2007 2012 2011 2005 2009 2004 2010 2008 2006 2013

Annex: employing workers

- **Fourteen economies implemented changes in their labor regulations affecting the *Doing Business* indicators on employing workers in the past year; 72 did so in the past 8 years.**
- **In 107 economies there is no limit on how long fixed-term employment contracts may last. In the 78 economies that have set a limit, the average maximum duration of fixed-term contracts is 39.2 months.**
- **One hundred and seventy-four economies limit employees' workweek in manufacturing to 6 or fewer days, complying with International Labour Organization (ILO) Convention 14 on the length of the workweek.**
- **One hundred and fifty-four economies have set a minimum wage by law, and 48 of them have set a special minimum wage for apprentices.**
- **Redundancy dismissals are allowed in 183 of 185 economies.**
- **The average cost of redundancy dismissals in the 185 economies as measured by *Doing Business* is 17.2 weeks of salary.**

For more information on the methodology for the employing workers indicators, see the section on employing workers in the data notes.

Employment laws are needed to protect workers from arbitrary or unfair treatment and to ensure efficient contracting between employers and workers. *Doing Business*, through its employing workers indicators, measures flexibility in the regulation of hiring, working hours and redundancy. These measures are consistent with the conventions of the International Labour Organization (ILO) but do not assess compliance with them. The indicators do not cover any of the ILO core labor standards, such as the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices.

To make the data comparable across 185 economies, *Doing Business* uses a standardized case study that assumes, among other things, a company with 60 employees that operates in the manufacturing sector and an employee who is a nonexecutive, full-time worker.

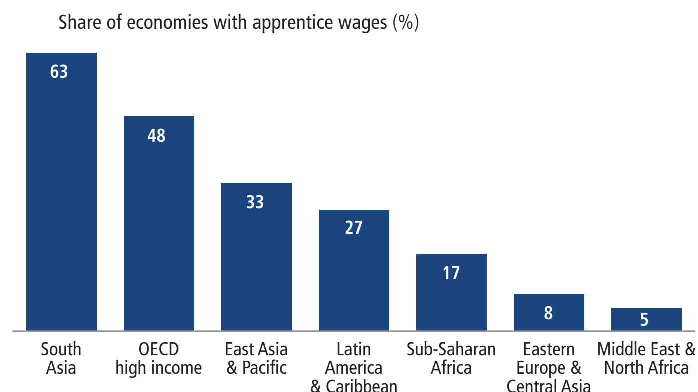
HIGHLIGHTS FROM THE EMPLOYING WORKERS DATA

Doing Business covers 28 different areas related to employing workers. This year's report highlights 2 of them—apprentice wages and the use of fixed-term contracts for permanent tasks, both likely to affect the employability of young workers. Future editions will analyze other areas.

Apprentice wages

Young workers are especially likely to experience the negative effects of rigid employment regulation. They typically lack training and substantial experience, and burdensome regulation and high redundancy costs discourage potential employers. Apprentice wages are one way to address these issues and create new opportunities for young workers. They allow businesses to hire young, first-time employees for a portion—typically between 70% and 80%—of the mandatory minimum wage for a short period of time, typically 1 year. Data show that the average minimum wage ratio for apprentices around the world is 0.33.[1]

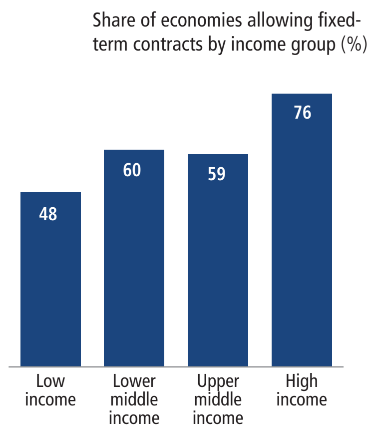
FIGURE 19.1 Apprentice wages are rare in the Middle East and North Africa



Source: Doing Business database.

FIGURE 19.2 Fixed-term contracts are more widely allowed among high-income economies

Share of economies allowing fixed-term contracts by income group (%)



Source: Doing Business database.

TABLE 19.1 Who made employing workers easier in 2011/12—and what did they do?

Feature	Economies	Some highlights
Strengthened fixed-term contracts	Czech Republic; Portugal; Slovak Republic; Spain	The Czech Republic and Slovak Republic increased the maximum duration of a single fixed-term contract from 24 months to 36. The Czech Republic also allows 2 renewals of the contract, for a total of up to 108 months. Portugal increased the maximum cumulative duration of fixed-term contracts from 36 months to 54. Spain temporarily allowed unlimited cumulative duration of fixed-term contracts.
Reduced redundancy costs	Czech Republic; Montenegro; Portugal; Slovak Republic	The Czech Republic made severance pay in cases of redundancy dismissal dependent on the employee's years of service. Montenegro reduced severance payments applicable in cases of redundancy dismissal, and the Slovak Republic eliminated them.[a] Portugal reduced the severance pay applicable to contracts signed after November 1, 2012, to 20 days.
Strengthened conditions on applicable hiring rules	Bhutan; Kosovo	Bhutan and Kosovo implemented a minimum wage in the private sector for the first time.
Streamlined process for redundancy dismissals	Latvia; Slovak Republic	Latvia and the Slovak Republic changed their restrictions on redundancy dismissals. An employer making 1 or more workers redundant no longer needs to notify the authorities beforehand.

a. Montenegro also reduced the maximum duration of single and multiple fixed-term contracts from an unlimited period to 24 months, increased paid annual leave from 19 working days to 21 and increased the notice period applicable in cases of redundancy dismissal.

Source: Doing Business database.

Use of this practice is most common in South Asia, where 63% of economies have some kind of apprentice wages, and among OECD high-income economies, where 48% do. It is much less common in other regions: only 8% of economies in Eastern Europe and Central Asia have apprentice wages, and only 5% in the Middle East and North Africa do (figure 19.1). Economies without apprentice wages are missing an important opportunity to help young workers access the labor market. Apprenticeships can pay a "double dividend": securing the transition to permanent employment for young workers and providing lower labor costs (compensated by a training commitment) for the employer.[2]

Fixed-term contracts for permanent tasks

Another measure that may encourage businesses to hire young workers is allowing the use of fixed-term contracts for permanent tasks. Such economies as Denmark and the United States allow this practice, and some, such as Italy and Lithuania, have reformed their labor regulations in recent years to allow it.

These contracts are used to screen workers for permanent positions, with on-the-job training providing a test of abilities. Both parties benefit: young fixed-term workers are given the opportunity to acquire professional skills, and employers can optimize their labor costs while evaluating the workers' performance. And evidence suggests that fixed-term contracts maximize the chances of a temporary worker being promoted to a permanent position. Once a vacancy for a permanent position arises, employers would prefer to fill the vacancy with a worker who already has the skills required and who has performed adequately in previous months.[3]

Where restrictive regulations prohibiting these contracts are left in place, young workers therefore find it more difficult to access and transition to permanent employment. This is the case in more than half of low-income economies: 52% of such economies do not allow fixed-term contracts for permanent tasks. Use of such contracts increases with income level. Indeed, 38 of 50 high-income economies (76%) allow employers to use fixed-term contracts for permanent tasks (figure 19.2).

WHO REFORMED IN EMPLOYING WORKERS IN 2011/12?

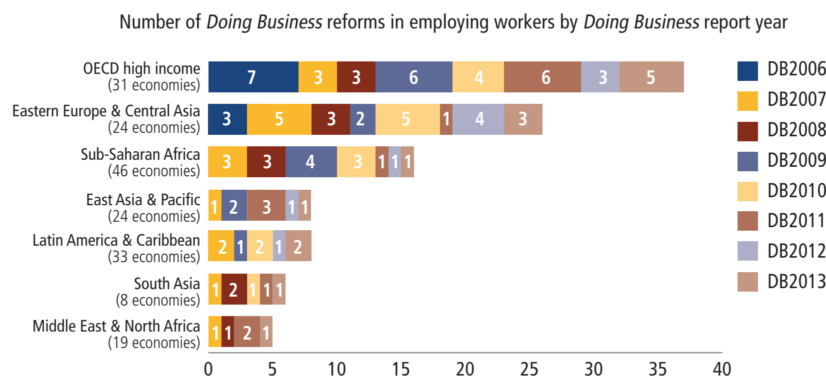
In 2011/12, 14 economies changed their labor regulations in ways that affect the *Doing Business* indicators on employing workers. Eight economies changed their laws to increase labor market flexibility; 6 economies did the opposite. Of those 8 economies, 3 are in Eastern Europe and Central Asia. Most of the legal changes increasing labor market flexibility focused on redundancy costs or procedures (table 19.1).

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

In the past 8 years 72 economies around the world implemented 106 reforms affecting the employing workers indicators. OECD high-income economies had the most changes, with 37, followed by Eastern Europe and Central Asia with 26 and Sub-Saharan Africa with 16 (figure 19.3). The data also show differences in focus. Governments in Sub-Saharan Africa, for example, focused on reforming the regimes applicable to fixed-term contracts, generally allowing longer,

FIGURE 19.3 OECD high-income economies had the most legal and regulatory reforms in the past 8 years

Number of *Doing Business* reforms in employing workers by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

Source: Doing Business database.

sometimes indefinite, duration. One such change was Rwanda's in 2010.

By contrast, governments in OECD high-income economies focused on reducing redundancy costs, addressing one of the main factors deterring employers from creating jobs in the formal sector.[4] Indeed, 15 labor regulation reforms introduced by OECD high-income economies in the past 8 years (including Portugal's reform of the past year) either shortened the required notice period for employees or reduced the severance pay applicable in cases of redundancy dismissal. Today the average severance payment in OECD high-income economies is 5.83 weeks of salary.[5]

Severance payments matter when it comes to labor regulation, since they are the prevalent form of insurance against unemployment, particularly in low-income economies that have not implemented unemployment protection schemes. They protect workers from abuses and provide a safety net in case of sudden job loss. But some economies adopt a very restrictive approach: the average severance payment in Sub-Saharan Africa is 15.81 weeks of salary,[6] almost 3 times the average in OECD high-income economies.

Economies in Eastern Europe and Central Asia focused on easing restrictions relating to redundancy dismissals. For example, in 2009 Estonia eliminated an employer's obligation to obtain prior approval from labor authorities when carrying out redundancy dismissals. And the Kyrgyz Republic, also in 2009, eliminated the priority rules mandating the dismissal of more junior workers first in cases of redundancy.

NOTES

This annex was written by Fernando Dancausa Diaz, Raian Divanbeigi and Galina Rudenko.

1. Ratio of the apprentice minimum wage to the value added per worker.
2. Scarpetta, Sonnet and Manfredi 2010.
3. Varejão and Portugal 2007.
4. Bosch and Esteban-Pretel 2009.
5. Average for workers with 1, 5 and 10 years of tenure. Collective bargaining agreements in OECD high-income economies may establish severance payments that are more generous on average. See the data notes for more information on cases in which *Doing Business* considers collective bargaining agreements.
6. Average for workers with 1, 5 and 10 years of tenure.