



FOURTH ITEM ON THE AGENDA

**The ILO's response to the financial crisis in  
East and South-East Asia**

**ILO action in response to the crisis**

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## **I. Introduction**

1. This second paper submitted in response to the Governing Body's request for a more in-depth discussion of the Asian financial crisis and of the Office's response focuses on the specific action taken by the ILO and on the ILO's relationship with the international and regional financial institutions. It discusses the factors that determine ILO action, evaluates the ILO's response to date and suggests future action.

2. The paper's structure makes it easier to identify what the Office has done in specific areas. The range of action at the national level has been determined by substantial differences between the three most affected countries (Thailand, Indonesia, and the Republic of Korea). The countries have different levels of economic development, economic structures, social and political arrangements and institutions, and

the timing and severity of the crisis in them varies. These differences have affected the timing of the approach. The Office's first efforts were directed toward Thailand within two months of the baht's devaluation in July 1997. The aim was a comprehensive evaluation of the country's needs, tripartite discussion of those needs with ILO constituents at national level, and a framework for ILO assistance. The demand for and offer of ILO assistance to Indonesia and the Republic of Korea came later in time. By then, experience of the crisis had increased. National differences in levels of economic development also determine the ILO action taken. In Thailand, but even more in Indonesia, the scale and breadth of ILO assistance have been greater than in the Republic of Korea, which, as an OECD member state, has more need for advisory services than technical cooperation.

## **II. Determinants of ILO action**

**3.** Before undertaking this review of specific ILO action related to the crisis, it is useful to recall the ILO's major means of action, how these are determined, and to which areas action is directed.

### *1. The ILO's chief means of action*

**4.** The ILO has four main means of action available to it:

- the Office collects, analyses, and disseminates information to constituents or provides them with technical and financial assistance to enable them to do so;
- it promotes the dissemination and exchange of information and opinions through dialogue, leading where possible to consensual and cooperative decision-making;
- it provides technical assistance to constituents, and to governments in particular, in the form of upstream policy advice;
- it conducts a range of downstream projects and programmes with a strong focus on building institutional capacity.

None of these excludes any of the others. Research results can form a basis for tripartite dialogue, lead to policy recommendations, and finally to a number of project activities. This sequence of events was followed with the onset of the crisis in Thailand.

### *2. The mandate for ILO action*

**5.** The ILO's response to the crisis has arisen from fresh mandates from the Organization's constituents at the regional and national levels, in addition to the general mandate provided by the programme and budget. At the regional level, constituents identified priority areas for the ILO's response to the crisis. At the national level, constituents have made various requests for assistance. As the crisis has unfolded, the Office response has largely been through the redirection of existing activities and the creation of new ones arising from dialogue with constituents. A third element has been the continuation of ongoing and previously planned activities, whose relevance has been reinforced by the crisis. The redirection of activities has occurred within the existing framework of human and financial resources.

### 3. *The content of ILO action*

6. As this paper shows, much of the ILO's response to the crisis has involved building institutional capacity in social fields where it was lacking. The direction followed makes sense, as social institutions are comparatively underdeveloped in many of the affected countries of the region, and this in turn has exacerbated the hardship and magnified the social costs involved.

7. The crisis has underscored the need for the ILO to engage more forcefully in the macroeconomic policy debate. Due to policy interdependencies, regulatory choices and national macroeconomic policy choices affect areas of core concern to the ILO and thus influence the effectiveness of ILO policies and programmes. Even if imperfectly understood, the crisis is a clear demonstration of a link between international financial markets and domestic jobs and earnings.

8. The ILO's mandate covers macroeconomic policy areas. Implementing ILO standards -- for example, those on employment policy or on social security -- may sometimes require changes in macroeconomic policy. The need for macroeconomic policy decisions to incorporate consideration of social outcomes, and strong analyses of how this can be achieved, have been presented in three successive issues of the ILO's *World Employment* report. The Governing Body has also made repeated calls for closer collaboration and dialogue with the Bretton Woods institutions so that economic policy choices incorporate employment and social policy concerns.

### III. Social protection

In the absence of adequate systems of social protection in the region, economic and social hardships arising from the crisis have been borne directly by workers and their families themselves. The ILO's objective will continue to be to assist in the implementation of sound social protection systems that both address the individual security needs adequately and which take due account of the sustainable financial capacities of the countries under consideration.

9. Social protection systems range from severance pay and systems of unemployment insurance, to pension systems which allow for a decent retirement income, as well as health care protection schemes. Also included are basic social safety nets (social assistance), the general provision of income support through social assistance payments, free access to primary health care, public employment creation programmes and food subsidies. Labour-intensive public works programmes, micro-credit programmes for the self-employed and targeted food supply to the very poor are discussed below.

10. The Social Security (Minimum Standards) Convention, 1952 (No. 102) together with other more specialized ILO social security instruments, provides the minimum standards of social protection, together with a degree of flexibility, making it sensitive to the needs of developing countries. While the

Convention has received 40 ratifications worldwide, in the Asia and Pacific region only Japan has ratified it. At the onset of the financial crisis, conditions in all these countries were different. Some were in a process of transition from centrally planned to market economies (e.g. Viet Nam, China); these had developed fully fledged socialist-type social protection systems, which now face a twofold problem as they have to cope with the impact of the financial crisis while undergoing reform. Others had long since developed market structures but failed (or started too late) to develop significant social protection systems. These crisis-stricken countries need to develop social protection systems or strengthen or restructure existing schemes.

**11.** The ILO collaborated with the ICFTU-APRO and the Japan Institute of Labour in the organization of a regional workshop on social safety nets (Manila, 28 July-1 August 1998). The meeting identified the need to improve knowledge of social security systems and to integrate the concerns of informal sector workers within workers' organizations.

**12.** The Government of Indonesia has requested ILO assistance in reviewing its system of social protection. Similar reviews have already been conducted in Thailand and Malaysia. Following the ILO's recommendations, the Thai system is being expanded to provide protection to retirees and informal sector workers. The civil service social protection scheme in Thailand is being revised to encourage mobility from the public to the private sector in the context of Thailand's reform of the civil service.

### *1. Unemployment insurance*

Developing formal income protection mechanisms for current and future spells of unemployment is a priority in combination with effective employment services (job placement).

**13.** Among the countries affected only the Republic of Korea has an unemployment insurance scheme. Although it has recently been extended to all employers, it is estimated that only 40 per cent of the labour force is covered. In particular, a large number of workers classified as daily workers are excluded. Thailand is considering implementing unemployment insurance.

**14.** The ILO is undertaking feasibility studies relating to the implementation or expansion of unemployment benefit schemes. One has already been completed in Thailand<sup>(1)</sup> and another is to be undertaken in the Republic of Korea focusing on designing systems that provide benefits to as wide a percentage of the labour force as possible and taking account of national circumstances as regards employment services and the importance of dual employment.

**15.** The cost of such schemes can be kept modest. The feasibility study conducted in Thailand in mid-1998 calculated on the presumption of economic recovery that the required contribution rate would be around 2.5 per cent of the payroll in 2001, falling to below 1 per cent in 2007. Where social security schemes already exist it should be possible to introduce an unemployment insurance scheme. There are

risks in countries where employment services are undeveloped, associated with ensuring that claimants make themselves available for work or do not work in the informal sector while receiving benefit, but these are not regarded as insuperable obstacles compared with existing needs.

## *2. Extending the coverage of social security schemes*

The social security schemes of the region, where they exist, provide only limited protection. Furthermore, coverage is low. Legislative restrictions which tend to exclude smaller employers are partly responsible, but of greater significance is the effective exclusion of the majority of the labour force working in the informal sector or on their own account.

**16.** Although the absolute size of the modern sector increased in many countries during the period of economic growth, the informal sector remained large and has increased with the crisis. The ILO helps member States to identify and take measures to increase coverage, including restructuring schemes and improving compliance. For those whose circumstances and needs are clearly beyond the scope of existing schemes, it assists member States, social partners, NGOs and communities to develop appropriate social protection measures. The ILO global programme STEP (Strategies and Tools against Social Exclusion and Poverty) is specifically designed to help communities, cooperatives and mutual support groups to develop mechanisms to provide appropriate social protection to members who are excluded from coverage under formal social security schemes. These efforts focus on improving access to health care, which is viewed as the priority social protection needs in the informal sector and among the self-employed in most developing countries. Work is under way in the Philippines, where the ILO has developed a project to introduce community-based social protection, particularly in the area of health protection. Work has started in Viet Nam and will be pursued in Indonesia, where the ILO has commenced, with the World Bank, a project examining the feasibility of developing insurance-based health care systems with emphasis on the informal sector.

## *3. Minimum wages*

Social protection is one key function of minimum wages. The currency devaluations and associated inflation have meant that minimum wages have declined sharply in real terms in the region.

**17.** At the request of the Government of Indonesia, the ILO assisted with a major study of the reform of the minimum wage system. The study's conclusions and policy recommendations were discussed in a series of regional workshops in the country, culminating in 1998 in a national tripartite workshop. The Government has now requested ILO assistance with a broader review of wage policy in the country.

**18.** As part of the Asian Development Bank's assistance to Thailand, the Bank has made available a social sector loan, but disbursement is conditional on a government review of wage policy. At the request of the Subcommittee on Wage Policy of Thailand's tripartite National Wage Committee, the ILO undertook a study of wage policy. The first phase of the two-part study was completed in December 1998, analysing wage and productivity trends in the 1990s and minimum wage policy in view of the Government's recent decision to decentralize minimum wage fixation. The ILO produced 14 policy recommendations which were reviewed and discussed separately before the Subcommittee, the full National Wage Committee, and in a tripartite seminar in Bangkok. Most of the ILO's recommendations have been endorsed by the Ministry of Labour and Social Welfare. The Minimum Wage Fixing Machinery Convention, 1970 (No. 131) is specifically tailored to the needs of developing countries and was the basis for the ILO's work on the project. In the region, only Japan and Nepal have ratified it.

#### *4. Targeted assistance for child labour*

Substantive efforts are being made through the ILO's International Programme on the Elimination of Child Labour (IPEC) to refocus strategies to combat the worst forms of child labour, and to cope with the situation in the crisis-affected countries. Maintaining previous gains in combating child labour is the primary goal.

**19.** The ILO has launched a comprehensive assessment of the impact of the crisis on child labour in Indonesia, the Philippines and Thailand. This study will examine the effects of major crisis features and adjustment programmes on child labour, draw policy and programme lessons from the developments, and identify a comprehensive set of policies and practical measures. Field work began in January 1999 in Indonesia, Thailand, and the Philippines and will end in April. The full report is due to be finalized by June 1999.

**20.** Another important undertaking is the promotion of a subregional programme to combat trafficking in children for labour exploitation, including sexual exploitation. It is now in its second phase, comprising action programmes and capacity building among the social partners. Promoting the ratification of the Minimum Age Convention, 1973 (No. 138) is an important and integral part of the ILO's efforts in response to the crisis. The Philippines has ratified Convention No. 138, as has China, the Republic of Korea, and Malaysia, and Indonesia is expected to do so in 1999.

**21.** Through the IPEC programme the ILO is expanding its assistance to the Indonesian Government's programme on poverty alleviation which concentrates on activities to raise community awareness of the problems of child labour. To ensure the scholarship programme initiated by the Asian Development Bank and the World Bank reaches children who need it most, IPEC plans to introduce sensitization training for school committees to develop guidelines for children at high risk. In the Philippines there is a general consensus that the cause of child workers must be kept on the national agenda. IPEC is intensifying its advocacy and increasing its community development efforts to prepare affected families

for the likely impact of the crisis. Other initiatives include educational support and assistance programmes such as community savings schemes, with the long-term aim of developing full micro-finance initiatives.

#### *5. Women workers and the promotion of gender equality in the crisis*

The effect of the crisis on women workers cannot be adequately gauged because of a lack of sex-disaggregated data. Data would nevertheless underestimate the severity of the effects. This is because women occupy a disproportionate share of atypical or low-status work, often excluded from any form of social protection, such as severance pay.

**22.** In order to gain detailed up-to-date knowledge on the gender dimension of the Asian crisis, the Asian Institute of Technology and the ILO have supported national research efforts to carry out research in 1998 in Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand. The findings will be published in March 1999.

**23.** Two projects are under way in Indonesia. One aims to expand employment opportunities for women under the ILO/Japan multi-bilateral programme. Designed in response to the UN World Summit for Social Development and the Beijing Platform for Action, this project has shifted its focus to employment creation schemes for disadvantaged groups of women affected by the financial crisis. The other project is geared to strengthening the position of homeworkers, and is being implemented in coordination with the Development Policies Department with funding from Denmark. Community-level action is the main thrust, promoting the organization and bargaining power of poor, unemployed and self-employed women and their families, and providing them with micro-credit, entrepreneurship and skills training, as well as other essential services for employment and poverty alleviation. The project also raises awareness of women's rights through legal literacy and empowerment in sectors where the financial crisis has left many women without jobs. In addition, support will be provided to relevant institutions in the area of policy reform and advocacy.

**24.** Similar initiatives are set to start in Thailand in 1999 to assist women affected by the crisis. These projects are being carried out under the ILO/Japan and the ILO/Denmark multi-bilateral technical cooperation programmes. Action research among poor, retrenched and self-employed women workers in the textile and food industries will lead to demonstration projects among disadvantaged women in the capital and selected provincial urban centres. These aim to organize women workers and enable them to engage in productive activities. The capacity of governmental and non-governmental agencies and the social partners will be strengthened to enable them to provide adequate, gender-sensitive technical and financial services to women workers in both the formal and informal sectors. At the policy level, the project will promote the application of the 1998 Labour Protection Act and the 1998 Government Policy on Homeworkers, and will promote the ratification of the Equal Remuneration Convention, 1951 (No. 100), the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), and the Home

Work Convention, 1996 (No. 177).

## 6. *Migrant workers*

The crisis highlighted the vulnerable position of migrant workers who were brought in, legally and illegally, when severe labour shortages emerged in the fast-growing economies of the region. By mid-1997, there were an estimated 6.5 million legal and illegal migrant workers in the newly industrializing economies and in Japan. As the crisis unfolded and the scramble for remaining jobs began, migrant workers were the first to be retrenched and there were many instances of repatriation not in keeping with ILO principles.

**25.** Labour-sending countries such as Indonesia and the Philippines have been doubly affected, experiencing not only a decline in domestic labour demand stemming from the crisis, but an increase in labour supply as their overseas workers are repatriated. The ILO plans a special report on the impact of the crisis on labour migration and the conditions of migrant workers.

**26.** In September 1998 the ILO organized an overseas employment policy workshop in Jakarta. This tripartite seminar discussed the scope and limits of policy options in international labour migration. Recommendations submitted to the Government focused on the need to protect migrant workers and to establish consultative and advisory mechanisms in the Ministry of Manpower to improve the formulation and discussion of policy options on labour migration. A second ILO-supported workshop was held in November 1998 on the scope and limits of private agents' responsibilities and obligations.

## **IV. Job creation, enterprise development and labour market policies**

### *1. Analysing policy needs*

The promotion and protection of durable jobs need to be more explicitly accommodated by macroeconomic policy. This requires thorough labour market analysis, and effective participation in macroeconomic policy debates by the ILO and its constituents. Improving the quality of analysis requires adequate labour market information systems.

**27.** A recent study of the crisis published by the Office argues that:

The crisis has brought home the fact that a high rate of job creation is not sufficient in itself; policy-makers should also be concerned about the sustainability of the jobs that are created. When a significant misallocation of investment occurs, as was the case in the pre-crisis period, then the jobs linked to this misallocated investment are clearly at risk. Indeed, much of the job

loss since the crisis onset has been in activities associated with an over-expanded construction and financial sector. The concern over the sustainability of job creation highlights the necessarily close links between economic and employment policy.<sup>(2)</sup>

**28.** The ILO has undertaken employment policy reviews in two of the most affected countries, Indonesia and Thailand, in order to draw a comprehensive picture of how the crisis has affected national labour markets and propose policy solutions for the short and longer term. The Thailand study is under way and will be completed in 1999. The Indonesian study, "Employment challenges of the Indonesian economic crisis", was a cross-agency United Nations initiative led by the ILO, and was completed in 1998. In particular, the study analyses the unemployment and underemployment situation and recommends short-term strategies for employment and income support, and strategies for medium-term employment promotion. Several recommendations have been taken up by the Indonesian Government and the ILO has been asked to assist in their implementation.

**29.** In Thailand the ILO sponsored a meeting of users and producers of labour statistics in March 1998 to identify problem areas and national priorities for improving labour statistics -- of particular concern in view of the need to gauge the impact of the crisis on the labour market. ILO policy recommendations were approved, and a specific programme of action developed. In February 1999 UNDP agreed to fund an ILO project to improve policy formulation through improved labour force surveys. The project, focusing on technical advice to statisticians, senior economic planners and managers, is now under way.

**30.** The ILO has also redirected its initiatives toward employment and income generation, enterprise sustainability, strengthening employment services, and the promotion of vocational training and skills development. The Human Resources Development Convention, 1975 (No. 142) provides the framework for ILO action in these areas, together with the Employment Policy Convention, 1974 (No. 122).

## *2. Labour-intensive employment promotion*

Among the most urgent needs is providing an income for the millions who have lost or cannot find jobs. Institutional infrastructure should be developed so that labour-intensive public employment programmes can be carried out whenever required.

**31.** Labour-intensive job programmes need to be designed to meet public demand and maximize employment creation. They require sound credit-creation mechanisms, and can be complemented by targeted micro-credits for self-employment and targeted food distribution.

**32.** A recent ILO study outlines a two-pronged programme of emergency employment creation and safety nets for the poor. The first element is a broad-based employment generation fund, used to create wage employment and self-employment on an urgent basis. Labour-intensive methods in public infrastructure construction would create wage employment, and targeted credit would boost self-

employment. The second major element would be a short-term food distribution scheme aimed at the poor.<sup>(3)</sup> The study's approach makes it easy to add detailed macroeconomic and government budget-related (net) cost estimates in order to prove the financial viability and potential to extend the proposal.

**33.** The ILO's labour-based methodology for employment generation in the construction and infrastructure sectors offers a means of matching resources to jobs. The launch of the ILO's ASIST Asia and Pacific programme in May 1998, funded by Denmark, was independent of the crisis, but the programme's initial focus has clearly been toward the needs of the countries most affected by the crisis.

**34.** In Thailand the ILO's programme has focused on an assessment of job creation possibilities through the use of labour-based technologies in infrastructure projects, and the provision of training in such technologies to the Ministry of the Interior. The Ministry and Thailand's Government Savings Bank are jointly responsible for implementing major components of the World Bank's US\$480 million Social Investment Programme in the country, and these components involve extensive public works programmes. The ILO's training activities are in support of the Ministry's project on the labour-based construction of 1,400 km of village roads and a large number of irrigation rehabilitation projects in rural areas. The ILO has also provided technical training to the Government Savings Bank's Social Fund Office (SOFO) which is responsible for the disbursement of funds for as many as 5,000 community-based programmes that also target infrastructure development.

**35.** In the Philippines the ILO organized a national tripartite workshop in November 1998 on the theme of removing obstacles to labour-based programmes. The workshop followed extensive consultations with key government and private stakeholders in infrastructure development, including workers' organizations. As a prior step to project development, ILO-sponsored research by the Development Academy of the Philippines found that, in 1998, between 126,000 and 230,000 additional jobs in infrastructure development could have been generated at the same cost and quality of outcome had equipment-based technologies been replaced by labour-based ones. Also in the Philippines, and with funding from the European Union, ILO assistance has been requested in the introduction of a labour-based road maintenance system as part of the Rural Development Programme in Banaue.

**36.** ILO technical support has promoted the labour-based infrastructure development programmes of Indonesia's Department of Public Works, which is responsible for infrastructure works in roads, irrigation, and human settlements. As in Thailand, ILO technical assistance has been a critical link between government-sponsored initiatives and external funding agencies, including the World Bank, Asian Development Bank, the Overseas Economic Cooperation Fund (OECD, Japan) and AusAID. The ILO has proposed a two-phase approach to technical assistance for public and community works programmes. AusAID has agreed to fund the first phase, and the Indonesian Government has asked the World Bank to fund the second.

**37.** An example of ILO/World Bank cooperation in emergency employment generation was ILO participation in the World Bank's Social Safety Net Adjustment Loan (SSNAL) mission to Indonesia in November-December 1998. As well as creating jobs, the SSNAL project aims to improve the operation

and design of the overall safety net in Indonesia. Measures include ensuring rice and medicine imports, targeted rice distribution, education expenditure and small-scale employment and income-generation schemes, while bolstering anti-corruption, implementation, and monitoring efforts. A monitoring body will be created to oversee the programme's implementation: as a result of ILO participation its representation will include trade unions. The ILO's involvement has also been sought to assist with the assessment of existing labour-intensive projects, including the emergency employment programme for skilled workers run by the Ministry of Manpower.

### *3. Supporting enterprise growth and viability*

The growth of sustainable jobs hinges on the growth of healthy enterprises. In the context of the crisis, this presents an urgent and daunting challenge. Business failures have occurred at a high rate in the most affected countries, and many otherwise viable enterprises have faced liquidity problems as access to credit has become more difficult. More generally, the pace of enterprise restructuring has quickened, and is likely to continue even with the recovery.

**38.** ILO action has focused on three main areas: assistance in the creation and growth of enterprises; helping enterprises to restructure and to weather the economic downturn, in particular through improvements in productivity and competitiveness; and promoting self-employment.

**39.** The ILO has various enterprise promotion tools at its disposal, and demand has risen with the acute need to create jobs and strengthen enterprise viability. In Thailand, the Ministry of Labour and Social Welfare has asked the ILO to bring ISEP's resources to bear on the Department's own five Small Enterprise Schemes. These schemes target groups particularly affected by the crisis, such as retrenched workers, the disabled and women. The ILO will design and conduct a training module for government staff, focusing on the role of micro- and small enterprises (MSEs) in employment creation and poverty alleviation. The course will emphasize methodologies for imparting business management skills to specific target groups, and demonstrate evaluation techniques for monitoring the impact of MSE support programmes. The aim is to improve the effectiveness of government officials in implementing their small enterprise programmes. The ILO is also involved in a planned UNDP project on MSE development in urban areas.

**40.** The World Bank's Social Investment Fund loan for Thailand, administered through the newly created Social Fund Office (SOFO) of Thailand's Government Savings Bank, offers start-up loans to community-based organizations in urban areas in support of employment-generating projects. At SOFO's request, the ILO organized a five-week training course for SOFO's managers and directors, completed in December 1998. The course covered labour-based technologies, management skills, and small business management.

**41.** In Viet Nam, a three-year Start and Improve Your Business (SIYB) project was designed prior to the

crisis and began in October 1998 under the auspices of the ILO's ISEP programme and funded by the Government of Sweden. In view of the effects of the regional economic downturn on the Vietnamese economy, the project's thrust toward developing institutional capacity at the national level for promoting job creation and improved management in new and existing small enterprises is of greater relevance than originally foreseen.

**42.** The employment intensity of small-firm development is clearly a principal reason why policy initiatives should be stepped up now to promote SME development. At the same time, however, the greater employment share of SMEs relative to their share in GDP in many countries of the region reveals scope for productivity improvements. A focus on productivity designed to improve competitiveness applies to large enterprises as well as smaller ones which, on recovery, are likely to be exposed to greater external competition. A second ILO programme, the Action Programme on Productivity Improvement, Competitiveness and Quality Jobs in Developing Countries, has had a role to play here. The ILO is collaborating with the national productivity organizations in the Philippines and Thailand to conduct research on competitiveness and restructuring in specific exposed industries, such as the garment industry in the Philippines and food processing in Thailand.

**43.** The ILO is working directly with industrial employers' organizations and with specific companies on productivity improvement projects. In November 1998, two workshops were held in Thailand on productivity improvement in SMEs in six export-oriented industries identified in the Government's restructuring priorities. A network of 40 SMEs will now become pilot projects for productivity improvement in a bid to strengthen ties between firms and ties to employers' organizations and to Thailand's Productivity Institute. Similar seminars were held in the Philippines in 1998, and more are planned in 1999 with the employers' organization in Indonesia.

**44.** The ILO has often worked closely with the Asian Productivity Organization, as evidenced by ILO participation in APO's Study Meeting on the Asian Economic Crisis: In Search of Higher Competitiveness in Global Markets, in December 1998. Participants were drawn from the countries worst affected and from other APO member countries. Information and improvement strategies were distributed and exchanged at the meeting. The ILO has also worked directly with the national productivity organizations, helping to improve their capacity and impact, particularly through the ILO/APO Modular Programme for Productivity and Quality Management. This has involved distributing information about socially responsible restructuring, and using improved productivity as the foundation for enterprise viability and sustainable jobs.

**45.** Strengthening enterprises' capacity to reform is critical for successfully weathering the financial crisis, remaining competitive, and preserving or creating jobs. In July 1999 the ILO will organize a regional enterprise round table on human resource-based competitive strategies and corporate citizenship and social initiatives undertaken by enterprises, particularly in relation to enterprise restructuring. While the need for restructuring will probably intensify, the ILO has at the same time sought to disseminate experience of alternatives to retrenchment. Its subregional tripartite seminar on termination of employment (Seoul, November 1998) and a tripartite seminar on globalization and industrial relations (Malaysia, September 1998) included sessions on this theme.

**46.** More than 60 per cent of the world's 762 million cooperative members live in Asia. The crisis has accelerated the reform of their legal and institutional environment. This enables cooperatives to exploit their self-help potential and to combat the effects of the crisis on the poorer segments of the population. That potential comprises three main areas: (1) promoting self-employment; (2) providing an alternative self-financed and self-managed social safety net; (3) creating alternative financial systems capable of mobilizing micro-savings in rural areas. The ILO supports cooperatives through three regional programmes. One, COOPNET, supports the human resource development efforts of cooperative institutions providing skills training. In 1999 COOPNET is placing greater emphasis on entrepreneurial skills for improved cooperative competitiveness, and a regional workshop on this theme is planned for this year. Another programme, INDISCO, helps indigenous and tribal peoples to design and implement their own development plans. In South-East Asia INDISCO is active in Thailand, Viet Nam, and the Philippines. Its projects in these countries have been reoriented toward employment promotion in order to respond to the needs of people returning to communities as a result of the financial crisis. Informing this work will be five country studies, including Indonesia and the Philippines, begun by the ILO in 1998, which will be used to evaluate the job creation potential of cooperatives.

#### *4. Strengthening employment services*

The buoyant employment growth which once characterized many countries in the region is likely to have been one reason for inadequate emphasis having been placed on government-assisted efforts at job matching through the development of public employment services. The crisis has exposed this shortfall in institutional capacity, and several governments are now seeking ways to strengthen their employment services, including in some instances their relationship with private employment agencies.

**47.** In July-August 1998 the ILO conducted a technical assistance mission to the Republic of Korea at the invitation of the Ministry of Labour. The mission's focus was the review of the current labour market situation and of policy and programme responses under way in the areas of unemployment insurance, vocational training, and employment services. Employment service programmes are now expanding significantly. ILO assistance was provided in four key areas: (1) the scale of the employment service administration; (2) subcontracting services to local government; (3) programme performance management; (4) improving vocational guidance services. In addition, discussions ranged over the development of an open placement system, expansion of public job-creation programmes, linking enterprise restructuring and re-employment activities, improved outreach to employers, and linking public and private employment agency activities. The ILO has provided follow-up technical assistance and offered to help organize an international study tour for Ministry of Labour officials to observe model employment service programmes in other countries.

**48.** In December 1998 the ILO assisted the World Association of Public Employment Services

(WAPES) and Thailand's Ministry of Labour and Social Welfare to conduct a workshop on the Asian crisis and public employment services, with participants from Thailand, Malaysia, Indonesia, China, Cambodia, and Viet Nam. The programme addressed the role of public employment services in the redeployment of job losers. The workshop assessed the lay-offs situation in the countries concerned, and identified specific action that public employment services could take in four areas: improved job-matching; new approaches to vocational and customized training; support for self-employment; and improved labour market information systems. On the basis of performance indicators identified by workshop participants, management tools were proposed for measuring the effectiveness of public employment services in placing retrenched workers.

**49.** The ILO is involved in two national employment service projects in Viet Nam. The ILO is executing one, with funding from Japan, and is co-implementing the other -- a UNDP-funded, nationally executed project -- in conjunction with the Viet Nam General Confederation of Labour. Both projects have similar objectives: training employment service officers to improve their placement services. Formulated prior to the onset of the regional crisis, each has proven sufficiently flexible to accommodate needs arising from the worsened economic situation. For example, retrenched workers -- particularly those of state-owned enterprises -- are now a special focus. Both projects now place greater weight on the promotion of self-employment and retraining in relation to labour market opportunities. Greater emphasis has also been placed on building cooperation between the employment centres and the national Employment Promotion Fund, in order to link their activities more closely to the programmes and to funds associated with Viet Nam's active labour market policies.

### *5. Adjusting training systems to needs arising from the crisis*

Vocational training is a critical area for institutional capacity building by the ILO. In a world of increasingly open economies, the skills base of the "immobile factor" -- labour -- has become an ever more important source of the productivity and improved competitiveness on which economic growth is based. The importance of education and training systems to economic recovery is increasingly recognized.

**50.** The economic downturn and financial crisis have brought specific training needs to the fore, highlighting the importance of HRD. The ILO has embarked on new activities or refocused existing ones, attaching priority to the retraining of laid-off workers; in view of the decline in wage employment, greater attention is being given to the development of skills for self-employment. Many countries, despite a decade of high growth, have workforces with very low levels of education and skills, as workers do not seem to have participated in the benefits of high growth. In some countries, such as the Republic of Korea, where considerable resources have been devoted to training in the manufacturing sector, the economic slow-down in this sector will require that countries reorient their training policies and systems to focus on the emerging knowledge-based areas, such as information technology.

**51.** The crisis has brought recognition of the need to upgrade skills and retrain, not only for those retrenched, but also for those currently employed who may be affected by enterprise restructuring in the future. In the Philippines this recognition is manifested in the Technical Education and Skills Development Authority's (TESDA) signing of a Memorandum of Agreement with the ILO. The Memorandum envisages collaboration between the two organizations in policy planning and programme implementation in the field of skills training aimed at enhancing the efficiency and effectiveness of the national training system. The areas identified for collaboration include vocational training policy reforms, the development of skills standards, labour market information systems, skills upgrading for the informal sector, and retraining programmes focused especially on retrenched workers. An ILO-inspired review of TESDA's role and activities was examined at a TESDA-ILO forum in September 1998. The review's recommendations and follow-up are expected to focus more closely on TESDA's programme and activities.

**52.** The ILO has worked with APSDEP since 1997 to develop workplace-based systems of skill recognition, certification, and training. The project has assumed greater urgency as countries afflicted by the crisis attempt to reform their training systems. Both the lack of appropriate skills and inadequate mechanisms for the recognition of skills are impediments to economic recovery. The project is developing Regional Model Competency Standards to offer guidance to countries reforming and developing their own national systems. Indonesia provides a good example of an ILO initiative to increase the effectiveness of the skills testing and certification system: the ILO is assisting Indonesia to develop a credible national skills testing and certification system, making Indonesian workers more employable both within the country and abroad.

**53.** The ILO is also supporting related work in Indonesia to monitor labour market information at the regional level. Training workshops for participants from the regional offices of the Ministry of Manpower and the Ministry of Planning are designed to make labour market information a more effective tool in the policy planning process, especially in relation to skills development. Two such workshops have already been held in Ujung Pandang and Bali, and three more are planned for 1999.

**54.** The reform of China's state-owned enterprises will result in the retrenchment of tens of millions of workers who will need to find new jobs in a labour market which, while relatively sheltered from the financial crisis, has nevertheless been affected by the regional economic slow-down. In 1998, the ILO conducted a review of re-employment training in the cities of Shengyang and Chengdu to make recommendations and identify strategies to strengthen and improve the quality of retraining as an important input into the central Government's re-employment programme, which aims to retrain and re-employ 10 million people over a three-year period. ILO involvement in this work will continue in 1999. In 1998, the ILO was also asked to adapt its Community-Based Training Methodology to conditions in rural China. With the decline in formal wage employment, training for self-employment as a poverty alleviation strategy has acquired greater importance. At the request of the Ministry of Labour and Social Security, the ILO methodology will also be adapted to the needs of urban workers. The ILO has proposed that this activity be undertaken in tandem with the Government's pilot job creation schemes in Beijing, Shanghai and Suzhou.

**55.** In conjunction with employers' organizations in Thailand, the ILO organized a national employers' workshop on human resources management strategies for economic recovery in July 1998. Two key objectives of the workshop were to identify strategies for developing enterprise-based training, focusing especially on literacy and numeracy skills; and encouraging enterprises to view the current period of slack demand as an opportunity to step up training. In the wake of this meeting the Ministry of Labour and Social Welfare has asked for ILO project proposals on literacy and numeracy in the workplace and enterprise-based training. These proposals are being prepared and will be accompanied in 1999 on a priority basis by an ILO proposal for the reform of Thailand's national training system. In view of the number of retrenched workers in Thailand returning to rural areas, the ILO has prepared a project proposal for funding which aims to develop skills training programmes for self-employment.

**56.** At the request of the Ministry of Labour, the ILO fielded a high-level mission to the Republic of Korea in July-August 1998. The mission formed the basis for a preliminary analysis of the country's system of vocational training, with particular regard to addressing the needs of the growing number of retrenched workers. The Ministry has since requested additional ILO input. A one-year technical assistance programme began at the end of 1998, providing advisory services aimed at making the present retraining programme more effective. Specific policy advice will be provided on the methodology for evaluating retraining and developing a new evaluation model, while at the same time exposing training officials to best practices. The Human Resources Development Convention, 1975 (No. 142) provides excellent guidance in the matter.

## **V. The promotion of social dialogue**

The widespread and prolonged spillover of the crisis onto the real economy means that millions of people are now sharing the cost of an economic catastrophe not of their own making. Dialogue and participation were largely absent in the pre-crisis period. Social dialogue is often limited in the region, and the institutions through which dialogue could occur are often weak. There are, however, firm grounds for believing that strengthening social dialogue is a necessary cornerstone of the solution to the crisis, and that this view is gaining acceptance.

**57.** The crisis has focused attention on the quality of governance and the importance of democratic procedures as a fundamental human right. The presidential election in the Republic of Korea in the midst of the crisis reflected a desire for greater political openness, as did the expansion of trade union freedoms. The Indonesian economic crisis became a political crisis, resulting inter alia in greater democratic accountability and in that country's ratification of the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87). The Thai crisis coincided with, rather than precipitated, constitutional reforms expanding democratic openness in that country; but it has also resulted in tripartite recognition of the importance of promoting freedom of association.

**58.** ILO work to promote social dialogue has taken two directions: improving institutional capacity, and

assisting with the content of social dialogue itself. Improving institutional capacity has focused on the "upstream" avenues through which social dialogue can occur. This includes for example, the promotion of the very foundation on which social dialogue is based -- freedom of association -- and through ILO policy advice on national legislative frameworks and on the "downstream" areas of strengthening the capacity of employers' and workers' organizations and bipartite or tripartite mechanisms. Shaping the content of dialogue has meant organizing opportunities to exchange information and construct policies to address the effects of the crisis. The ILO's core standards on freedom of association and collective bargaining provide guidance for action in the region, as does the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144).

### *1. Building institutional capacity*

The present weakness of institutions of dialogue in several countries in the region is the major constraint in promoting meaningful participation. The promotion of freedom of association -- on which it is based -- is fundamental to the promotion of dialogue.

**59.** The Government of Thailand requested ILO technical advice on the reform of the State Enterprises Act, a reform that seeks to improve freedom of association and trade union rights for workers in the state-owned sector. In January 1999 Thailand's Ministry of Labour and Social Welfare requested ILO assistance in reviewing draft versions of proposed reforms to the country's basic industrial relations legislation, the Labour Relations Act. Both Acts critically affect the conditions under which freedom of association is exercised.

**60.** With the backing of the Ministry of Labour and Social Security and the social partners in China, the ILO has proposed a major project on industrial relations and workplace democracy. Sound industrial relations are critical for the prevention of disputes: with the lower rate of economic growth the need is now more urgent, since rising job losses risk increasing labour disputes.

**61.** Indonesia has undergone a period of social and political change during the economic crisis, and the ILO has played a crucial role in providing support. It has provided technical assistance on labour legislation, with particular regard to the regulation of labour disputes, trade union freedoms and ILO core Conventions on freedom of association and collective bargaining in view of social and political change and the recent ratification of Convention No. 87. The ILO advised on the drafting of the Trade Union Bill and the Labour Dispute Settlement Bill. The Manpower Act is now under consideration for revision with ILO assistance, and there will be new legislative provisions on the protection of migrant workers, for which ILO help has also been requested.

**62.** As a consequence of the recent national seminar organized by the ILO on the fundamental human rights Conventions, the President of Indonesia has signed a memorandum of understanding with the ILO on the ratification of the remaining three unratified fundamental human rights Conventions (Nos. 105,

111 and 138). An ILO/national tripartite task force will be established to oversee the implementation of the agreement, and a series of regional seminars on the ILO's Declaration of Fundamental Principles and Rights at Work has been organized for 1999.

**63.** Strengthening individual organizations is of key importance to promoting dialogue and, in the current climate, improving the channels through which labour disputes can be prevented. Using basic training materials prepared by ILO/EASMAT, ILO specialists have trained trade unions and employers' organizations in techniques of workplace cooperation, the functions of tripartism, and negotiating skills for collective bargaining in China and Viet Nam. The mechanisms of social dialogue also extend to the resolution of disputes. The ILO has been involved in training arbitrators in Viet Nam's newly formed provincial arbitration committees. With the worsened economic conditions and the attendant rise in the number of labour disputes, ILO assistance has also been sought to train industrial relations officers in conciliation and mediation techniques in both Malaysia and Hong Kong, China.

**64.** Labour inspection can also function as an early-warning system for enterprises where labour disputes are likely. ILO training has equipped labour inspectors in Thailand with new techniques to detect problems in labour-management relations and foster a climate of labour-management cooperation. In response to the crisis, Thailand has also taken steps to decentralize its minimum wage fixing system. The ILO has been asked to train the newly formed tripartite provincial wage committees in methods of minimum wage determination and in the skills required for tripartite negotiations.

**65.** One lesson the crisis has taught is that financial markets affect workplace relations. This is a fundamental justification for the involvement of employers' and workers' organizations in dialogue on macroeconomic and social policy choices. Participation in that dialogue, however, requires strengthening the capabilities and knowledge of trade union and employer participants. ILO intervention has focused on providing information and improving analytical capacity. The ILO has assisted the Federation of Korean Trade Unions in its analysis of the impact of the financial and economic crisis on Korean workers and its preparation of a trade union policy response. A study supported by the ILO examined the background to the crisis in the Republic of Korea, the macroeconomic situation and the labour climate since the crisis, the impact on employed and unemployed workers and on trade unions, implications for policy, and strategic directions for the trade unions.

**66.** The ILO has also organized three meetings of Thailand's eight major trade union centres to analyse the effects of the crisis and forge a common strategy, thus helping the unions play a more effective part in tripartite dialogue in Thailand and in dialogue with the international and regional financial institutions. In Indonesia, against the background of a new climate for freedom of association and the particularly severe social impact of the crisis, the ILO has launched two workers' education projects. A major objective is to strengthen trade unions' capacity to defend workers' interests in the formal and informal sectors. Additional efforts to strengthen Indonesia's trade unions are set to begin this year, with funding from the United Kingdom Department for International Development. Projects to assist workers and their organizations, funded by Denmark, will cover Thailand, Indonesia and Viet Nam.

**67.** Trade unions will be represented on the monitoring body set up to oversee the implementation of the World Bank's Social Safety Net Adjustment Loan (SSNAL) for Indonesia. Trade unions' capacity to carry out their task effectively will need strengthening, and the ILO is currently planning a project to meet this need.

**68.** In conjunction with the ICFTU, the ILO has also sought to strengthen the capacity of trade unions in their relations with the regional and international financial institutions. Expanding the information and analytical base on which trade unions can draw is an increasingly important prerequisite for the emerging dialogue. With ILO support, ICFTU-APRO meetings have included representatives of the World Bank and IMF. ICFTU-APRO has also introduced the defence of workers' interests into the agendas of various ASEAN meetings, as well as the Asia-Europe Meeting (ASEM II) in the United Kingdom in April 1998, and the 1998 APEC leaders' meeting in Kuala Lumpur. In view of the particularly adverse impact of the crisis on women, young people and migrant workers and their families, the ILO contributed to an ICFTU-APRO subregional workshop on this theme in July 1998.

**69.** The ILO has also worked with employers' organizations to improve their ability to offer effective assistance to enterprises affected by the economic downturn. The ILO jointly organized a workshop with the Employers' Confederation of Thailand (ECOT) and ECONTHAI in July 1998 on human resource development strategies that can help reposition enterprises affected by the crisis. The ILO also helped fund two key meetings of the Employers' Confederation of the Philippines: a National Conference of Employers in April discussed strategies for enterprise survival; a Job Crisis Forum held in August produced recommendations, endorsed by the President of the Philippines, on job preservation and creation.

## *2. Assisting dialogue on and the search for solutions to the crisis*

Beyond its necessary focus on helping to build the institutions through which dialogue can occur, the ILO has been materially involved in expanding the opportunities for social dialogue on solutions to the crisis.

**70.** The High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries (Bangkok, 22-24 April 1998) shaped the ILO's response strategy to the crisis, and was itself the outcome of requests by constituents in the region made at the Twelfth Asian Regional Meeting in December 1997. An example of the redirection of programmes to meet the new challenges is the ILO's programme on globalization and industrial relations, funded by the Ministry of Labour of Japan. This programme includes national tripartite seminars in various countries. These seminars have become flexible vehicles for social dialogue on problems arising from the crisis. The 1998 national tripartite seminar in Malaysia in 1998 became a forum for tripartite consideration of ways to improve the linkage between wages and productivity while ensuring trade union participation and social protection. It also devoted a major session to case-studies of alternatives to retrenchment and the role of social

dialogue in promoting such alternatives.

**71.** In August 1997 the Prime Minister of Thailand asked the ILO to help resolve the social problems brought on by the baht's devaluation and onset of the crisis. Based on an ILO analysis of the effects of the crisis and resulting needs, the ILO organized a national tripartite forum in which all eight of Thailand's major labour centres and the country's major employers' organizations participated. The meeting gave the ILO's Thai constituents their first opportunity to forge a consensual view of the magnitude of the crisis and the policy steps needed to address it, one of which was tripartite agreement on the need for the reform of labour legislation to improve freedom of association. The meeting was also the catalyst for Thailand's own cross-ministerial, tripartite response to the crisis, and for refining and endorsing areas in which ILO assistance could be helpful. A blueprint for ILO work to alleviate crisis-induced problems has since been put into practice as the ILO's programme for Thailand, and the Ministry for Labour and Social Welfare met in January 1999 to earmark its priorities.

**72.** A regional tripartite seminar on termination of employment also helped focus attention on the immediacy of the crisis-related problems. This was organized by the ILO for the countries affected by the crisis in Seoul in November 1998. Major sessions included a comparative overview of the social impact of the crisis and the extent to which social dialogue had served to mitigate job losses, and a practitioners' panel on alternatives to retrenchment. As the crisis has had a disproportionate impact on women workers, the ILO organized a seminar with the Korean labour federations, the FKTU and KCTU, on international labour standards and labour legislation relating to women workers, designed to increase awareness among senior women trade union leaders of strategies to combat discrimination and to promote trade union rights in the context of the crisis.

## **VI. The relevance of international labour standards in responding to the crisis and to the post-crisis social model**

If the crisis has highlighted essential institutional weaknesses in the social structures of those States affected by it, it has also raised awareness on the part of governments of the need to strengthen and create the kinds of institutions and mechanisms that can mitigate the negative social consequences that such a crisis inevitably involves. ILO constituents in the region are increasingly acknowledging the value of the policy and technical guidance that is contained in international labour Conventions and Recommendations.

**73.** Creating and strengthening social institutions is central to the recovery process. Whether the targets are institutions of social protection and dialogue, or employment and labour market policies, ILO action is standards-based. In all its activities the Office relies on the principles and values embodied in international labour standards and on the practical guidance that they offer. While the ratification of standards is a key focus of ILO action, the principles embodied in them can be put to immediate practical use.

**74.** Governments have also become more conscious of the practical value of the wide range of standards as guidelines for possible solutions to problems caused by the crisis. Since the onset of the crisis, ILO constituents in the region have requested information and assistance in such subject-areas as termination of employment, the protection of workers' claims in the event of the insolvency of their employer, social security, occupational safety and health, labour inspection, employment services, migration and employment policy. ILO instruments in these fields provide guidance for immediate action, helping to find pragmatic and fair solutions to many of the problems arising from the crisis.

**75.** To achieve many of the ends to which the ILO and its constituents aspire, the promotion of ILO standards must also be an important upstream activity: building good industrial relations founded on truly effective social dialogue is a difficult goal to achieve when basic principles of freedom of association are lacking. Standards are necessary foundations for many of the objectives that constituents have sought to achieve, with ILO assistance, during the crisis. Social dialogue, employment promotion and social protection are common themes, but as the Director-General of the ILO has made clear: "Underlying the objectives of social dialogue, employment promotion and social protection is the imperative need to ensure that elementary decency in work is applied by way of fundamental workers' rights. This is exemplified in the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up."<sup>(4)</sup> The crisis has shown political, economic, and social costs of undemocratic systems and institutions.

**76.** This is a very opportune time for the ILO to promote its principles and demonstrate their practical utility in the construction of the post-crisis economic and social model in the region. A good example is the Asian-Pacific Symposium on Standards-related Topics, organized annually in the framework of the ILO-Japan programme of technical assistance. The symposium in the past concentrated on the agenda of forthcoming sessions of the International Labour Conference and on technical issues. Responding to the widespread need for information on the recently adopted ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, this year's symposium focused extensively on the Declaration and attracted high-level panellists from the entire region and the ILO's policy-making bodies.

**77.** The ratification of ILO standards does not offer an immediate, miracle cure to the social hardships arising from the crisis. Standards support the longer term aim of building just societies. However, the salutary effects of addressing the human rights dimension of the crisis can be almost immediate: strong public policy support for the expansion of freedom of association has had a healthy effect on the fast-paced evolution of Indonesian society and politics. The sweeping political changes in Indonesia have brought closer cooperation with the ILO with the aim of broad regulatory reforms. As mentioned above, Indonesia's highest authority has made a commitment to ratification of the remaining ILO core Conventions. The Office has also offered upstream support for the promotion of standards in response to growing interest within the international and regional financial institutions following the crisis in the way that standards relate to their own programmes.

## **VII. ILO relations with the international and regional financial institutions and with the UN system**

## *1. Relations with the IMF*

The IMF has been responsible for macroeconomic stability in Thailand, Indonesia and the Republic of Korea, with loan commitments amounting to \$17 billion, \$42 billion and \$58 billion respectively.

**78.** Following the onset of the crisis, Mr. Michel Camdessus, Managing Director, requested, and was provided with, information from the ILO on the application of core labour standards, and IMF missions consulted representative trade unions in each of the countries with which the Fund was negotiating. In remarks in Washington in October 1998, Mr. Camdessus made a strong statement of support for core labour standards which he saw as part of the participatory development and democracy upon which sustainable growth depends. He also confirmed the willingness of the IMF to consult with the ILO when issues relating to core labour standards arise.

**79.** The financial crisis appears thus to have reinforced the Fund's interest in equity considerations, labour standards and the value of social consensus in general: it organized a conference in June 1998 on economic policy and equity, in which the ILO participated. A panel discussion was also organized, with ILO participation, on this theme in conjunction with the 1998 annual meetings of the Bank and the Fund.

**80.** The ILO's relations with the IMF had already earlier benefited from the respective visits of Managing Director Camdessus to the International Labour Conference in 1991 and of Director-General Michel Hansenne to the IMF's Interim Committee in 1995 following the World Summit for Social Development. A communiqué by the Interim Committee states that "cooperation should be strengthened with a view to helping Fund missions acquire a better understanding of labour markets and social protection issues, and ILO staff to further integrate in their own policy advice the view of the Fund on macroeconomic policies and targets for the country concerned".<sup>(5)</sup> A major focus of enhanced cooperation and coordination with the IMF has been directed to the country level, including India and Indonesia in the Asian region. The areas for coordination of policy have included improvements in labour market information, data enhancement, labour market reforms, and the design of social safety nets. Core labour standards have become an important additional basis for policy coordination.

## *2. Relations with the World Bank*

The Bank's mandate to deal with longer term development issues has been broadened to include a focus on the social impact of the financial crisis. The Bank's lending to the region has approximately doubled to nearly \$10 billion. Four key areas are being addressed, including support for public expenditure programmes generally, financial sector restructuring, public sector restructuring, and the protection of low-income groups.

**81.** The Bank's research, policy advice and operations have been increasingly directed to social sectors and social issues. There is common ground with the ILO on issues such as the analysis of labour market policies, gender, training and other aspects of social development. Under President James Wolfensohn's leadership, the Bank is launching a new development framework to integrate a wide range of social concerns into its development strategies. The World Bank recently hosted a major workshop for donors, governments, NGOs and international agencies on social issues arising from the East Asia crisis and policy implications for the future in January 1999.

**82.** Recent high-level ILO dialogue with the Bank in October 1998 focused on promoting the acceptance of core labour standards and established principles concerning tripartism and social dialogue. Seminars and high-level missions in 1997 and 1998 have already sought to identify issues of common concern and areas for collaboration; improve technical understanding of social dialogue and core labour standards so as to achieve better consistency with these standards in work and policy advice; and raise dialogue to the highest policy level. In October 1998 there was an agreement to work on further convergence on the applicability of core labour standards to the Bank's policies and programmes, to set up a joint working group in support of the Bank's new focus on social development and the development of joint principles of best practices on social policy, and to carry out joint research on the interaction between core labour standards and economic development.

**83.** Both the Bank and the Fund participated in the ILO's High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries (Bangkok, 22-24 April 1998) and in the ILO's regional consultations in Bangkok in January 1999 concerning follow-up on the World Summit for Social Development. For its part, the ILO participated in a seminar organized by the World Bank in Seoul, Republic of Korea, on labour market issues, in the World Bank/ADB Asia Development Forum in Manila, a conference on social security organized by the World Bank in Singapore, and in various donor coordination meetings concerning Indonesia. At the Bank's Regional Meeting on Social Issues Arising from the East Asia crisis and Policy Implications for the Future, the ILO focused on employment promotion and income maintenance, including the importance of developing effective safety net programmes through social dialogue and of promoting fundamental principles and rights at work. As further extension of the policy dialogue, the ILO is organizing, with the Bank and the Government of Japan, a subregional seminar in September 1999 on job creation and labour market issues in the context of the crisis.

**84.** As regards core standards, the Board of Directors of the World Bank Group adopted in 1998 a common policy for the Multilateral Investment Guarantee Agency and the International Finance Corporation, requiring that neither institution may support projects that use forced labour or harmful

child labour. The Bank has also been promoting dialogue with trade unions, the latest example of which was the World Bank/ICFTU/ITS meeting on the Social Dimensions of the New Global Financial Architecture and Core Labour Standards (Washington, January 1999). The Bank has recalled that its mandate required it to take only economic considerations into account in its decisions. It could not require its members to enforce labour standards as a condition of Bank loans or projects unless "there are good reasons to believe that a violation of labour standards which the Bank views as detrimental to a country's development may occur".

**85.** Senior World Bank officials have visited the ILO in Geneva and in the Asian region, and specific initiatives for cooperation have been proposed, including the forthcoming seminar on job creation and labour market issues. World Bank and IMF missions have held consultations with ILO officials in the field in the course of negotiations with governments on programmes and policy advice. This has resulted in support to initiatives in the ILO's areas of concern, such as labour-intensive public works programmes (Indonesia, Thailand), the expansion of unemployment insurance systems (Republic of Korea), scholarship and loan programmes to minimize student drop-outs and avert an increase in child labour (Thailand, Indonesia), and subsidizing credit for small and medium enterprises (Indonesia, Malaysia).

**86.** In Indonesia the ILO and World Bank are cooperating in the field of gender and development and in a related survey of factory workers laid off as a result of the financial crisis. Trade unions are being included in the monitoring of labour-based infrastructure projects supported by the World Bank and the ADB.

**87.** In Thailand, the ILO has been consulted by visiting missions from both the World Bank and the IMF, as well as by the ADB, on social security, employment services, job creation schemes, small enterprise development, and industrial relations and tripartism. The ILO is providing technical assistance to the Government in relation to a World Bank-supported Social Investment Fund project on strengthening management capacity and in the identification of schemes and monitoring.

**88.** There have also been constructive contacts in other countries. In Viet Nam the ILO is part of an ongoing dialogue on developmental and structural matters between the World Bank and the UN system.

**89.** While the crisis has increased contacts and the sharing of information between the ILO and the Bank, collaboration still remains limited. Among the impediments are disparities in the respective scopes of the organizations' activities and availability of staff. In certain areas, moreover, there remain differences in the analysis of and approach to labour market problems, including some core labour standards on which dialogue and cooperation are expected to continue. The Bank's increased involvement in social policy areas means that the overlap with areas of ILO concern is growing. The potential scope for collaboration is in consequence greater than in practice. Benefits to social problem solving, and to both institutions could come from greater efforts to collaborate at the country level.

**90.** Finally, new pressures from the crisis have opened debate on the restructuring of the international financial system. The World Bank has been charged by the G7 Heads of State and Ministers of Finance

with developing principles of good practice in social policy in time for consideration at the spring meetings of the Bretton Woods institutions in April 1999. During the consultations with the Bank in Washington in October 1998, the ILO observed that principles of good practice in social policy necessarily imply fundamental ILO principles. The ILO recommended that the Bank's principles make reference to the ILO Declaration on Fundamental Principles and Rights at Work, as it is the most recent reflection of international consensus on core labour standards.

### *3. Relations with the Asian Development Bank*

The ADB is increasingly providing support to areas of social concern in its financing programmes at country level in the region. This has been intensified as a response to the financial crisis.

**91.** Long-term and ongoing cooperation with the ADB has recently been enhanced at the policy level. A meeting was held with senior ADB officials in Geneva in April 1998 on international labour standards, including the fundamental standards and those relating to employment policy, occupational safety and health, as well as on the importance and role of social dialogue and tripartite participation. A policy dialogue was initiated at the senior management level in Manila by the ILO Regional Office in May 1998.

**92.** At the request of the ADB, a training programme for senior personnel and programme managers on fundamental labour standards and principles, and other labour standards of direct relevance to the Bank, and their practical relevance to development assistance, is planned in Manila for April 1999. This will examine ways and means of integrating social protection and basic labour rights issues into ADB programmes, and help identify specific ADB-financed schemes in which this approach could be piloted.

**93.** Also at the ADB's request, ILO country offices have participated in the ADB's current Social Impact Assessment in Thailand, Indonesia, Republic of Korea, Malaysia, Philippines and the Lao People's Democratic Republic. The ADB also invited the ILO to participate in a series of poverty reduction country consultations in the Philippines, China, Nepal, India, Sri Lanka, Viet Nam, Bangladesh and Indonesia. As a result of both of these activities, various possibilities for collaboration between the ILO and the ADB are being identified. The ADB has shown interest in the possibility of providing the necessary resources, with the ILO making available its expertise. Discussion is under way on two such initiatives in the Lao People's Democratic Republic and Cambodia, involving skill upgrading and establishing employment centres in rural and informal sector areas.

### *4. Relations with the UN system*

**94.** The ILO took an active part in the UN-system meetings called in China, Indonesia, the Philippines and Thailand. Several other meetings on the crisis have been organized by the UNDP and the Economic and Social Commission for Asia and the Pacific (ESCAP). The ILO has participated in these and has

shared its research and data with components of the UN system.

**95.** The UN Resident Coordinator system has facilitated exchanges of information, assessments and the identification of areas for common action by the UN system. In Thailand, a capacity-building initiative, Thai-UNCAP, and support to the Social Policy Committee under the Prime Minister, have provided a basis for assistance by UN agencies to address the social impact of the crisis. The ILO has taken the lead role in promoting employment in the urban informal sector, income-earning opportunities for the affected sections of the population and social safety nets.

**96.** The ILO has made contact with donor country representatives in the region, especially the United Kingdom, Australia, the European Union and Japan. Through these contacts, the ILO has, for example, obtained funds for specific crisis-oriented employment promotion activities for Thailand from Japan, and an agreement has just been reached on an employment-generation programme with Australian aid in Indonesia.

## **VIII. Evaluating the ILO's response and future directions**

### *1. Evaluating the response to date*

**97.** The abrupt descent from rapid economic growth to increasing poverty and unemployment has been a shocking experience that has deeply marked the economic and political institutions in the region. These societies are now faced with an enormous task of social repair and economic recovery, the scale of which was not foreseen by anyone, whether national policy-makers or intergovernmental organizations. No one organization can give an adequate or sufficient level of support to the rebuilding effort. This consideration should lead the ILO to seek a broader range of alliances in the future.

**98.** The crisis has revealed strengths and weaknesses in the Office's capacity to respond. On the positive side, the Office's capacity to disseminate information and to foster dialogue and exchanges of opinion and experience was demonstrated through the national and regional consultations and meetings organized on the crisis. The Office has also been responsive to demand, in particular in its normative work in Indonesia, by mobilizing all available in-house resources. The High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries was among the first initiatives of its kind and the first in the UN system. There has been general recognition of the quality of the analytical work the Office has produced in preparation for these meetings. The April 1998 meeting was an important opportunity to engage the international financial institutions in discussion directly with the constituents in the crisis-affected countries.

**99.** Despite these positive initiatives, the ILO was not able to capitalize on the April meeting to achieve macroeconomic impact, nor was it able to reap full benefit from the visibility the meeting offered or respond fully to the expectations it raised. More thorough follow-up would have required the ILO to coordinate its work on a much broader scale, and the level of interaction with the regional and international institutions would have had to reach a more mature stage of cooperation than was the case.

## 2. Future directions

**100.** The impact of the crisis has encouraged a larger debate in Asia on the nature of a just society. Wherever the blame lies for the crisis, it is not with the millions of workers who are now paying the price for it. There is the consequent sense that the guarantee of basic labour rights and the social institutions that protect them must go hand-in-hand with economic reform policies. The concept of freedom of association is increasingly recognized as underpinning social cohesion, since it is required in order for meaningful dialogue to occur to generate that cohesion. The Declaration on Fundamental Principles and Rights at Work and its Follow-up underlines the consensus that has emerged on the need to promote human rights in a world that is increasingly prone to external shocks.

**101.** These rights are fundamental to the ILO's policy response: first, because of the weakness of the social institutions revealed by the crisis. Much of the technical work of the ILO is of a long-term, capacity-building nature. The ILO needs to articulate much more clearly the normative basis of its technical work and the relationship between the two. The Declaration is a significant step in this direction.

**102.** Secondly, the crisis reveals acutely the need for employment and social policy concerns to be incorporated in economic policy formulation, rather than as a residual outcome of economic policies. Constituents' desire to be involved in dialogue on the social dimensions of economic policy choices was made clear at the January 1999 regional consultations concerning follow-up on the World Summit for Social Development. A need was noted "for consultations by the international financial institutions with employers' and workers' organizations in designing national adjustment programmes" and to involve ILO constituents in the formulation of "macroeconomic, sectoral and enterprise development policies for reviving growth, restoring macroeconomic stability and promoting sustainable employment".

**103.** The ILO needs to work harder to make its voice in macroeconomic policy discussions heard. The Office must first review its institutional capacity to make a meaningful contribution to the macroeconomic policy dialogue. It must strengthen this capacity where needed. This applies to the ILO's headquarters capacity, as well as to its human resources in the field. A related and equally important need is for the ILO to outline clearly the potential economic benefits to be gained from its own recommendations and action. Analytical research efforts need to be devoted to this. One implication of this is that the capacity to collect and analyse data should be restored at the country and regional level, rather than through the ad hoc task forces on which the ILO's current work on the crisis is based. In future the ILO should be able to provide social and labour indicators that can help countries to react to economic downturns at an earlier stage.

**104.** The ILO needs to take stock of the channels through which its own voice and that of its constituents are heard, and make sure the messages get through more clearly. The Office's dialogue with international and regional financial institutions is direct, and this needs to be strengthened by focusing on ILO personnel and capabilities. However, at the national level dialogue is often less direct, and different measures need to be taken. The ILO does not usually talk directly with finance and planning ministries

when macroeconomic decisions are made, but it needs to improve its capacity to do so. The ILO should also promote its constituents' participation in national tripartite dialogue with the ministries of economic affairs on key economic policy choices.

**105.** The ILO's capacity-building assistance to workers' and employers' organizations must hence be broadened to enable these organizations to participate more effectively in the dialogue on national macroeconomic policy choices. The same effort must be made with ministries of labour. Their need is greater still: dialogue is expanding between international financial institutions and workers' and employers' organizations, and labour ministries are in many cases less likely to take part in economic policy discussions. The ILO needs to help labour ministries take part in tripartite dialogue on macroeconomic policy choices and thus to reinforce the message of the labour market's importance to economic development. This requires strengthening the capacity of ministries.

**106.** A crisis of this magnitude requires an extraordinary effort of resource mobilization. The weakness of social institutions in the crisis-affected countries, and the range and severity of the social and labour concerns to be addressed, have called for solutions which will have implications for the level of the Office's human and financial resources. An appropriate solution would have been to seek additional technical expertise by formulating and seeking funding for operational programmes from extra-budgetary resources such as those made available by multi-bilateral donors. On the positive side, existing technical cooperation projects and programmes were reoriented to respond to the crisis, and new technical assistance activities, which could be funded from the ILO's own resources, were designed and carried out. Opportunities at the country and regional level to approach donors for multi-bilateral funding were utilized by the ILO area office directors and by the Regional Department. However, a much greater engagement of human resources and notably the senior specialists in the MDTs will in the future be necessary to identify and formulate large-scale technical cooperation programmes for funding by multi-bilateral agencies.

**107.** National differences will continue to dictate considerable diversity in the response that the ILO can provide to the crisis-affected countries. One constant, however, will be the Office's focus on creating and strengthening institutions. To this end, the ILO needs to ensure that the services it offers constituents are relevant, timely and effective. On the one hand, this need has been increasingly addressed as a natural outcome of the Office's closer relations with its constituents through the Active Partnership Policy. There are two areas, however, to which additional efforts could be directed. First, the Office needs a more comprehensive and systematic analysis of the economic effects of its recommendations and action. This would enhance the appeal of ILO services not only within the broader policy decision-making process in which ILO constituents are involved at the national level, but also to potential donors. Secondly, the ILO needs to evaluate more systematically the impact of its action.

Geneva, 23 February 1999.

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For further information, please contact the Official Relations Branch at Tel: +41.22.799.7732, Fax: +41.22.799.8944 or by e-mail: [RELOFF@ilo.org](mailto:RELOFF@ilo.org)

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