



## Promote Decent Work

Report prepared for  
the G20 Employment Working Group

Jointly prepared by:  
International Labour Organization  
Organization for Economic Cooperation and Development  
World Bank Group  
International Monetary Fund

Shanghai, China  
27-29 April, 2016

## Contents

	page
1 <b>Introduction</b>	3
2 <b>Promote rational income growth mechanism</b>	4
2.1     Improving earnings quality across and within countries	4
2.2     Policy levers for promoting rational income growth	6
<i>Minimum wages</i>	7
<i>Institutional and design aspects of minimum wage systems</i>	8
<i>Determining the rates</i>	9
<i>Collective bargaining</i>	10
<i>Objectives, principles, functions</i>	10
<i>Institutional features of wage bargaining: coverage, dominant level of bargaining</i>	11
<i>Wage bargaining: coordination and information</i>	12
<i>Collective bargaining and non-standard forms of employment: ensuring work is decent</i>	12
2.3     Towards a coherent, rational and sustainable wage policy	12
3 <b>Advance more equitable and sustainable social protection systems</b>	14
3.1     Social protection and inclusive growth	14
3.2     Significant extension of social protection coverage in emerging economies	16
3.3     The role of social protection in supporting decent work and inclusive growth	17
3.4     Ensuring social protection coverage for workers in the informal economy	19
3.5     Fiscal consolidation and social protection systems in advanced G20 economies	20
3.6     Ensuring current and future adequacy of pension systems	21
3.7     Ensuring the adequacy and the social, economic and financial sustainability of social protection systems	22
3.8     Policy recommendations/principles for promoting more equitable and sustainable social protection systems	23
4 <b>Improve working conditions</b>	25
4.1     Quality of working conditions	25
4.2     Policies to improve working conditions need to be broad-based	26
<i>Employers' compliance with labour standards on wages, hours and working conditions</i>	27
<i>Role of education and positive incentives</i>	27
<i>Role of labour administration, labour inspection, enforcement and effective deterrence</i>	28
4.3     Advances in strategies and methods to achieve occupational health and safety (OSH)	29
4.4     Governance approaches to improve working conditions and OSH in the global supply chains (GSCs)	31
4.5     Improving the resources workers have to cope with job demands	32
<i>Changing workplace practices</i>	32
<i>Ensuring workplaces are inclusive with respect to workers with disability or mental health issues</i>	33
<i>Tackling informality</i>	34
4.6     Policy recommendations/principles for improving working conditions	35

## 1 Introduction

Promoting quality employment and realizing decent work has been recognized as one of focus areas for G20. Along with global policy developments at the ILO under its Decent Work Agenda, in recent years, G20 adopted a wide range of policy commitments, which are currently reflected in the Employment Plan.

In 2015 in particular, recognizing weak and uneven growth, widening jobs gap, job quality deficits and growing inequality in many G20 countries, Leaders called for actions in tackling inequality, noting that “Rising inequalities in many countries may pose risks to social cohesion and the well-being of our citizens and can also have negative economic impact and hinder our objective to lift growth” (Paragraph 6, G20 Leaders Communiqué, Antalya).<sup>1</sup> The Employment and Labour Ministers also adopted the G20 Policy Priorities on Labour Share Income and Inequalities (Annex 1 of the LEMM Declaration, Ankara) with a view to further developing policies and examining progress on their implementation. The key policy areas identified therein include wage policies, social protection and job-friendly macroeconomic policies.<sup>2</sup> In addition, the ministers endorsed the G20 Framework on Promoting Quality Jobs which identifies three key dimensions of job quality: earnings, labour market security and working environment.

In light of the work of G20 to date, this report examines three thematic issues under the title of “Promote Decent Work”: (i) Promote rational income growth mechanisms (Section 2); (ii) Advance more equitable and sustainable social protection systems (Section 3); (iii) Improve working conditions (Section 4). In order to facilitate policy discussion at G20, the same structure is applied to all these sections. They begin with a short introduction to the overall contexts of the issue in question, using the G20 Job Quality Framework, and then provide a selected set of policy issues which are thought to be critical in the current economic and social context. The sections conclude with a proposed list of policy principles for discussion.

Section 2 on rational income growth mechanisms concentrates on the question of “how to improve minimum wages and wage collective bargaining systems, and set up wage determination mechanisms to ensure rational income growth which reflects economic performance of the business and labour market supply and demand, with a view to narrowing the wage gaps and exercising synchronization of remuneration growth with labour productivity growth” (the Chinese Presidency Concept Note).

In Section 3 on social protection, the focus is placed upon the issue of “how to extend social protection coverage and provide adequate social security benefits to all working people, in particular those employed without traditional employment relations, how to establish sustainable financing mechanisms and adequate benefit standards to cope with changes in demographic structure and economic growth” (the Chinese Presidency Concept Note).

Section 4 on working conditions builds on the Statement on Safer and Healthier Workplaces (Annex C of the LEMM Declaration, 2014) and expand the G20 discussion to broader areas of working conditions, with particular attention to the issue of “how to encourage employers to improve working conditions at workplaces (including occupational safety and health) and to comply with basic labour standards on working time, rest and leave, and inclusive of female workers and protection of minor workers” (the Chinese Presidency Concept Note).

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<sup>1</sup> The Antalya Communiqué also asked “our Finance, and Labour and Employment Ministers to review our growth strategies and employment plans to strengthen our action against inequality and in support of inclusive growth.” (Paragraph 6)

<sup>2</sup> Pro-employment macroeconomic policies was already discussed at the first EWG meeting. See the joint report on Generating Adequate Job Opportunity (Feb 2016)

## 2. Promote rational income growth mechanism

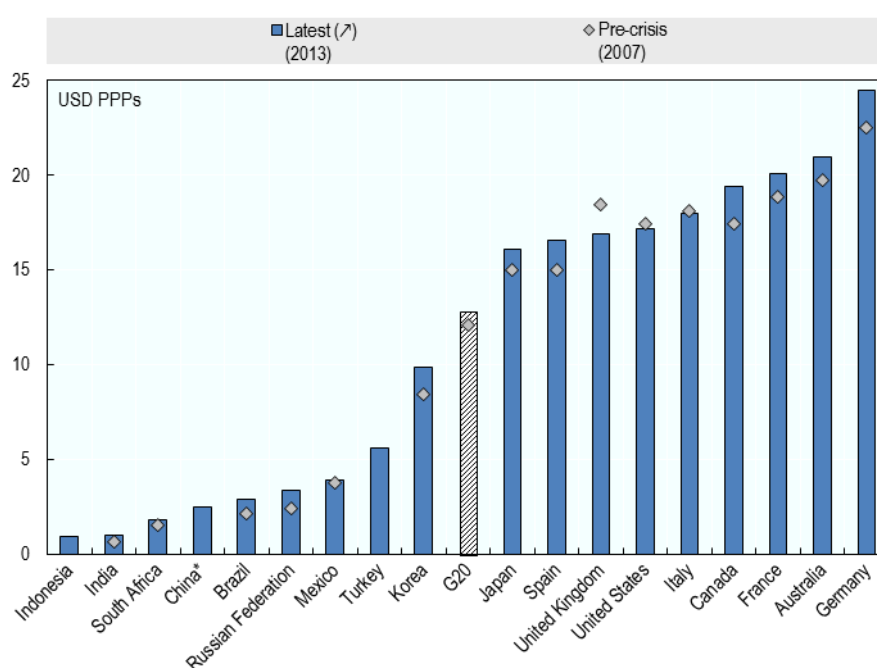
### 2.1 Improving earnings quality across and within countries

The earnings workers receive are key determinants of their well-being and also affect the growth prospects of the G20 and each member economy. It is not just the level of these earnings and how they contribute to the income of workers and their families but also the distribution of earnings. A high overall average level of earnings may disguise a high share of workers on very low earnings with a few highly paid workers pulling up the overall average.

Both of these dimensions are captured by the measure of earnings quality under the G20 Job Quality Framework.<sup>3</sup> This captures average earnings and the distribution of earnings across the workforce and allows for comparisons both across countries (see Figure 1) and within countries over time.

**Figure 1. Earnings quality in G20 economies**

PPP-adjusted gross hourly earnings in USD, 2007 and 2013 or the latest year available



*Note:* Data refer to 2008 and 2012 for India, Italy and South Africa; 2007 and 2012 for France and Spain; 2010 only for Turkey; 2012 only for South Africa; and 2013 only for Indonesia. Generalised means approach is used as an aggregation tool to compute earnings quality measures, assuming a high inequality aversion. G20 is the un-weighted average of countries shown (China, Indonesia, South Africa and Turkey not included). Data for Argentina are currently not available due to the state of emergency in the national statistical system declared by the government of Argentina on 07 January 2016. As a consequence, Argentina is not included in the calculation of the G-20 aggregate. The decision regarding the inclusion of Argentina will be reconsidered in the future depending on further developments.

(<https://www.boletinoficial.gob.ar/pdf/linkQR/QIFIS1dmVmpOWXMrdTvrEh2ZkU0dz09>)

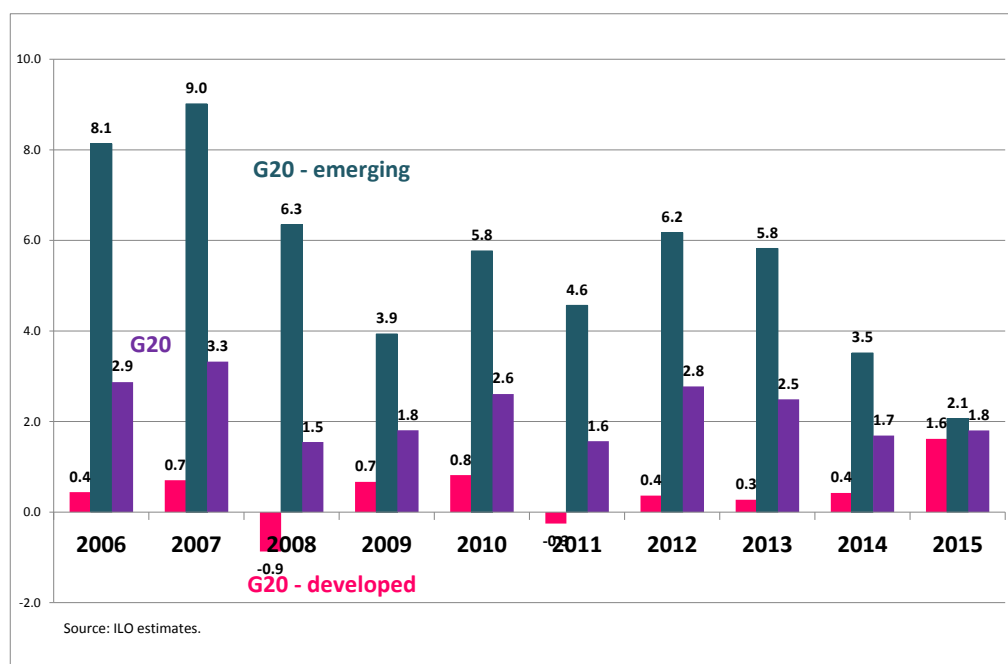
Source: OECD Job Quality database (2016) and OECD estimates based on the Pesquisa Nacional por Amostra de Domicílios (PNAD) for Brazil, the Urban Household Survey (UHS) for China, the National Sample Survey (NSS) for India, the Survei Angkatan Kerja Nasional (SAKERNAS) for Indonesia, the Russian Longitudinal Monitoring Survey (RLMS) for the Russian Federation and the National Income Dynamics Study (NIDS) for South Africa.

<sup>3</sup> As endorsed by G20 Leaders in Antalya on 15-16 November 2015 (see Annex IV of the Declaration).

Not surprisingly there are large gaps in the level of earnings across the G20 countries. For the G20 emerging economies a key challenge is to promote a process of strong economic growth that will help close the still large gap in average earnings levels with the G20 advanced economies. However, all G20 countries also face a common challenge of tackling the high and often rising earnings inequality. For instance, because of greater inequality, the level of earnings quality is the same in the United States as in Italy, despite higher average earnings in the former.

The deep and often protracted economic crisis was associated with stable or worsening earnings quality in most G20 countries. It should be stressed that the observed changes in wage dispersion hides wider changes in household income inequality especially in countries with persistently high unemployment and under-employment, often concentrated among low-paid workers.<sup>4</sup> The subdued growth in earnings quality reflects sluggish growth more generally in real wages, especially in the G20 advanced economies (Figure 2). Real wages have generally been growing considerably faster in the G20 emerging economies. In 2015, however, there was only little difference between both groups of countries, with a pick-up in growth among some of the advanced economies (USA, Germany, UK) as wage growth declined among the emerging G-20 economies (partly due to falling real wages in Russia and Brazil).

**Figure 2. Annual average real wage growth in the G20 2006-15**



Source: ILO estimations based on official national sources. Note: 2015 figures are preliminary estimation as national estimates are not yet available for all countries

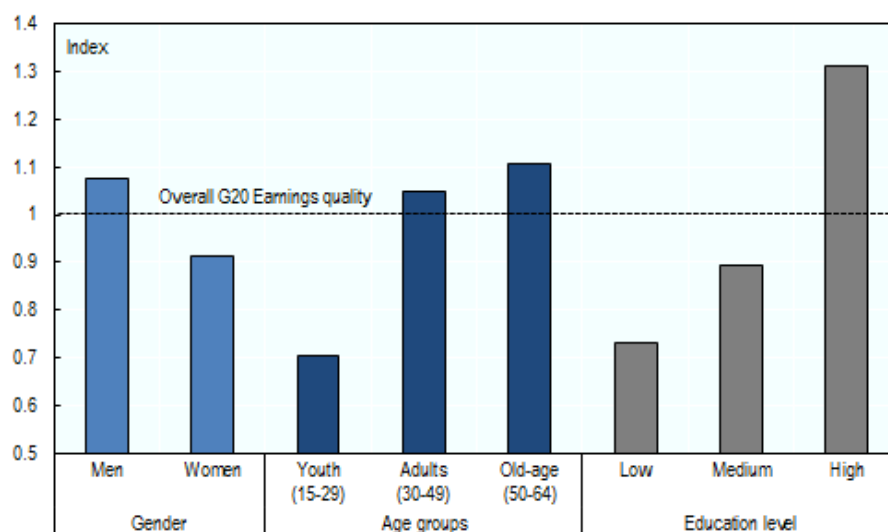
Apart from the challenges associated with sluggish aggregate earnings outcomes, there are also challenges for policy in terms of improving wage outcomes for specific groups within each country (Figure 3). On average, *earnings quality increases with age and education level*. Earnings quality is on average highest among older

<sup>4</sup> Longer run trends in labour income growth and inequality have already been summarized and discussed at previous G20 meetings. Inequality has tended to widen or remain high in many G20 countries, coupled with sluggish wage growth which was often lagging behind labour productivity growth. The potentially negative impacts of these trends on economy, labour market and social cohesion have also been identified. For instance, see ILO, IMF, OECD and World Bank, *Income inequality and labour income share in G20 countries: Trends, Impacts and Causes*, Report prepared for the G20 Labour and Employment Ministers Meeting and Joint Meeting with the G20 Finance Ministers, Ankara, Turkey, 3-4 September 2015.

workers at the end of their careers but in Brazil, India, Indonesia, Korea and Russia prime age workers (between 30 and 49 years old) enjoy slightly higher earnings quality than both young and older workers. *High-skilled* workers are better off in all countries. The gap in earnings quality between high-skilled and other workers is particularly pronounced in Brazil, India, Indonesia, South Africa and United States but much narrower in France and Russia. *Women* also suffer from a large gap in earnings quality relative to men, ranging from 50-60% in Korea to “only” 10% in Brazil, Spain or Italy (but it is important to underline that this is partly driven by composition effects: relatively few women work in these latter countries and those who work are more skilled).<sup>5</sup> Finally, informal workers have lower earnings quality.

**Figure 3. Earnings quality by socio-demographic group in G20 economies**

Ratio of earnings quality by group over overall earnings quality, un-weighted average across G20 countries <sup>a</sup>



<sup>a</sup> Average values across all G20 countries except Argentina, Australia (age groups only), Canada, China, Japan, Mexico and Turkey.

Source: OECD Job Quality database (2016) and OECD estimates based on the Pesquisa Nacional por Amostra de Domicílios (PNAD) for Brazil, the National Sample Survey (NSS) for India, the Survei Angkatan Kerja Nasional (SAKERNAS) for Indonesia, the Russian Longitudinal Monitoring Survey (RLMS) for the Russian Federation and the National Income Dynamics Study (NIDS) for South Africa. Argentina is not included in the calculation of the G-20 aggregate. Data for Argentina are currently not available see note to Figure 1.

A final policy challenge concerns the risk that workers remain trapped in low-paid jobs or cycling between these jobs and unemployment. Poor job quality may be of less concern for policy if these jobs serve as temporary stepping stones to better quality jobs. However, work by the OECD and the ILO suggests that across many of the G20 advanced economies a substantial proportion of workers experience long employment spells with low earnings. Across all countries, mobility up the earnings ladder helps to reduce inequality when earnings are averaged over longer periods of time but by not enough to prevent countries with the highest levels of earnings inequality at a point in time also recording the highest levels of inequality in lifetime earnings.

## 2.2 Policy levers for promoting rational income growth

Within the G20 policy frameworks developed in 2015 as noted above, wage policy, if well-coordinated with national tax and benefit systems, plays a central role in (i) promoting better quality jobs without

<sup>5</sup> It is important to underline that these country differences in the size of the gaps are partly driven by composition effects: relatively few women work in these latter countries and those who work are more skilled.

negative effect on employment and (ii) contributing to stronger and more balanced growth. Sound wage setting institutions and rational income growth mechanisms should ensure wage and income growth in line with economic performance, narrowing wage gaps and aligning wage and productivity growth.<sup>6</sup> Wage policies can contribute to reducing poverty and addressing rising inequality, including those between men and women, by promoting the right to equal remuneration for work of equal value. Of particular importance is the design and articulation of minimum wages and collective bargaining, along with supportive social welfare and taxation policies, to achieve rational wage growth as well as reductions in inequality. With less inequality in the labour market, there is also less of a need for redistribution through fiscal measures.<sup>7</sup> Effective and fair labour protection also requires that all workers are paid their wages regularly, in full and without any unlawful deductions.

### *Minimum wages*<sup>8</sup>

A minimum wage is a wage floor that an employer is required to pay wage earners for the work performed during a given period. This definition refers to the binding nature of minimum wages, regardless of the method of fixing them. Minimum wages can be either statutory or they can be set by giving the force of law to provisions of collective agreements. In recent years, minimum wage systems have been established or strengthened in many countries as part of their strategy to reduce working poverty and inequality.

Minimum wages can play a critical role in promoting rational income growth – but it is important to acknowledge that they have both benefits and costs. Beneficiaries include workers who earn exactly the level of the minimum (the so-called “bound workers”), as well as other workers who obtain a pay increase as a result of a change in the minimum wage (the “spill-over effects”). The latter group can include workers who are either paid less than the minimum wage in non-complying or non-covered establishments, or workers who earn more than the minimum. Higher wages for beneficiaries can help to increase their household consumption, with positive effects on aggregate demand. However, costs are borne by enterprises whose labour costs increase and may therefore see a reduction in profits, by consumers who may face higher prices, and/or by some of the intended beneficiaries themselves – if they lose their jobs or see their hours of work reduced. Minimum wages can also have negative effects on international competitiveness and exports if they lead to higher unit labour costs than in competitor countries, which can negatively affect aggregate demand.

Minimum wages should thus be designed with a view to maximizing benefits and minimizing costs. Recent experience shows that when this is done, minimum wages contribute to higher wages for low paid workers and less inequality, with little or no negative effects on employment. Although employment effects of the introduction or increases of minimum wages remain a debated issue and should continue to be monitored, recent meta-studies or evaluations suggested that when minimum wage levels are kept modest they have

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<sup>6</sup> The productivity effects of wage policies are discussed in ILO, OECD and World Bank, *Generating Adequate Job Opportunities*, the report prepared for the 1<sup>st</sup> EWG meeting (2-4 Feb, Guangzhou)

<sup>7</sup> See ILO, 2014. *Global Wage Report 2014/15: Wages and income inequality*. ILO, Geneva. <http://www.ilo.org/global/research/global-reports/global-wage-report/2014/lang--en/index.htm>

<sup>8</sup> This section is based on the ILO Web-based Minimum Wage Policy Guide (forthcoming) and the special section on “the role of minimum wages after the crisis” in Chapter 1 of the 2015 *OECD Employment Outlook*, as well as Chapter 2 of the report by Kuddo, A; Robalino, D; Weber, M; 2015. *Balancing regulations to promote jobs: from employment contracts to unemployment benefits*, World Bank Group. This report was written in close consultation with the ILO, ITUC, and OIE.

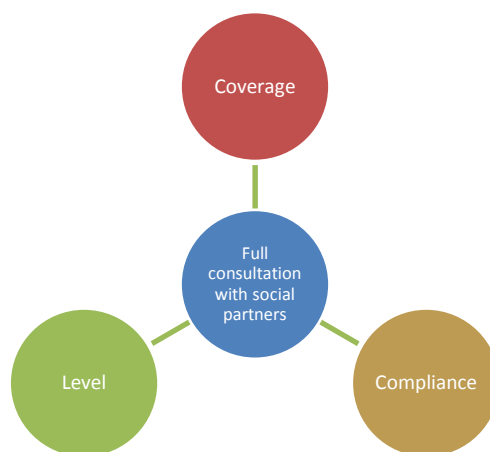
had no or little adverse employment effects for example in the U.K., the U.S., Germany, or Mexico <sup>9</sup> - although some studies indicate that more vulnerable groups like youth and the low-skilled can be more negatively affected.

#### *Institutional and design aspects of minimum wage systems*

At the heart of well-functioning minimum wage systems lies the principle of full consultation with and/or direct participation of organisations of employers and workers as well as experts having recognized competence for representing the general interest of the country. In this way, collective ownership of minimum wages can be secured and potential social conflicts can be avoided. Minimum remuneration should be established without discrimination based on sex. However, different sub-minima (sometimes called “training” wages) are used in some countries for young workers (especially, first-time job seekers) to encourage firms to hire inexperienced workers or to reflect the fact that their productivity is lower while being trained.

Some, often federal and larger, countries also allow for regions/states to set their own minima as in Brazil, Canada, China, Indonesia, Japan and the United States, with respect to the local economic conditions. Consultation should take place on what would constitute an adequate level for minimum wage, but also on the institutional design of a system, including its legal coverage and mechanisms to promote compliance. Both of these aspects are essential determinants of the effectiveness of minimum wages (Figure 4).

**Figure 4. Main dimensions of effective minimum wages**



<sup>9</sup> See for example the meta-study and literature review on the U.S. and other developed economies in Belman, D; and Wolfson, P; 2014. *What does the minimum wage do*, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan; On Germany see Amlinger, M; Bispinck, R.; Schulten, T. 2016. “The German Minimum Wage: Experiences and Perspectives after one year”, WSI-Report No. 28e, 1/2016; On China, see Wang, X. (forthcoming), “China’s Minimum Wage Policy”, ILO Working Paper or Mayneris F.; Poncet, S.; Zhang, T. 2014. “The Cleansing Effect of Minimum Wage: Minimum Wage Rules, Firm Dynamics and Aggregate Productivity, Working Paper, CEPII but also Fang. T and C. Lin, “Minimum Wages and Employment in China”, IZA Discussion Paper, No. 7813, for a study finding adverse employment effects; On Mexico, see Vazquez-Alvarez (forthcoming), “Impacto del Salario Mínimo sobre la Demanda de Empleo en Mexico”, Working Paper, ILO.



Minimum wages should afford adequate protection to all workers in an employment relationship, including women, youth, migrant or domestic workers<sup>10</sup>, regardless of their contractual arrangements, as well as all industries and occupations in the economy. They should also be extended progressively, in law and in practice, to workers in the informal economy.<sup>11</sup> Piece rate workers – including those working at the end of global supply chains - can also be at risk of earning unduly low wages. The United States and Brazil have recently extended coverage to domestic workers, and broader sectoral coverage is currently envisaged in India and South Africa.

Non-compliance has negative consequences not only for workers and their families, but also for compliant employers, because it gives non-compliant enterprises an illegitimate cost advantage. Compliance can be increased through a number of implementation measures, including information and awareness raising activities, capacity building activities for employers' and workers' representatives, targeted labour inspections, and sanctions that function as a deterrent to non-compliance.<sup>12</sup> Systems that are too complex and difficult to understand can make compliance more challenging not least for smaller enterprises which often employ many of the workers covered by minimum wage systems.

#### *Determining the rates*

Whether minimum wages are adequate and effective crucially depends on the size and the frequency of adjustments. Adequate minimum wages should be evidence-based and set at a level that takes into account the needs of workers and their families, as well as economic factors so as not to risk pricing out some workers from the formal sector and indeed the protection of the minimum wage itself.<sup>13</sup> All of these factors are country-specific and their analysis requires the use of up-to-date statistical data. While economic factors may provide a current upper limit to adequate minimum wages, in other instances they may provide an opportunity to increase rates beyond the survival needs of workers and their families – such as was recently observed in Mexico. Taking into account only one set of factors may lead to minimum wages that are either too low or too high. This is why minimum wages are best set by independent bodies where unions, employers and experts are represented than by purely political decisions. Moreover, when fixing the minimum wage level it is important to consider the interactions with the tax and benefit systems in order to minimise labour costs (what firms pay) and maximise take-home pay.<sup>14</sup> Complementarities with in-work benefits (like the Earned Income Tax Credit in the United States) can maximise the effects on low-paid workers insofar as they allow to boost the employment and earnings of certain disadvantaged groups.

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<sup>10</sup> See the ILO Domestic Workers Convention, 2011 (No. 189)

<sup>11</sup> See the text of the recently adopted ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)

<sup>12</sup> Benassi, C. 2011, “The Implementation of Minimum Wage: Challenges and Creative Solutions”, Working Paper No.12, ILO GLU, March.

<sup>13</sup> Minimum Wage Fixing Convention, 1970 (No. 131) and OECD Employment Outlook 2015

<sup>14</sup> See Chapter 1 in OECD Employment Outlook 2015 and “Minimum Wages after the Crisis: Making Them Pay” (OECD, 2015).

## Collective bargaining

### *Objectives, principles, functions*

Collective bargaining is an important mechanism for determining wages, working time and working conditions through negotiations between an employer and/or one or more employers' organizations on the one hand and one or more workers' organizations on the other. Collective bargaining has a number of different functions and can not only improve equity in the labour market but also increase efficiency. Collective bargaining has a protective function, guaranteeing decent wages and working conditions; a voice function, enabling workers to participate meaningfully in economic activities (and enterprise performance); and a distributive function, securing a fair share in the benefits of these economic activities and any productivity gains.<sup>15</sup> It can also contribute to industrial peace and social stability.

An equitable and effective collective bargaining system requires as a strong foundation the presence of strong trade unions and employers' organizations that represent well the interests of workers and employers. At the same time, the realization of the economic and social benefits of collective bargaining require an effective, properly-regulated system developed by government in consultation with employers' and workers' organizations.

Collective bargaining has come under significant pressure in a number of G20 countries over the past two decades, as a result of a decline in union membership and in the coverage by collective agreements. By contrast, collective bargaining coverage increased or remained high in some countries that supported bargaining through different policy measures.<sup>16</sup>

The effective recognition of the right to collective bargaining is a fundamental principle and right at work, which all ILO member states, even if they have not ratified the Conventions in question, have an obligation to respect, to promote and to realize, in good faith.<sup>17</sup> These Conventions emphasise respect for the right to organize, the free and voluntary nature of the collective bargaining process and the autonomy of the social partners. Governments should as much as possible refrain from interfering inappropriately in the process. The role of the government is to provide a legal framework and support the full development and utilization of collective bargaining as a means to determine wages and other conditions of employment. Government do so by adopting measures and policies to promote collective bargaining. These include measures to encourage informed negotiations; to promote better coordination among the social partners; and which give effect to collective agreements.<sup>18</sup>

Governments can also promote inclusive bargaining coverage by extending collective agreements to non-signatory parties. The rules-based extension of collective agreements offers the potential of ensuring fair competition by establishing a minimum standard for wages and other working conditions for enterprises operating under similar conditions in sector or branch of the economy. It can also provide for the inclusive coverage of vulnerable workers in certain sectors, such as migrant workers and those in non-standard

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<sup>15</sup> Visser, J. 2013. *Wage Bargaining Institutions—from crisis to crisis* (No. 488). Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

<sup>16</sup> Visser, J. Hayter, S. and Gammerano, R. 2015. "Trends in collective bargaining coverage: Stability, erosion or decline?" *Labour Relations and Collective Bargaining Issue Brief No. 1*, ILO, Geneva.

<sup>17</sup> ILO Declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference at its Eighty-sixth Session, Geneva, 18 June 1998 (Annex revised 15 June 2010)

<sup>18</sup> Collective Bargaining: A Policy Guide, 2015, International Labour Organization, Geneva.

forms of employment as well as workers in small enterprises. Many countries use these policies to support the regulation of wages through collective agreements, including South Africa and Argentina. However, it is important for extension procedures and criteria to be designed in such a way that extensions do not adversely affect employment levels.<sup>19</sup>

*Institutional features of wage bargaining: coverage, dominant level of bargaining*

The role that collective bargaining plays in wage formation will depend on a number of institutional features, including the level at which wages are determined, the coverage of collective agreements and the bargaining power of workers' organizations. For example, in highly coordinated systems with broad coverage of collective agreements, collective bargaining has an equalizing effect on the distribution of wages. Yet, even where collective bargaining is limited and the bargaining power of workers' organizations weak, collective agreements can play an important role in reinforcing compliance with the minimum wage. The way in which wages are negotiated may also be related to other forms of social dialogue, including national tripartite social dialogue and information and consultation at the workplace.

Wages can be negotiated at the national, sectoral, regional or enterprise level. It can also take place at multiple levels (multi-tier bargaining). A distinction is frequently drawn between whether wage bargaining systems are characterized by multi- or single-employer bargaining. There is a close relation between the level of bargaining and whether this takes place in single or multi-employer arrangements and the proportion of workers covered by collective agreements. Multi-employer bargaining at the sectoral or national level is the most inclusive form of bargaining. In recent years, such bargaining has evolved in several countries to allow derogations for individual enterprises as described below. Single employer bargaining (plant, enterprise or company) may allow a better match with local and firm specific conditions (not only downwards but also upwards), but usually only a limited proportion of employees tends to be covered and usually mainly in large and medium size enterprises. Normally, multi-employer bargaining arrangements at the sectoral and/or national levels are associated with higher bargaining coverage, compared to when bargaining predominantly takes place only at local or company level (between 10% and 20%).<sup>20</sup>

There have been a number of important changes in recent years. There has been a trend toward the decentralization of *wage bargaining* to the enterprise level in countries where national and sectoral bargaining prevailed, particularly in Europe. There are also some exceptions, such as the shift to higher levels of bargaining in Finland. While widespread decentralization can be observed, there is a distinction between countries where this has been 'organized' and those where it has been 'disorganized'.<sup>21</sup> In the first case of 'organized decentralization', additional enterprise level bargaining is highly coordinated within sectoral or national framework agreements with minimum standards that have ensured the stability of collective bargaining coverage. Conditional derogations (i.e. negotiated, time bound, subject to economic difficulty) from the terms of a collective agreement may be granted to firms in economic difficulty. These have played

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<sup>19</sup> For example, see the discussion and references in Box 3.2 of "Time for a Supply-Side Boost? The Macroeconomic Effects of Labor and Product Market Reforms in Advanced Economies", World Economic Outlook, Chapter 3, April 2016, International Monetary Fund, Washington D.C.

<sup>20</sup> Visser, J. Hayter, S. and Gammarano, R. 2015. Trends in Collective Bargaining Coverage: Stability, Erosion or Decline? *Issue Brief No. 1*, ILO, Geneva.

<sup>21</sup> Traxler, F. 1995. "Farewell to Labour Market Associations? Organized versus disorganized decentralisation as a map for industrial relations", in Traxler, F. and Crouch, C.J. (Eds.) *Organized Industrial Relations in Europe. What future?* Hants, Vermon

a role in limiting job losses through adjustment to hours worked and wages. Strong collective bargaining systems provided an important tool to foster labour market resilience in the aftermath of the recent economic crisis.

#### *Wage bargaining: coordination and information*

Collective bargaining offers a mechanism for coordinated wage setting across different sectors or bargaining units. Such coordination makes it possible to align wage bargaining with macro-economic goals, including inflation management and counter-cyclical policies (especially during serious economic downturns). Examples include centralized wage bargaining arrangements, regularized pattern setting by large enterprises or significant sectors, and the formal or informal coordination of negotiations by employers' and union confederations. The latter may offer guidance for wage bargaining with or without government involvement. Such guidance will typically highlight employment, wage and productivity developments with a view to ensuring that income growth is in line with economic performance.

The quality of information and the degree of consensus on the measures of productivity have been key to effective coordination and to informed negotiations. For example, the availability of basic macroeconomic information can assist the negotiating partners to take productivity developments into account and, particularly in more centralized and coordinated settings, to consider the impact of their agreements (e.g. on inflation, employment, and other macroeconomic dimensions). Information on sectoral trends provided by non-statutory bodies such as productivity councils, research institutes and industry associations can set the backdrop for negotiations at the industry, branch and enterprise levels.

#### *Collective bargaining and non-standard forms of employment: ensuring work is decent*

Collective bargaining offers an important means to either negotiate equal pay or progressively minimize wage differentials between workers performing the same work but where a number are in non-standard forms of employment. In countries such as Germany and Norway, collective agreements have been negotiated that ensure that temporary agency workers receive the same wages and working conditions as those on standard contracts. Collective agreements have also been used to ensure that work is decent and reduces the risk of occupational injury and disease for workers with non-standard contracts by ensuring that they receive appropriate training before they are engaged in hazardous work.<sup>22</sup>

### **2.3 Towards a coherent, rational and sustainable wage policy**

In light of the policy challenges noted above, governments of G20 countries may wish to consider the following suggested set of policy principles for a coherent, rational and sustainable wage policy:

- Improve coverage of, and compliance with, minimum wage legislation, especially in countries where collective bargaining is weak or declining.
- Ensure that minimum wages are revised regularly, based on accurate, up-to-date and impartial information and advice that carefully considers current labour market conditions and the views of social partners.

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<sup>22</sup> Khafa, E. 2015. Collective bargaining and non-standard forms of employment: Practices that reduce vulnerability and ensure that work is decent, *Labour Relations and Collective Bargaining Issue Brief No.3*, ILO, Geneva.

- Where necessary, allow minimum wages to vary by group (to reflect differences in employment barriers) and/or by region (to reflect differences in economic conditions) – bearing in mind that simple minimum wage systems are most likely to achieve high compliance.
- Make minimum wages pay while avoiding that they price low-skilled workers out of jobs, by carefully considering their interactions with the tax-benefit system.
- Use minimum wages as a tool to raise wages at the bottom of the wage ladder, but accompany them with other tax and benefit measures so as to effectively fight poverty in (e.g. in-work benefits and tax credits) and out of work.
- Make sure that collective bargaining at any level relies on timely and good quality information on economic performance and strong and representative social partners.
- Collective agreements should be regularly reviewed and if necessary renegotiated in order to keep wages and working conditions in line with economic conditions.
- The adoption of carefully tailored rules-based extension policies (rather than automatic extensions) and other measures to ensure that collective agreements also cover vulnerable workers and those in non-standard forms of employment is important – while guarding against the potential negative effects on employment and competitiveness.
- Ensuring that decentralized wage bargaining remains organized while giving some flexibility to companies in economic difficulty through well-regulated conditional derogations and opt out options in order to strengthen the resilience of systems and prevent further erosion of collective bargaining.
- Eliminate the gap in earnings quality between men and women and promote rational income growth for both groups, by introducing and strongly enforcing legislation prohibiting discrimination in hiring, pay and promotions on the basis of gender.
- Facilitate social dialogue on policy principles for a coherent, rational and sustainable wage policy.

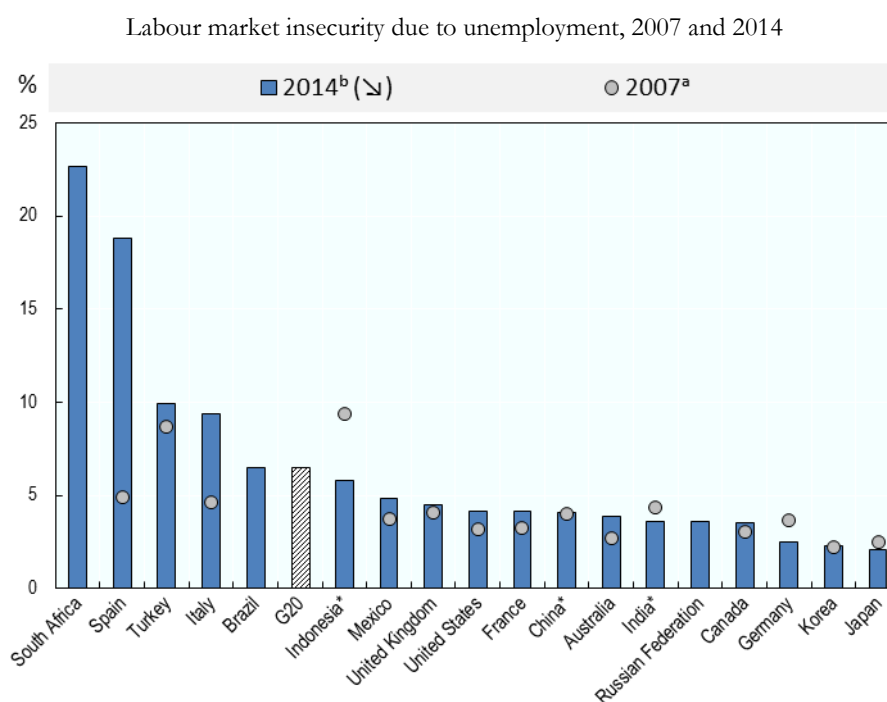
### 3. Advance more equitable and sustainable social protection systems

#### 3.1 Social protection and inclusive growth

Social protection systems provide for income security in cases of unemployment, illness and injury, old age and retirement, invalidity, family responsibilities such as pregnancy and childcare, and loss of the major breadwinner. Such benefits are important not only for individual workers and their families but also for communities as a whole. They are powerful mechanisms for reducing poverty and income inequality and can also act as automatic stabilizers in the event of slowdowns in the economy. Across the G20 membership, the pace and scale at which social protection systems can be developed varies markedly. The analysis and proposals in this section therefore need to be understood as recognizing that systems are established and extended progressively according to national circumstances.

Social protection plays an important role in helping workers cope with two major economic risks in the labour market: one due to unemployment, and the associated earnings losses; and the other owing to low incomes and the risk of poverty. The measures of labour market insecurity under the G20 Job Quality Framework capture these risks and their economic consequences. The framework includes indicators of labour market insecurity, based on the risk of job loss and its economic cost for workers, taking into account the coverage and level of benefits provided by income support schemes (Figure 1).

**Figure 1. Labour market insecurity**



*Note:* Labour market insecurity measures the probability of job loss and its economic cost for workers, expressed as a percentage of previous earnings. It is calculated as the unemployment risk x one minus unemployment insurance. The unemployment risk denotes the probability of becoming unemployed times the expected duration of unemployment. It has been approximated by taking the unemployment rate. In a steady-state economy with a relatively low level of unemployment, the two approaches yield very similar results. Unemployment insurance captures the average effective net individual replacement rate of unemployment and social assistance benefits in terms of previous earnings, for the median earner. \* The data for China, India and Indonesia do not include social transfers, so an insurance rate of 0% is assumed. For Russia, individual replacement rates were estimated from household-level replacement rates based on the assumption that all earners in a household have the same earnings. G20 is the un-weighted average of countries shown. a) 2006 for India. b) 2012 for India and 2013 for China.

*Source:* OECD Job Quality database (2016) and OECD estimates based on data from national household surveys

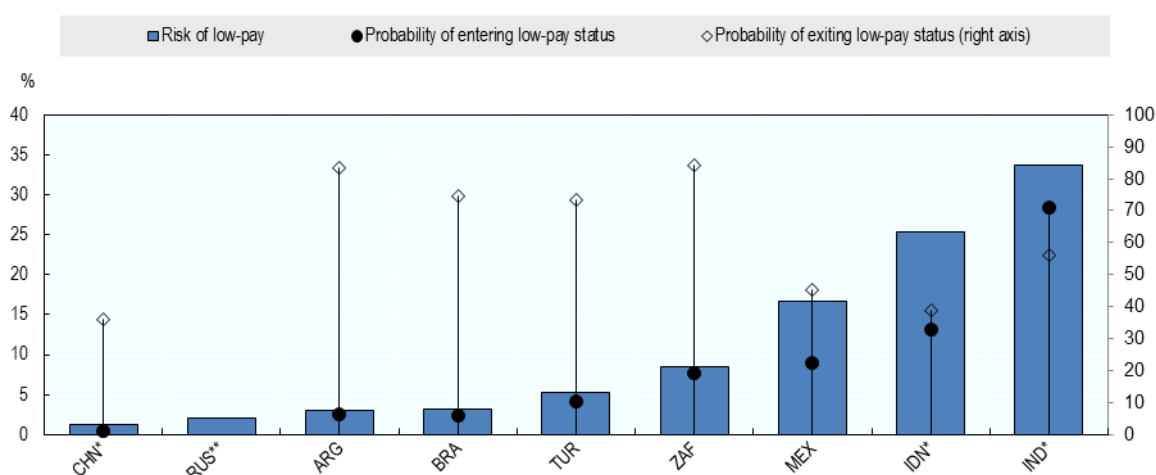
On this basis, the best performing G20 countries in terms of having the lowest levels of labour market insecurity are those where the risk of unemployment is low (e.g. Japan or Korea) and/or where social protection is effective (e.g. France and Germany). Other countries, such as Spain and South Africa, face the common challenge of reducing the unemployment risk and building or strengthening both the coverage and level of social protection.

Between 2007 and 2014, labour market insecurity increased in most advanced G20 economies, reflecting the combination of an enhanced risk of unemployment as a result of the deep labour market effects of the recession associated with the financial and economic crisis and weak recovery and in some cases a weakening of unemployment insurance. The increase was most noticeable in Spain and also Italy, while labour market insecurity decreased significantly in Indonesia and Germany thanks to a lower unemployment risk.

Labour market insecurity arising from the risk of working for extremely low wages often constitutes the most important source of labour market insecurity in emerging economies where most workers cannot afford to be unemployed because they are not covered by income support schemes or the available benefits are very low (Figure 2). The risk of extreme low pay is particularly high in India, Indonesia and Mexico, while it is less pronounced in Russia, urban China and Argentina.<sup>23</sup>

**Figure 2. Labour market insecurity**

Labour market insecurity due to extreme low-pay, 2010



*Note:* The low-pay threshold is set at 1 USD (PPPs) in terms of net hourly earnings and corresponds to a disposable income per capita of 2 USD (PPPs) per day in a typical household of five members with a single earner working full time. The risk of extreme low pay is calculated as the probability of entering low-pay status times the inverse of the exit probability, and shows the likelihood that an individual's earnings (adjusted for social transfers) are below the low-pay threshold at any given time. The data refer to 2009-10, except for Brazil (2009-11), urban China (2008-09), India (2011-12), Mexico (2010-12), Russia (2010-12), South Africa (2010-12) and Turkey (2011-12). \* The data for urban China, India and Indonesia do not contain transfers, so an insurance rate of 0% is assumed. \*\* For Russia, transition probabilities could not be estimated due to categorical income data. The corresponding risk figure therefore represents the share of employed working-age individuals living in households with a monthly disposable income of less than RUB 6 000, which corresponds to an hourly low-pay threshold of 1.14 (PPP as of 2010) for a member of a two-earner family working full-time.

*Source:* OECD estimates based on data from national household surveys.

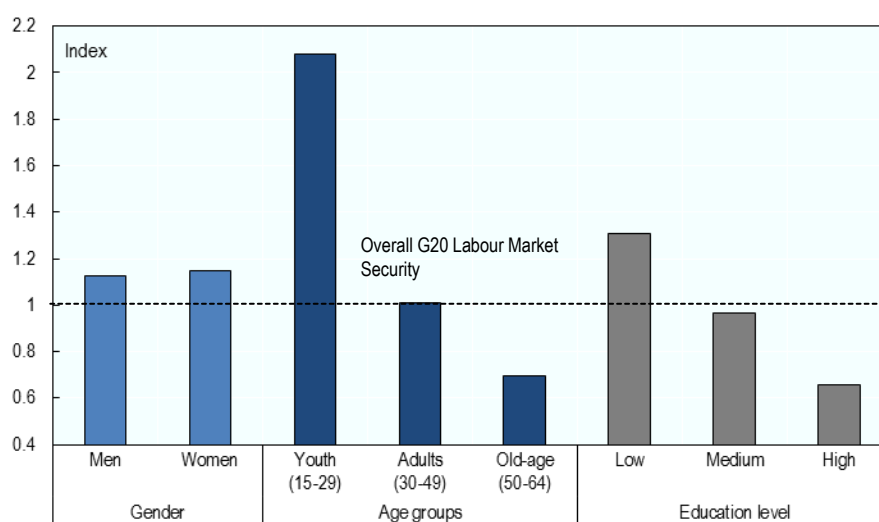
<sup>23</sup> These figures account for the role of public transfers.



Across the G20 countries, labour market insecurity is considerably higher for young and unskilled workers, whether related to the risk of unemployment or the risk of extremely low pay (Figure 3). Gender differences are not sizeable in G20 advanced economies while the risk of extremely low pay is considerably higher for women than men in emerging economies. Temporary and part-time workers in advanced economies face higher labour market insecurity as do informal workers in emerging economies.

**Figure 3. Labour market insecurity by socio-demographic group in G20 economies**

Labour market insecurity due to the risk of unemployment (as a ratio of the overall average G20 level of labour market insecurity), 2014



a) Un-weighted average across all G20 countries, excluding Argentina, China, India, Indonesia, the Russian Federation and Saudi Arabia. For the statistic by education Japan is also excluded.

Source: OECD Job Quality database (2016) and OECD estimates based on data from national household surveys.

### 3.2 Significant extension of social protection coverage in emerging economies

The significant extension of social protection coverage in most of the emerging G20 countries over recent years has improved income security and access to health care for large groups of the population and has contributed to reducing poverty, containing inequality, improving human development outcomes and more balanced growth (see Box 1).<sup>24</sup> For example, the expansion of cash transfer programmes for families and children (e.g. Argentina, Brazil, Indonesia, Mexico, and Turkey) had positive effects on nutrition, health status and education. Pension coverage of older persons has been significantly increased in some emerging G20 countries through the expansion of tax-financed non-contributory pensions as well as contributory social insurance pensions (e.g. Brazil, China) including for rural workers. The expansion of health insurance and measures to facilitate access to health services (e.g. China, Mexico) has contributed to ensuring effective access to health care for previously excluded groups of the population and allowed for significant progress towards universal health coverage. The extension of social insurance coverage has improved income protection in case of unemployment and maternity for previously excluded categories of workers, such as domestic workers (e.g. South Africa, Brazil). In addition, public employment

<sup>24</sup> See ILO. 2014. *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*. (Geneva).



programmes (e.g. India, South Africa) have contributed to enhancing income security and economic opportunities for vulnerable workers.

As economic growth has slowed in some emerging economies, it is important to preserve to the extent possible, given pressures on fiscal space, the efforts made to extend social protection. Such measures would however undermine the anti-cyclical effects of such policies in times of economic slow-down, such as the stabilization of aggregate demand and the preservation of investments in health and education. In addition, such measures may lead to a significant resurgence of poverty and inequality.

### ***Box 1: China's fast expansion of social protection***

Since 2003, China has rapidly expanded social security coverage, committing to universal basic social security coverage by 2020. The process is aimed at expanding coverage to rural and marginalized communities in order to reduce inequality between social groups, to progressively increase benefit levels.

New health insurance schemes were established in 2003 and 2007 for the rural population and the previously uninsured urban population. Together with other existing health insurance schemes, more than 95 per cent of the population (or 1.3 billion people) were covered by the end of 2014.

China increased the coverage of the pension scheme for the urban working population by more than 100 million (most of whom rural migrant workers) from 235.5 million in 2009 to 341.2 million in 2014. Since 2005, the level of pension has been increased on an annual basis by about 10 percent. In addition, the introduction and subsequent merging of two new old-age pension schemes for the rural population and uninsured urban residents in 2009 and 2011 contributed to a significant extension of pension coverage of 501.1 million people by the end of 2014, bringing total pension coverage to 842.3 million, equivalent to nearly 75 percent of the population aged 16 and above.

The reduction of poverty and inequality has been further supported by the minimum living standard guarantee programme, which has achieved universal coverage in 2007.

Source: Based on official publications of the Government of China (*Annual Report on China's Social Insurance Development in 2014*; *Bulletin on Economic and Social Development Statistics of 2014*; *Statistical Report on the implementation of the strategy for women development in China over 2011-2020*); ILO. 2014b. *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*. (Geneva).

## **3.3 The role of social protection in supporting decent work and inclusive growth**

Well-designed social protection systems can contribute to fostering productive employment and reducing labour market insecurity, as well as to promoting inclusive growth and development. Thus, social protection policies play an essential role in complementing effective macro-economic and employment policies, promoting rational income growth mechanisms, supporting consumption and aggregate demand as an automatic stabilizer, and in fostering social cohesion. The significant role of social protection systems in sustainable development is well-recognized in the 2030 SDGs agenda.

The role of social protection in facilitating structural transformation of the labour market and supporting labour mobility is important. Unemployment protection, namely unemployment insurance, plays a key role in this regard by ensuring income security for unemployed workers during job search and linking to

employment services, which can lead to better job matching results.<sup>25</sup> In addition, by channelling cash into poor and remote communities, well-designed social protection programmes more generally also stimulate local economic development.<sup>26</sup>

Further, well-designed social protection systems can also contribute to reducing labour market insecurity and promoting more efficient labour market outcomes. Social insurance mechanisms based on the principle of risk pooling in the fields of unemployment, maternity, health and employment injury protection (as opposed to employer liability solutions) can remove barriers to labour mobility and to the employment of women, and offer a more level playing field for employers.<sup>27</sup>

Social protection can also play an important role in tackling in-work poverty – which is important to improve job quality and reduce inequality. In more advanced countries, in-work benefits (like the Earned Income Tax Credit in the United States) have been shown to be effective in boosting the employment and earnings of certain disadvantaged groups, especially in combination with a minimum wage. They are more tightly targeted on the working poor than minimum wages. However, a minimum wage provides a floor to prevent employers from lowering wages and thus increasing the expenditure required on these in-work benefits to ensure a minimum income from work. In emerging economies, with large informal sectors, cash transfer programmes (like *Bolsa Familia* in Brazil, *Prospera* in Mexico or the *Child Support Grant* in South Africa) have been effective in tackling poverty, both in and out of work.

More broadly, social protection systems also help to contain inequality through the redistribution of resources, which has an important impact on ensuring sustainable and inclusive growth. The IMF and the OECD have drawn attention to the negative effects of high inequality on growth and the need to put in place well-designed redistribution policies as part of comprehensive strategies to address high inequality.<sup>28</sup> Ensuring effective social protection mechanisms for the whole population, including for the middle classes, plays an important role in addressing income inequality as well as other forms of inequality. However, promoting equity and social cohesion through an expansion of social protection systems and increases in their generosity should go hand in hand with the strengthening of activation policies to avoid the risk of unemployment traps and benefit dependency. Such activation strategies should be built on three key pillars (see Figure 5). First, people need to be motivated to work, which involves making sure that work pays and tackling disincentives to work. Appropriate measures should be taken to ensure that unemployment benefits and related benefits support a quick transition of workers into suitable work, and enforcing these work availability requirements. Second, where a rapid return to work is unlikely, employability should be strengthened. Third, bringing people into employment also means expanding the set of available employment opportunities. This involves matching jobseekers with employers who are

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<sup>25</sup> See e.g. Tatsiramos, K. 2014. *Unemployment benefits and job match quality Do unemployment benefits help those seeking work to obtain better jobs?* IZA World of Labour, No. 44 (Bonn); Kuddo, A.; Robalino, D.A.; Weber, M. 2015. *Balancing regulations to promote jobs: From employment contracts to unemployment benefits.* (Washington D.C.: World Bank).

<sup>26</sup> Alderman, H.; Hoddinott, J. 2009. Growth-promoting social safety nets. In: von Braun, J., Vargas-Hill, R., and Pandya-Lorch, R. eds. *The Poorest and Hungry: Assessments, Analyses, and Actions.* (Washington D.C.); Alderman, H.; Yemtsov, R. 2013. *How can safety nets contribute to economic growth?* (Washington D.C.); FAO. 2015. *The State of Food and Agriculture 2015: Social protection and agriculture: breaking the cycle of rural poverty.* (Rome).

<sup>27</sup> See ILO. 2014. *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice.* (Geneva).

<sup>28</sup> See Ostry, J.D. et al. 2014. *Redistribution, Inequality, and Growth* (Washington D.C.: IMF); Clements B, R. Mooij, S. Gupta, M. Keen, eds., *Inequality and Fiscal Policy*, 2015 (IMF, Washington, DC), IMF. 2014; Cingano, F. (2014), “Trends in Income Inequality and its Impact on Economic Growth”, OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing; OECD. 2015. *In it Together: why less inequality benefits all* (Paris).

seeking to fill vacancies, and addressing demand-side barriers through actively engaging and assisting employers in hiring and retaining workers.

Taking action on all of these fronts requires effective management and coordination, and therefore institutions are at the centre of any effective activation strategy. The institution with the central role in connecting people with jobs is the public employment service (PES).

**Figure 4. Key elements for successful activation strategies**



### 3.4 Ensuring social protection coverage for workers in the informal economy

High levels of informality remain a critical economic and social challenge in some emerging G20 countries. Informality not only poses a challenge for the protection of workers, but holds back economic development, given low levels of productivity, few investments in human capital and limited fiscal capacities of the state. However, country experiences demonstrate that coordinated employment and social protection policies can contribute to facilitate transitions from the informal to the formal economy.<sup>29</sup>

Coordinated employment and social protection policies have been successful in increasing levels of formal employment, which tend to be associated with higher productivity and better protection for workers. Argentina and Brazil have succeeded in increasing levels of health and pensions coverage overall, including for vulnerable categories of workers such as own account workers and contributing family workers, and workers in small enterprises.<sup>30</sup>

<sup>29</sup> See ILO. 2013. *The Informal Economy and Decent Work: supporting transitions to formality: a resource guide*. (Geneva).

<sup>30</sup> Pension coverage for urban non-salaried workers (including own account workers) increased from 33.8 in 2005 to 44.7 in 2013 per cent in Brazil. Health coverage of urban non-salaried workers increase during the same period from 44.2 to 52.4 per cent in Argentina and from 25.8 to 35.5 per cent in Brazil. See ILO. 2015. *Panorama Laboral 2015* (Lima).

This significant extension of social protection coverage was facilitated by a broad range of measures aimed at promoting the formalization of employment as part of an overarching strategy. For example, Argentina and Brazil introduced simplified payment mechanisms for social security contributions and taxes, which facilitated access to social insurance for microenterprises and some categories of the self-employed. One of the lessons from these experiences is that the main barriers towards the extension of social security coverage are not necessarily found in the level of contributions, but in the complexity of administrative procedures associated with registration and the payment of contributions.<sup>31</sup> The simplification of such procedures can therefore remove barriers to the formalization of small and micro-enterprises and improve the social protection of wage workers and the self-employed.

At the same time, where informal work is highly prevalent, the expansion of social protection systems and increases in the level of benefits may be particularly challenging given the difficulties of monitoring employment in the informal sector. Employment services and active labour market policies can play a key role in facilitating skills upgrading and jobs matching, and preventing abuse. Yet, the higher benefits are and the stronger the link between contributions and benefits, the higher the incentives will be for people to contribute and declare their work.

### 3.5 Fiscal consolidation and social protection systems in advanced G20 economies

Grappling with slow growth or even recession, some advanced G20 countries have undertaken fiscal consolidation measures that include a reduction of public expenditure on social protection and public services.<sup>32</sup> Reforms of pension and health entitlements were called for, as well as rationalizing and more narrowly targeting safety nets. Measures aimed at enhancing the efficiency of social protection systems—for example, by strengthening the link between continued work and benefit gains in pension systems—can raise employment in the long run. However, if pro-cyclical, measures that reduce household income for those above the poverty cut-off threshold may further depress aggregate demand, slowing down growth and socio-economic recovery.<sup>33</sup> In a number of European countries, social protection reforms together with persistent unemployment, stagnant wages and higher taxes, have contributed to increases in poverty or social exclusion. Short-term fiscal consolidation policies can have long-term social and fiscal impacts that reverse the successful reduction of poverty and inequality in some countries, which may in turn further jeopardize inclusive growth strategies. In addition, fiscal consolidation measures tend to disproportionately affect vulnerable groups and gender equality, although the impact depends on and can be mitigated by policy design.<sup>34</sup>

In a contribution to the debate about the constraints and trade-offs of fiscal consolidation, the ILO has analysed IMF fiscal projections since 2010 in both advanced and emerging economies have introduced fiscal consolidation measures at a time of reduced growth, and are likely to introduce further measures in

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<sup>31</sup> See ILO. 2013. *The Informal Economy and Decent Work: supporting transitions to formality: a resource guide*. (Geneva).

<sup>32</sup> See ILO. 2014. *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*. (Geneva).

<sup>33</sup> Recent IMF analysis finds that the impact of unemployment benefit cuts on employment varies drastically depending on the macroeconomic conditions under which they are implemented, becoming much weaker or possibly negative in bad times. See IMF. 2016. *Time for a Supply-Side Boost? The Macroeconomic Effects of Labor and Product market Reforms*. *World Economic Outlook, April, Chapter 3* (Washington D.C.).

<sup>34</sup> See ILO. 2014. *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*. (Geneva); ILO. 2016. *Women at Work: Trends 2016*. (Geneva).

the years to come.<sup>35</sup> Using the United Nations Global Policy Model Projections, the study suggests that the expected spending cuts could negatively affect GDP and employment in G20 countries. Compared to a baseline scenario without spending contraction, total GDP of G20 countries could be 1.1 per cent lower by 2020 further resulting in a net loss of 726,000 jobs.

The IMF has expressed concerns about weak demand and recommended that near term fiscal policy should be more supportive of the recovery where appropriate and provided there is fiscal space — including as a complement to enhance the short-term effects of structural reforms — and that fiscal consolidation, where necessary, should be growth friendly, equitable and protect the most vulnerable.<sup>36</sup>

### 3.6 Ensuring current and future adequacy of pension systems

In some G20 countries, past pension reforms have led to significant reductions of pension levels, which constitute a challenge for the economic and social adequacy of pension systems.<sup>37</sup> Those pension systems that have shifted towards more individualization and funding during the structural reforms of the 1990s and 2000s are now enduring stress tests of low returns and low coverage. By and large, voluntary private pension schemes have not lived up to their promises and have been struggling with low coverage rates and high administrative cost.<sup>38</sup> In addition, the global economic crisis has further exacerbated financial pressures on both public and private pension schemes, both of which are affected by lower contributions due to changing employment patterns and higher income insecurity.

Non-contributory (tax financed) pensions can play an important role in ensuring a basic level of income security in old age and preventing old-age poverty, provided that their benefit levels are sufficient and are regularly adjusted. They are however prone to annual budget decisions and can change any time, which render guarantees of social protection rights more difficult in the medium and longer term, as successive governments change the policy focus. In comparison, mandatory contributory pensions based on social insurance principles can play a key role to ensure a more predictable and adequate level of protection for large groups of the population, including the middle classes. Discussion of the possible benefits for employment of reduced employer or employee social security contributions, the so-called tax wedge, need therefore to take into account the impact on the financing of social protection systems. In some countries, adjustments have been made or are being explored to ensure that such pension schemes adapt to changing employment patterns and provide effective coverage for the largest possible number of workers, including those in self-employment.

In view of these recent trends, ensuring the adequacy of pensions is a key challenge after past pension reforms have prioritized financial sustainability over adequacy considerations.<sup>39</sup> In some G20 countries, there is a clear trend towards lower income replacement rates. Long-term projections of pension levels for

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<sup>35</sup> See Ortiz, I.; Cummins, M.; Capaldo, J.; Karunanethy, K. 2015. *The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries*. (Geneva).

<sup>36</sup> See IMF. 2016. *World Economic Outlook Update: Subdued Demand, Diminished Prospects (Update January 2016)* (Washington D.C.); *Global Prospects and Policy Challenges*, IMF paper for G20 Finance Ministers and Central Bank Governors' Meeting, February 26-27, 2016, Shanghai, China (Washington, DC); and *Time for a Supply-Side Boost? The Macroeconomic Effects of Labor and Product Market Reforms*. *World Economic Outlook, April, Chapter 3* (Washington D.C.) IMF 2016.

<sup>37</sup> See ILO. 2014b. *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*. (Geneva).

<sup>38</sup> OECD. 2015. *Pensions at a Glance: OECD and G20 Indicators*. (Paris).

<sup>39</sup> See ILO. 2014b. *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*. (Geneva); OECD. 2015. *Pensions at a Glance: OECD and G20 Indicators*. (Paris).

the European Union show a marked decline.<sup>40</sup> These projections raise concerns about lower levels of income security and increasing poverty risks for older persons, which could possibly reverse the successful reduction of old age poverty in many European countries and increase pressures and reliance on tax-financed social assistance schemes. Similar concerns have also been voiced in other G20 countries, such as in Canada, where calls for higher replacement rates through public social security or through fiscally-advantaged mandatory supplementary arrangements have been emerging.<sup>41</sup> These concerns point to the need to undertake an ex-ante analysis of the economic and social effects of reforms in the short and longer term in order to avoid inadequate pension benefits.<sup>42</sup> One way to maintain high replacement rates in the face of rapid population ageing is to design pension systems such that the effective retirement age rises with improvements in life expectancy. Such measures should however, address the needs of workers with reduced capacities, notably those who spent their lives in arduous or hazardous occupations and the transitional implications for workers, particularly those close to retirement.

Rebuilding trust within the population, especially among young people, is necessary to improve confidence in pension and overall social protection systems that can deliver for all generations and income classes if well designed and managed.

### **3.7 Ensuring the adequacy and the social, economic and financial sustainability of social protection systems**

While the discussion about the future of social protection during the last years has focused much on ensuring financial sustainability and enhancing efficiency, less attention has been paid to ensuring the current and future adequacy of benefits, which is key to ensuring the social sustainability of social protection systems.

Changing employment patterns and labour market developments necessitate that social protection systems adapt to new developments and ensure the effective protection of workers and the wider population. In this respect, more efforts need to be made to ensure the effective protection of workers in new emerging forms of work as a result of the digitalization of the economy, including in the on-demand economy. Low-skilled, young people and women are often the most vulnerable to the precariousness of these new forms of employment and their lack of income security when in need of support makes them even more vulnerable.

While the greater flexibility of new forms of work are appreciated by many, it is important for social protection systems to evolve so as to achieve continued/increased social protection of workers, who would otherwise risk to find themselves in even more precarious situations without access to health care and income security. At the same time, the unequal sharing of work and family responsibilities between men and women, the lack of recognition of care work, and the greater difficulties of young people to find decent employment continue to pose challenges to social protection systems. Adapting social protection

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<sup>40</sup> European Commission. 2015. *The 2015 Ageing Report: Economic and budgetary projections for the 28 EU Member States (2013-2060)* (Brussels); European Commission. 2015. *The 2015 Pension Adequacy Report: current and future income adequacy in old age in the EU*. (Brussels).

<sup>41</sup> Government of Canada, Department of Finance Press Release “Governments of Canada and Ontario Announce an Agreement Towards Improving Pensions for Canadians”, 16 Feb. 2016.

<sup>42</sup> See *Equitable and Sustainable Pensions*, ed. B. Clements, F. Eich, S. Gupta, for an analysis of the equity effects of pension reforms and the fiscal consequences of achieving different equity goals. (IMF: Washington, DC)



systems to these developments through an effective combination of non-contributory and contributory protection mechanisms that maximise coverage and ensure adequacy of protection is essential.

### **3.8 Policy recommendations/principles for promoting more equitable and sustainable social protection systems**

In light of the above, G20 members may consider, in light of their national circumstances, the following policy recommendations:

- Recognize the role of the social protection system as a mechanism to ensure a more equitable distribution of resources, to contain inequality and to reduce and prevent poverty, both in and out of work.
- Take advantage of the role of social protection in supporting consumption, rational income growth mechanisms and therefore sustaining aggregate demand and promoting inclusive growth, particularly where economic conditions are weak and fiscal space allows.
- Strike the right balance between protection and work incentives by ensuring that policies to extend social protection coverage and ensure adequate benefit levels are combined with policies that promote productive economic activity and formal employment, e.g. by strengthening productive skills and employability and expanding the set of available employment opportunities through active labour market policies and effective employment services.
- Promote effective active labour market programmes that provide effective and well-tailored support of job seekers to facilitate and monitor their quick (re)integration in the formal labour market.
- Ensure the equitable, sustainable and transparent financing of the social protection system through a combination of taxes and contributions.
- Ensure that social protection benefits are adequate and meet the needs of the population now and in the future, as to ensure their social sustainability, while also ensuring their efficient design and financial sustainability.
- Ensure social protection floors that guarantee at least a basic level of social protection to all and that progressively extend comprehensive social protection systems to ensure higher levels of protection, with a strategic focus on expanding coverage for vulnerable workers and new forms of work
- Adapt social protection systems to changes in the labour market and in employment patterns so as to ensure the effective protection of workers and the wider population, especially vulnerable workers and young people, and close gender gaps.
- Extend social protection coverage to workers in the informal economy and promote transition from the informal to the formal economy; remove barriers to the formalization of employment, e.g. by introducing simplified tax and contributions assessment and payment regimes or by streamlining administrative procedures.
- Ensure the current and future adequacy and sustainability of pension systems, providing a predictable and adequate level of protection to the entire population.

- Undertake ex-ante assessments of the expected social impact of reforms, and if adverse impacts consider alternative policy options to ensure adequate social protection systems.

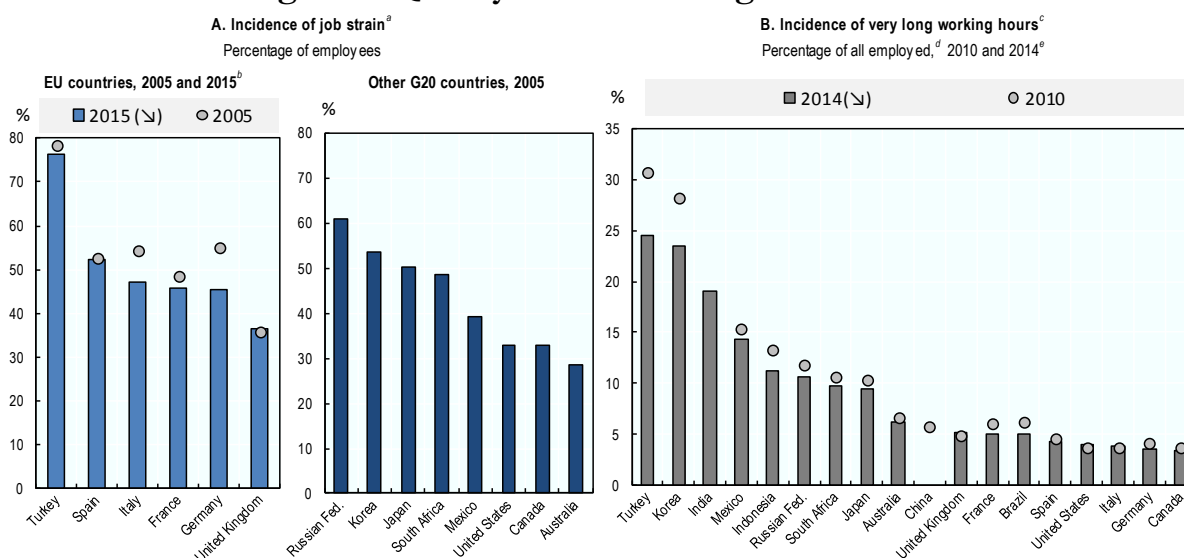


## 4. Improve working conditions

### 4.1 Quality of working conditions

Working conditions are another key determinant of the well-being of workers. As indicated by the G20 Job Quality Framework, it is important to take into account the nature and content of the work performed, working-time arrangements and workplace relationships. The quality of working conditions can be compared across countries, sectors and occupations and across socio-demographic groups within countries by measuring the proportion of workers experiencing job strain, which results from an imbalance between “job demands” (such as time pressure or exposure to physical health risks) and “job resources” (such as work autonomy and good workplace relationships). As up-to-date data are not always available for all G20 countries, this indicator is supplemented by the incidence of working very long hours (60 hours or more).<sup>43</sup>

**Figure 1. Quality of the Working Environment**



\*: Selected urban areas.

a) Quality of the working environment is measured by the incidence of job strain among workers. Job strain is defined as jobs where workers face more job demands than the number of resources they have at their disposal (see chapter on “How good is your job? Measuring and assessing job quality” in OECD, *OECD Employment Outlook*, 2014).

b) 2010 for Turkey.

c) Persons working 60 hours or more in an average week.

d) Employees only for the United States; Persons working 54 or more hours for Korea.

e) 2009 only for China; 2009 and 2014 for Brazil; 2011 and 2013 for India; and 2010 and 2013 for Turkey.

Source: Panel A: OECD Job Quality database (2016) and OECD estimates based on data from the ISSP survey and national household surveys.

The available data suggest that a substantial proportion of workers suffer from job strain in all G20 countries, which can be detrimental to their productivity as well as their safety and health (Figure 7).<sup>44</sup> High job demands and few resources to meet these demands are a key challenge in particular for many G20 emerging economies as well as in Korea and Spain. For some of the advanced G20 countries like

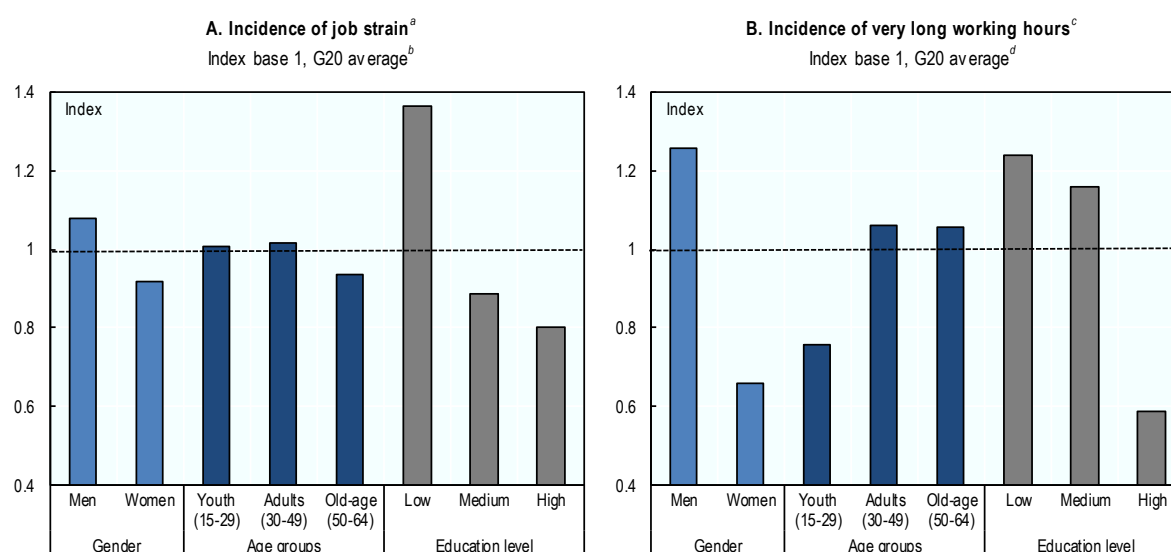
<sup>43</sup> The latest country level figures, published by the ILO, date back to 2003. More recent figures are only available for global estimates (i.e. regional aggregates), while the underlying national figures are no longer released. This is due to the fact that different reporting standard could undermine cross-country comparability.

<sup>44</sup> See also For prevalence and incidence data related to psychosocial hazards and work-related stress see, ILO Report (SAFEDAY 2106), *Workplace Stress: A collective challenge*, [www.ilo.org/safework/events/safeday/lang--en/index.htm](http://www.ilo.org/safework/events/safeday/lang--en/index.htm)

France, Germany, Italy and Japan, the main challenge is the lack of resources given to workers to cope with their high job demands.

There are important differences across workforce groups: unskilled and young workers are those more exposed to job strain in all G20 countries (Figure 8). In G20 advanced economies, temporary workers suffer from higher job strain while it is lower for part-time workers. In G20 emerging economies, the quality of the working environment is worse for informal workers. While job strain is a serious issue for working women, it is even more prevalent for working men.

**Figure 2. Quality of the Working Environment by socio-demographic group in G20 economies**



a) Quality of the working environment is measured by the incidence of job strain among workers. Job strain is defined as jobs where workers face more job demands than the number of resources they have at their disposal (see chapter on “How good is your job? Measuring and assessing job quality” in OECD, *OECD Employment Outlook*, 2014).

b) Un-weighted average of Australia, Canada, France, Germany, Italy, Japan, Korea, Mexico, the Russian Federation, South Africa, Spain, Turkey, the United Kingdom and the United States.

c) Persons working more than 60 hours in an average week.

d) By gender and age, un-weighted average of Australia, Brazil, Canada, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, the Russian Federation, South Africa, Spain, Turkey, the United Kingdom and the United States. By education, un-weighted average of Brazil, India, Indonesia, Mexico, Russian Federation, South Africa, Turkey.

Source: OECD Job Quality database (2016) and OECD estimates based on data from the ISSP survey and national household surveys.

## 4.2 Policies to improve working conditions need to be broad-based

Promoting better working conditions requires taking action both on the side of job demands and job resources. This means addressing occupational safety and health (OSH) risks arising from exposure to dangerous working conditions and environments but also those risks linked to a lack of work autonomy and support from managers and fellow workers. It also means promoting opportunities for learning and a better work-life balance, and accommodating workers with a disability or mental health problems.

The following sections identify the key issues, strategies and policy levers to improve working conditions in G20 countries. The discussion starts off with job demands and how to improve compliance with labour

standards on wages, hours and working conditions. This is followed by a discussion of the key measures that can be taken to strengthen the resources available to workers to help meet their job demands and to accommodate issues of disability or mental ill-health.

### *Employers' compliance with labour standards on wages, hours and working conditions*

The improvement of working conditions as economies grow and develop is an important component of strong, sustainable and balanced growth. It is not however an automatic process. Governments thus set minimum standards many of which are based on the principles established in ILO Conventions and Recommendations. The ILO also offers technical assistance in support of the application of labour standards.

Employers' non-compliance with labour standards can harm the earnings of workers as well as their working conditions, which may place their health and safety at risk. It not only denies workers' rights but also undermines the sustainability of social protection systems, deprives governments of important sources of revenue, and makes for an un-level playing field upon which employers, workers and countries must compete locally, nationally and globally.

Generally, employers' compliance with labour standards is driven by several related factors, including employers' knowledge and understanding of labour standard requirements, including what they must do to comply. Even when labour standards requirements are understood, employers' compliance depends also on their financial and technical capacity to comply as well as the resources devoted to enforcement by the public authorities. Compliance is further driven by employers' motivation to comply, which is often influenced by enforcement incentives/deterrents, the engagement of workers, and cultural values and influences.<sup>45</sup> Successful action of governments to improve compliance needs to bear in mind these drivers in order to build sustainable strategies to address compliance issues.

### *Role of education and positive incentives*

While deterrents, such as imposition of sanctions and denial of privileges, are necessary and important components of strategies for achieving compliance, they are most effective when coupled with raising awareness and the provision of information and guidance, which improve employers' knowledge of labour standard requirements and their understanding of what they must do to comply with those requirements. As evidenced by recent experiences in Brazil, the most effective compliance approaches undertaken by regulatory agencies were those where interventions brought firms into compliance and sustained their compliance through the use of coercive and pedagogical strategies.<sup>46</sup> The use of awareness raising and provision of information and guidance are regular components of compliance strategies incorporated into national labour inspection plans in Australia, Singapore, the majority of EU countries, and the USA.

A solid business case should also be made for why compliance with labour standards on working conditions is beneficial to employers and the overall competitiveness of companies and countries in a global economy. Governments are increasingly making the "business case" for labour standards compliance more effectively and, as a result, increase employers' adhesion to the public interests expressed

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<sup>45</sup> John Howe, Tess Hardy and Fiona Adams (April 15). *Literature Review for a Comparative Study on National Strategies to Promote and Assess Workplace Compliance*. Centre for Employment & Labour Relations Law, Melbourne University; Christine Parker and Vibeke Lehmann Nielsen (eds.), *Explaining Compliance: Business Responses to Regulation* (Edward Elgar, 2011); Reducing the Risk of Policy Failure: Challenges for Regulatory Compliance, <https://www.oecd.org/gov/regulatory-policy/1910833.pdf>. See also, EU OSHA, Second European Study of Enterprises on New and Emerging Risks (ESENER-2).pdf, p. 61, Response to survey question regarding enterprises' major reasons for addressing health and safety in establishments: fulfilling legal obligation, meeting expectations from employees or their representatives, avoiding fines from the labour inspectorate, maintaining the organisation's reputation, and maintaining or increasing productivity.

<sup>46</sup> Pires, Roberto (2008). *Promoting sustainable Compliance: Styles of labour inspection and compliance in Brazil*. International Labour Review, Vol. 147, No. 2-3. ILO, Geneva.

by such standards. For example, following the ILO's lead, Singapore has estimated the economic cost of work-related injuries and disease to be equivalent to 3.2% of GDP based on a preliminary study.<sup>47</sup> Australia has made a similar estimate: the total economic cost for the 2008–09 financial year to be \$60.6 billion, representing 4.8 per cent of GDP for the same period.<sup>48</sup>

In addition to well established communication methods, a variety of communication tools enabled by technology, such as web sites, apps, social media and mass media are being used to raise awareness and provide information and guidance to improve compliance.<sup>49</sup> Efforts are now focused on improving employers' utilization of these tools. Labour inspectorates have also recognized that to improve compliance by SMEs and to protect vulnerable workers, stronger connections with communities and community based organizations can help build bridges to those employers and workers. In the United States, the Wage and Hour Division of the US Department of Labor has created a position within the labour inspectorate to identify and collaborate with community based organizations who can assist the labour inspectorate with building trust, raising awareness and providing information and guidance to these employers and workers.

Provision of compliance assistance to businesses, in particular new businesses, which goes beyond awareness raising and provision of information and guidance, can be another important strategy for improving compliance. The labour inspectors in Saudi Arabia provide compliance assistance to businesses that need help in completing and reporting on self-assessments. A similar practice exists in China, where the labour inspectorate cooperates with Social Compliance 9000 for the Textile and Apparel Industry. Compliance assistance can also be provided by other government agencies working to support sustainable economic development and to promote entrepreneurship, employment and education and training. Additional strategies may include the easing the burden of regulations and related bureaucracy<sup>50</sup>, recognizing and publicizing of good practices<sup>51</sup>, and financial incentives.<sup>52</sup>

### *Role of labour administration, labour inspection, enforcement and effective deterrence*

Effective labour administration and labour inspection agencies are key to achieving compliance.<sup>53</sup> To respond to existing and emerging compliance issues, labour ministries and their inspectorates have begun to develop more proactive strategies based on data-driven diagnoses of their compliance issues. Enforcement actions and use of deterrence are more carefully targeted and calculated to achieve the greatest impact not only related to the inspected employer but also to employers who may never be

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<sup>47</sup> <https://www.wsh-institute.sg/files/wshi/upload/cms/file/Economic%20Cost%20of%20Work-related%20Injuries%20and%20Ill-health%20in%20Singapore.pdf>

<sup>48</sup> <http://www.safeworkaustralia.gov.au/sites/swa/about/publications/Documents/660/Cost%20of%20Work-related%20injury%20and%20disease.pdf>

<sup>49</sup> These communication tools are also being used to increase transparency.

<sup>50</sup> In Europe, for example, employers can declare workers to social security by using the internet and sms (Belgium, Hungary, Spain, Portugal); Spain issues a common certificate of compliance for fiscal and labour purposes; Belgium, Denmark, Finland, France and Finland use of a simplified system of vouchers for domestic workers. See: ILO (2013). *Labour inspection and undeclared work in the EU*. Available at: [http://www.ilo.org/labadmin/info/pubs/WCMS\\_220021/lang-en/index.htm](http://www.ilo.org/labadmin/info/pubs/WCMS_220021/lang-en/index.htm).

<sup>51</sup> ILO (2013). *Labour inspection and private compliance initiatives: Trends and issues*. Background paper for the Meeting of Experts on Labour Inspection and the Role of Private Compliance Initiative, Geneva, 10-12 December.

<sup>52</sup> In Spain, companies pay a reduced professional indemnity insurance premium based on their rate of occupational injuries. Republic of Korea provides a variety of financial support for in particular OSH in SMEs including loans for industrial accident prevention facility and work environment monitoring. In Singapore, the WSH Council makes available various grants, including the Capability Development Grant to assist SMEs in making investments in OSH, <https://www.wshc.sg>

<sup>53</sup> Casale, G and Sivananthiram A (2015). *Labour administration and labour inspection in Asian countries. Strategic approaches*. ILO, Geneva.

inspected due to limited capacity and resources of the labour inspectorate.<sup>54</sup> Targeted inspection campaigns have successfully reduced discrimination at enterprise level, achieved significant results in the prevention and eradication of child labour, and obtained reductions in the number of work related injuries.<sup>55</sup>

Recognition of the important role of labour administration and inspection has also led countries to enlarge and reform their labour inspectorates to expand and improve their capability and capacity<sup>56</sup>. In China, the labour inspectorate launched the Twin Networks System in 2009 and rolled it out to the whole country in 2011, combining the provision of quality support services to employers, while carrying out comprehensive inspections through a grid-based management system. The system is complemented by an electronic and telephonic complaints service. Cross-border cooperation is also being used by countries including Argentina and Brazil, Argentina and Uruguay, France, Belgium and Germany, Spain and Portugal, to target sectors such as fishing and business models such as subcontracting.

Finally, certain countries have implemented legal reforms that strengthen sanctions, including Australia, France, and Italy. Germany and Norway have introduced detention penalties for social security infringements. Others have implemented more innovative deterrent measures, including establishing ‘whistleblower’ systems for recording (anonymous) complaints about non-compliance. In Belgium, a “contribution for the common good” can be imposed on an employer, which can be removed from the employer’s taxes once the workers have been registered with social security authorities. In Brazil, a “dirty” list of companies using forced labour is used by banks to deny loans for non-compliant producers. As certain of the above examples make plain, sanctions can provide more than economic deterrence.<sup>57</sup>

### 4.3 Advances in strategies and methods to achieve occupational health and safety (OSH)

To prevent occupational injuries and diseases and to improve the safety and health of workers and workplaces, it is well recognized that certain conditions are necessary. These conditions include: 1) strong legal OSH frameworks and technical standards; 2) effective systems for oversight of OSH compliance; 3) employer and worker capability and capacity related to OSH; 4) Social dialogue; 5) collection of OSH data and development of indicators; 6) financial investment in and resources for OSH; 7) occupational health services; 8) employment injury insurance programmes; 9) OSH professionals and institutions; 10) promotion of the demand for safe and healthy workplaces. Many of these conditions are referenced in the Melbourne G20 Labour and Employment Ministerial Declaration (see Box 1).<sup>58</sup>

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<sup>54</sup> John Howe, Tess Hardy and Fiona Adams (April 15). *Literature Review for a Comparative Study on National Strategies to Promote and Assess Workplace Compliance*. Centre for Employment & Labour Relations Law, Melbourne University.

<sup>55</sup> ILO. *Labour Administration and Labour Inspection*. Report V. International Labour Conference, 100<sup>th</sup> Session 2011. Geneva. Paragraphs 255-258.

<sup>56</sup> In the Netherlands (2010) the three inspection departments (OSH, wages and undeclared work) were reorganized under one central directorate. In countries such as Argentina, Mexico, Republic of Korea, Saudi Arabia, South Africa, and the United States have taken important steps to increase labour inspection staff. In the EU, countries like France, Greece, Ireland, Spain, and Portugal also went to institutional reforms to increase the effectiveness of their labour inspection systems.

<sup>57</sup> “Beyond their strict cost-impinging character, sanctions work as a moral statement on an undesirable and offensive practice” (Pires, *op cit*, p. 222).

<sup>58</sup> G20 Labour and Employment Ministerial Declaration, Melbourne 10-11 September 2014, Annex C “G20 Statement on Safer and Healthier Workplaces.



**Box 1. G20 LEMM Declaration, Melbourne 2014, Annex C “Statement on Safer and Healthier Workplaces”**

We commit to taking action to improve OSH through the following country-level and collective measures, taking into account each country’s national context. We further commit to reviewing progress with respect to these measures during future G20 presidencies.

1. Seek to ensure that national safety and health bodies are responsive to the needs of workers and employers through ongoing assessments and effective incentives and advisory services regarding potential hazards, preventative and protective measures, and risk management and control
2. Strengthen legislation and provide adequate resources for prevention and compensation, training, compliance assistance, and enforcement efforts
3. Improve data collection and use empirical data to inform programme design and effectively target enforcement and outreach efforts
4. Take targeted measures to improve OSH conditions for vulnerable workers and in high-risk sectors
5. Raise awareness, particularly among small and medium enterprises, about the importance of OSH and the positive impact that safer and healthier workplaces have on productivity, workforce participation, economic growth, and sustainable development
6. Compile and share best practices among G20 members and interested non-G20 countries, and support studies on new challenges resulting from technological advancements and demographic changes
7. Support voluntary national and international efforts to implement exchanges, share relevant technologies, and coordinate technical cooperation
8. Partner with the ILO to improve global OSH and promote collaboration among national, bilateral, and collective G20 efforts
9. Continue to engage closely with social partners regarding collective and national actions to improve OSH
10. Promote responsible business practices and effective supply chain engagement to improve OSH, with reference to UN, ILO, and OECD guidelines and standards, as appropriate.

Advances in strategies and methods to achieve adequate occupational safety and health at workplace level have recognized that OSH needs to be fully integrated into legal frameworks, education and skills training of workers, support for entrepreneurs and new businesses, implementation of employment injury insurance programs, which may include experience rating (i.e. making premiums contingent on frequency and amount of claims), and the delivery of occupational health services. Further, in addition to measuring the incidence of occupational injuries and diseases, leading indicators need to be developed which focus and encourage governments and employers to engage in actions that support and strongly correlate with the prevention of occupational injuries and disease. Finally, OSH needs to be fully integrated into the evolution of work in order to anticipate OSH risks and hazards resulting from new technology, new materials, new business models and practices.

There are many examples of good practices that impact on the prevention of occupational injuries and disease. These include the integration of prevention into education and training of young workers<sup>59</sup>; the full integration of financial support for prevention into employment injury insurance systems<sup>60</sup>; and

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<sup>59</sup> For good practices in EU Member States, “OSH in the school curriculum: requirements and activities in EU Member States” <https://osha.europa.eu/en/tools-and-publications/publications/reports/TE3008521ENC>; See also 2013 report by the Labor Occupational Health Program, University of California-Berkley on “Integrating Occupational Safety and Health Training into Career Technical Education in Construction” [http://www.cpwr.com/sites/default/files/publications/Integrating\\_SandH\\_in\\_CTE\\_Training\\_Bush\\_2013.pdf](http://www.cpwr.com/sites/default/files/publications/Integrating_SandH_in_CTE_Training_Bush_2013.pdf) and Youth@Work: Talking Safety, <http://www.dcd.gov/niosh/talkingsafety/>

<sup>60</sup> The Republic of Korea, Germany, Bulgaria, France, and Spain are just a few examples of countries that have integrated prevention activities and funding for OSH into their social security systems.

legislative frameworks that require employers to create labour-management safety committees and OSH management systems, along with requirements related to the manufacture and use of chemicals and the design of equipment. Many of these innovations and good practices focus on SMEs and workers who are vulnerable due to their circumstances. Further these innovations and good practices frequently require the engagement of a range of partners, including Education, Social Protection, Employment and Economic Development ministries, financial institutions and public and private health care providers.

#### **4.4 Governance approaches to improve working conditions and OSH in the global supply chains (GSCs)**

At the Antalya Summit in 2015, the G20 leaders reiterated their strong commitment to improving occupational safety and health including fostering safer workplaces within global supply chains (GSCs). In the context of GSCs, four types of governance are relevant to improve working conditions and OSH: public governance; private governance; social governance; and multilateral governance. These forms of governance often overlap while also being complementary in some areas.

Public governance is the responsibility of the governments of “host” states (where the suppliers are located and labour standard compliance challenges occur) to protect the labour rights of workers and to promote conditions that are necessary to improve OSH. The “home” states (the states that are home to lead enterprises in GSCs) also have significant interest in promoting decent working conditions, including in their own procurement practices, along their lead enterprises’ global supply chains and to ensure the good global conduct of those enterprises.

Private governance is led by enterprises, employer organizations, and industry associations. Compliance with national laws and regulations is the responsibility of enterprises covered by such laws. Corporate Social Responsibility (CSR) programmes and enterprise lead compliance actions that go beyond the requirements of national law and regulations have the additional potential to increase capacity for workplace compliance. They embody the recognition that lead enterprises have a significant role to play in achieving compliance with labour standards in their supply chains.

Social governance includes social dialogue, collective bargaining and global framework agreements. In some multi-stakeholder initiatives (MSIs), NGOs play a role on behalf of less-protected workers (e.g. those working informally) as well as promoting worker, consumer, or public interests in regulatory programmes, which often target GSCs for specific sectors.

Multilateral initiatives include the ILO MNE Declaration, UN Global Compact, The UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and its forthcoming OECD Due Diligence Guidelines for Responsible Supply Chains in the Garment and Footwear Sector. Many other international organizations have also engaged in some form of policy making related to GSC governance. The recently launched G7 Vision Zero Fund is an important example of practical support to actions across these governance dimensions including in the context of supply chains.<sup>61</sup>

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<sup>61</sup> [http://www.ilo.org/safework/whatsnew/WCMS\\_423672/lang--en/index.htm](http://www.ilo.org/safework/whatsnew/WCMS_423672/lang--en/index.htm)

The *OECD Guidelines for Multinational Enterprises* (MNEs) provide an important lever to improve working conditions in global supply chains.<sup>62</sup> They recommend that enterprises observe standards of employment and industrial relations not less favourable than those observed by comparable employers. They should take adequate steps to ensure occupational health and safety in their operations. The 46 governments that adhered to these Guidelines have set up grievance mechanisms, so-called National Contact Points, to handle complaints when enterprises are found not to observe the Guidelines. Since 2000, among the 330 cases brought to National Contact Points, 57% relate to employment and industrial relations. The effective implementation of the OECD MNE Guidelines is supported by a multi-stakeholder programme to develop and implement guidance for Due Diligence for Responsible Business Conduct in supply chains in specific sectors such as for example garment and footwear as well as minerals.<sup>63</sup> These guidance instruments provide practical recommendations for companies on how they can implement due diligence in the supply chain. While implementation is the primary responsibility of companies, other stakeholders such as governments, industry associations, international organisations, auditing experts and civil society have a role to play in promoting due diligence in global supply chains. In the five years since the implementation programme was launched, market access for artisanal miners has improved with better prices and working conditions and more secure long-term commercial opportunities.

#### 4.5 Improving the resources workers have to cope with job demands

The level of resources workers can rely on in the workplace is a critical factor that determines to what extent high levels of work effort creates stress and strain or the extent to which they can be stimulating. For instance, the level of autonomy one has to carry out work tasks, the support received from colleagues and managers, task clarity and learning opportunities, not only help workers from the potentially negative consequences demanding jobs may have, but also provide them with opportunities for self-development and self-fulfilment. Therefore, a balanced workplace where workers possess sufficient resources with respect to the demands of their jobs is crucial for their engagement and productivity, and, most importantly, for their well-being.

##### *Changing workplace practices*

Employers have the primary responsibility for promoting worker well-being by ensuring that workers have adequate resources to perform their jobs. Good practices in work organisation and in Human Resource Management (HRM) can be collected and disseminated by employers and the government and unions. This includes not only encouraging greater autonomy in the pace and order of tasks but also promoting a better work-life balance.

The ability to combine work, family commitments and personal life is important for worker well-being. The balance of work and non-work activities has changed in most G20 countries in recent decades, with often an overall gains in leisure and reductions in working hours. However, these trends conceal the increased complexity of people's lives, with both men and women taking on a wider variety of tasks in the workplace and at home. In addition, the distribution of tasks within the family is still influenced by gender roles, with men more likely to work longer hours of paid work and women spending longer hours in

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<sup>62</sup> For the text of the guidelines and more general information on their use and related initiatives, see <http://www.oecd.org/corporate/mne/>.

<sup>63</sup> See, for example, OECD (forthcoming), *Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector* and OECD (2015) *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Affected and High-Risk Areas*.



unpaid domestic work. While gender imbalances are shaped by culture, policy makers can help address the issue by encouraging supportive and flexible working practices, thereby making it easier for parents to strike a better balance between work and home life. This includes: the provision of affordable good-quality early childhood education and care; employment-protected paid maternity and paternity leave for working mothers and fathers; encouraging working fathers to take available care leave; providing incentives to fathers to use flexible work entitlements; promoting a more temporary use of part-time work among men and women; and providing incentives for women to increase their hours of work.

Promoting high-performance work practices (HPWP) including both work organisation structures that promote flexibility in decision making and in organising tasks and teamwork, but also incentives for better skill deployment at work such as performance pay or performance-based career pathways can also contribute to improving the quality of the working environment. Most existing initiatives have focused on raising awareness about the benefits of HPWP as a win-win option for both employers and workers so that possible resistance can be overcome (see G20 EWG report on Theme II on “Enhancing Employability”). Because it is unrealistic to expect governments to help every firm to improve their work organisation and job design, these initiatives have often supported the development of HPWP in a limited number of businesses for demonstration purposes. Given scarce resources, it is also important to make sure that interventions are targeted. In particular, because smaller employers often find it more difficult/costly to adopt such practices, it is important to target interventions on SME’s with growth potential.

### *Ensuring workplaces are inclusive with respect to workers with disability or mental health issues*

Improving the resources workers have to deal with their job demands also involves catering for their diverse needs. Further to improving supports available to help them achieve a better work-life balance, it is particularly important to foster more inclusive workplaces for workers with a physical disability or long-term physical or mental health problem.

For workers with disabilities, providing needed workplace support can directly improve their working conditions as well as their productivity and well-being. This requires strengthening the role and incentives for employers, in co-operation with workers’ representatives, to hire and retain workers with disabilities and to make the necessary adjustments to accommodate their needs. It also requires giving employers a prominent role in sickness monitoring and sickness management as well as in preventing chronic health problems with the support of an employment-oriented occupational health service.

It is particularly important to provide appropriate workplace support to workers with mental health problems as well as to ensure that the workplace doesn’t contribute to these problems. Mental ill-health is a major driver of underperformance and low productivity in the workplace. For example, in a European-wide survey, 69% of people with moderate mental health complaints report having problems in job performance compared to 26% of the people without mental health complaints. A first step in the right direction in many countries in terms of responding to this challenge is the amendment of labour and OSH law to include obligatory and far-reaching psychosocial risk prevention. It would be especially effective if complemented with clear guidelines and concrete tools for employers and labour inspection authorities. However, in many countries the implementation of psychosocial risk prevention is slow, as traditional issues continue to dominate health and safety policy and the widespread psychosocial issues remain neglected.

Employers therefore need more than general prevention on the one hand and support for managing sick employees' return to work on the other. They also need a strategy for how to deal with underperformance and workplace conflicts caused by or related to mental illness. Few countries can yet claim to be particularly advanced in the development of such a strategy, even though some big companies have started to address it. Management and line managers need the right support and training to help their employees with mental health problems to be able to perform their work. There is a big role in this context for employer and employee representative bodies to help develop guidelines in this area in addition to any public guidelines or action.<sup>64</sup>

Along these lines, the Recommendation of the OECD Council on *integrated mental health, skills and work policy* adopted in December 2015 provides a comprehensive and actionable set of policy principles to foster better outcomes of those with mental health problems. While better workplace policies occupy a central place within the Recommendation, they need to be seen as nested within a wider net of support measures that range from strengthening mental health care systems, improving educational outcomes, promoting close dialogue between the social partners, and enhancing the responsiveness of social protection systems and employment services to the needs of people living with mental health conditions.

### *Tackling informality*

Since the quality of the working environment tends to be worse in the informal sector than in the formal one, measures to reduce informality can be expected to contribute to improving their working conditions. Formalisation can be promoted through policies built on three main pillars (OECD, 2008). First, firms and workers need to recognise and have reasonable expectations about accessing the benefits of formalisation. Governments should improve the quality of the public services they deliver and strengthen the link between contributions and benefits in social protection schemes.<sup>65</sup> For example, in South Africa, domestic workers were included in the Unemployment Insurance Fund in 2003 and increasingly brought into the formal sector. Second, the costs of formality should be lowered for employers and the self-employed. This can include measures such as simplified tax and administrative systems, streamlined registration processes and a reduction in red tape. For example, in Brazil, the "Simples Law", along with other measures, that introduced a more progressive tax structure and simplified the collection of taxes and social security contributions are estimated to have contributed to the formalisation of 500 000 micro-enterprises accounting for 2 million jobs from 2000 to 2005 (Delgado et al., 2007). Third awareness-raising and enforcement methods should be improved. Enforcement agencies, such as labour inspectorates, should be given sufficient resources to carry out their work effectively (as already discussed above).

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<sup>64</sup> For a recent guide see: Workplace stress: A collective challenge, ILO 2016

<sup>65</sup> Strengthening incentives for low-wage workers to work formally may be particularly important. See for example: <http://wol.iza.org/articles/measuring-disincentives-to-formal-work/long>; and Koettl, J. and M. Weber "Does formal work pay? The role of labor taxation and social benefit design in the new EU member states" in: Lehmann, H. and K. Tatsiramos, K. (eds) "Informal Employment in Emerging and Transition Economies". *Research in Labor Economics*, Vol. 34, Bingley, UK: Emerald, 2012.

## 4.6 Policy recommendations/principles for improving working conditions

Further to the policy principle adopted in the G20 LEMM Declaration in Melbourne 2014 (Annex C “Statement on Safer and Healthier Workplaces”), G20 members could consider taking, according to national circumstances, the following actions to improve working conditions:

### *Promote greater compliance with labour standards*

- Support the creation of the conditions necessary for prevention of OSH injuries and disease, in particular the inclusion of proactive preventive provisions into OSH legal frameworks.
- Strengthen labour inspection consistent with the provision of the ILO’s Convention No. 81, through provision of necessary resources and authority for labour inspectorates, the coverage of all working conditions in all sectors and for all groups of workers, and the effective use new technologies and best practices in response to new forms of work.
- Consider participation in the Vision Zero Fund and the ILO global programme, OSH Global Action for Prevention.
- As recommended in the OECD *Guidelines for Multinational Enterprises*, promote due diligence by companies in identifying and addressing risks of adverse impacts on working conditions throughout their supply chains.
- Promote and enforce psychosocial risk assessment and risk prevention in the workplace.
- Support the adoption of national lists of occupational diseases that incorporate work-related stress disorder on the basis of the ILO list of occupational diseases and guidance.

### *Improve workers’ health and well-being*

- Promote the adoption of high-performance work practices to improve the quality of the working environment and the performance of firms, with a special focus on small and medium enterprises.
- Promote a better work-life balance through family-friendly policies and working conditions.
- Strengthen the role and incentives for employers, in co-operation with workers’ representatives, to hire and retain disabled workers and to make the necessary adjustments to accommodate their needs.
- Foster mental well-being at work through comprehensive action as set out, for example, in the Recommendation of the OECD on Integrated Mental Health, Skills and the ILO report Workplace stress: A collective challenge.