.

30. However, nominal wage rigidities may also be less important in emerging markets due to the weaker role of trade unions and the greater importance of informal employment (Dickens et al., 2007).

31. Moreover, the cyclical changes in earnings in Panel B of Figure 2.8 are likely to understate the full extent of the reduction in earnings for workers who stay in employment due to the changes in the composition of the workforce that may arise when job losses are concentrated among low-earner workers. A similar argument applies in the context of average hourly wages below.

32. The large cyclical reduction in average hours observed in Turkey, in part, reflects the increasing trend in average hours worked in the three years preceding the crisis and, in part, an absolute reduction in average hours worked during the crisis period. The cyclical increase in average hours worked in Chile is driven by the trend decline in average hours worked in the period immediately preceding the crisis.

33. Aguiar and Gopinath (2007) suggest that, during previous crisis episodes, consumption tended to be more strongly affected in emerging economies than in advanced economies because of the absence of effective insurance markets and social safety nets. For five out of eight emerging economies for which comparable data are available, the cyclical decline in consumption was larger – in absolute terms and relative to the shock – than for the OECD average.

34. The review of past crisis episodes and their effects on labour markets in Section 2.1 includes all countries which experienced a recent crisis prior to the global crisis: Brazil, Chile, Indonesia, Mexico.
and Turkey. The analysis in Section 2.2 is restricted to Brazil, Chile and Mexico as regional GDP data are not available for Turkey and no comparable definition of formal employment for Indonesia is available in the data. The simulations in Section 2.3 are limited to Brazil and Mexico as only for those two countries statistically significant results were found in the analysis of Section 2.2.

35. The rise in unemployment during times of crisis is not only due to job losses among formal-sector workers. Indeed, a number of studies have shown that informal workers, who lose their job, account for a substantial part of the rise in unemployment during an economic downturn (Vodopivec, 1995; Grogan and Van den Berg, 2001; Kupets, 2006).

36. Informal employment outside the primary sector is proxied by the number of workers not covered by social security in total non-primary employment for Brazil, Chile, Mexico and Turkey and the share of the self-employed and unpaid and family workers in total non-primary employment for Indonesia. See Section 1 and Annex 2.A3 of OECD (2010c) for more details on definitions and data sources.

37. These patterns are broadly in line with the existing literature. Studies for many of the countries examined here have shown that formal employment declines in times of crisis, whereas at least some forms of informal employment tend to be counter-cyclical (Bosch and Maloney, 2008; Carneiro and Henley, 1998; Maloney, 1998; Carneiro, 1997; Saavedra and Chong, 1999; Saavedra and Torero, 2000; Perry et al., 2007). Thus, there is some evidence that the informal sector acts as a shock absorber for formal workers who lose their jobs.

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

39. The data by location refer to Brazil and Chile only as the ENEU for Mexico only covers urban areas. The lack of data for the rural areas may affect the other descriptive statistics age, gender and skill, but is unlikely to affect the qualitatively pattern.

40. The respective labour market statistics for the three countries are presented in Annex 2.A4 of OECD (2010c). Although there are cross-country differences in labour market outcomes across these groups, the overall patterns tend to be similar.

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

42. The probability of observing a certain labour market outcome (employment, unemployment, inactivity and formal employment) is regressed against regional GDP, demographic variables and a full set of time and regional dummies.

43. The analysis was also conducted for Indonesia, but the low variation in the labour market outcomes has provided statistically insignificant results.

44. The share of formal employment in total employment is measured on the basis of social security coverage.

45. It is a stylised fact that youth, women and low-skilled persons are more likely to be in informal employment even in normal economic conditions (see for instance the discussion in Jütting and de Laiglesia, 2009; and Perry et al., 2007).

46. More specifically, the trade effect is calculated as the sum of the employment-weighted impact of the sectoral shock (measured as a deviation from the national average) and the changes of the employment shares in each sector times the corresponding probability of being formal.

47. In Brazil, the pattern of relative business-cycle sensitivity across population groups is similar in the tradable and the non-tradable sectors. In Mexico, the pattern of relative business-cycle sensitivity is quite different across the two sectors, but the business-cycle sensitivity in the tradable sector is always larger to that in the non-tradable sector.

48. This is primarily driven by differences in the relative sensitivity to the business cycle across population groups within the tradable and the non-tradable sector.

49. For a description of employment protection in the nine emerging countries studied in this chapter, see Annex 2.A5 of OECD (2010c).

50. A number of the countries considered here have mandatory contributions to private social insurance schemes. As a result, private social expenditure tends to represent an important component of total social expenditure in those countries. However, this could not be included in the figure due to data limitations.
51. As data on social insurance are not available for South Africa and Indonesia, this could not be included in Figure 2.14, Panel B.

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

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

54. The Indian scheme is available only to workers covered by the social insurance scheme, which, as seen in Box 2.2, is of extremely limited coverage. The measures introduced in 2009 to i) ease eligibility conditions and ii) lengthen the benefit duration have not modified this situation.

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

56. Source: Leibbrandt et al. (2010).

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

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


60. Source: OECD (2009a), Annex Table J.

61. For a more in-depth discussion of non-standard forms of work in Chile, see OECD (2009c). Although starting from a low level, the share of non-permanent employment increased also significantly in Russia over the past decade to exceed 12% in 2007. It also increased in Mexico, where it represented about 17% in 2008.

62. 4 500 temporary workers received benefits from May to October 2009.

63. About 190 000 workers were concerned by this extension. This represents slightly more than a quarter of unemployment benefit recipients in January 2009.

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

65. From May to October 2009, 3 000 persons had benefited from it. The replacement rate for each of these two extra months is 25%.

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

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

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

69. Source: Grosh et al. (2008).

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

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

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

73. In the Brazilian case, data on the average income of recipients suggest that most of these people are only slightly above the programme’s poverty line (Kerstenetzky, 2008). Fiszbein et al. (2009) also note that, in addition to differences in the quality of the proxy means-test itself, there is also significant variation in how implementation is done (whether households are visited or not; whether some variables are verified or not, comprehensively or for a sample). In addition, while the proxy means-testing system is led by a central agency, the day-to-day staffing for it is delegated, often to municipalities, with considerable variability in independence and quality control. The relatively low inclusion error in the case of Child Support Grant can be partly explained by the fact that the income threshold for the means test appears quite high compared with similar programmes in other countries. In addition, a relatively large share of the households receiving the CSG do not report information on their income in the household income survey – on which these estimates are based – and it is likely that part of them are among those who fraud the system.

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

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

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

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

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

79. Angelucci and de Giorgi (2009) analyse the potential spillover effects of Oportunidades and find a positive effect on consumption for ineligible households living in treatment communities. In addition, these indirect programme effects are larger for households facing a negative shock.

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

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

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

83. Source: Answer by the Chilean authorities to the OECD questionnaire.

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

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


87. Source: Answer by the Brazilian authorities to the OECD questionnaire.

88. Source: Answer by the Mexican authorities to the OECD questionnaire.

89. They are done every two years in Chile (OECD, 2009c), and every three years in Mexico (Grosh et al., 2008). They should in principle be reviewed every two years by municipalities in Brazil (Lindert et al., 2007).

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

91. The emergency employment programmes were introduced in Chile in 1982 as a response to the crisis and were revived with the direct employment programme as a response to the 1999 crisis. Likewise, the Mexican Programa de Empleo Temporal (PET) was initiated at the time of the tequila crisis in 1995, and the Indonesian Padat Karya and PDM-DKE (Pemberdayaan Daerah Dalam Mengatasi Dampak Kekeringan dan Masalah Ketenagakerjaan, Regional Empowerment in Overcoming the Impact of Drought and Labour Problems) were also adopted at the time of the Asian crisis in 1997-98.

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

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

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

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

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

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

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

99. In India, as a response to a severe drought that affected parts of the country in 2009, the government extended the target duration of NREGA from 100 to 200 days per year in 272 drought-affected districts out of the 624 Indian districts (ILO, 2010).


101. Only China has not returned yet to its pre-crisis annual growth rate of over 11%.

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