

# Labor Regulations throughout the World: An Overview

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2018

Abstract <sup>1</sup>

Between 2007 and 2017, 99 countries initiated reforms in labor regulations that affected World Bank Doing Business labor indicators. The most common topics for reforms are (i) procedural requirements in case of contract termination, and changes in notification arrangements; (ii) fixed-term contracts; (iii) severance payments; (iv) annual leave arrangements, and (v) working time arrangements. Approximately 48 percent of the reforms made labor legislation more flexible, and 52 percent enforced more worker protection. The objective of this study is to document these reforms, and identify key benchmarks in labor legislation by country groups.

JEL classification: J41, J80, J81, J83, K31

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*Acknowledgements:* We would like to acknowledge the valuable comments and suggestions provided by Dorina Peteva Georgieva, Matteo Morgandi and David Robalino.

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<sup>1</sup> The findings, interpretations, and conclusions expressed herein are those of the authors, and do not necessarily reflect the views of the International Bank for Reconstruction and Development / the World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work.

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## Abbreviations and Acronyms

ALMPs	Active labor market programs
CIS	Commonwealth of Independent States
DB	Doing Business
EC	European Commission
ECA	Eastern Europe and Central Asia
EU	European Union
EPL	Employment Protection Legislation
FYR	Former Yugoslav Republic
GNI	Gross National Income
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IFC	International Finance Corporation
ILO	International Labor Organization
LFS	Labor Force Survey
MSEs	Micro and small enterprises
OECD	Organization for Economic Cooperation and Development
PDR	Peoples' Democratic Republic
PES	Public Employment Service
SMEs	Small and medium size enterprises
UI	Unemployment insurance
UK	United Kingdom

## Introduction

The recent World Development Report on Jobs<sup>2</sup> notes that government's role should be to set conditions for private sector job creation, and remove obstacles to creating jobs with the highest development payoffs. Policies should also address imperfections in the labor market such as inadequate or asymmetric information, uneven bargaining power, limited ability to enforce long-term commitments, and insufficient insurance against employment-related risks. Labor policies and institutions — including regulations, collective representation, active labor market programs, and unemployment insurance — can, in principle, be used to address these imperfections.

Flexible labor legislation is essential for promoting creation of new businesses, growth of established firms, and job creation. A task of labor law and other labor market institutions is to balance the need to protect workers' rights with the need to increase labor market flexibility, and establish a more conducive environment for creation of productive employment opportunities and enhancement of social dialogue.

Further reforms in labor legislation and other labor market institutions constitute an integral part of reforms in the overall business environment. This is especially true for many middle and low income countries that struggle with low labor force participation and employment levels, high unemployment, and significant informal employment.

There is no single way to reform labor regulations, but rather different reform paths that depend on country characteristics and are shaped by social, political, economic, and historical circumstances combined with different legal traditions.<sup>3</sup> Labor legislation may set only minimum standards that employers and employees must comply with on commencing, during, or terminating employment. These are extended by collective agreements. On the basis of these norms, parties — either in a collective or individual agreement — are free to negotiate terms exceeding the respective minimum standards.

Labor laws are, *inter alia*, designed to equalize bargaining power between employers and employees.<sup>4</sup> They prohibit employers and unions from engaging in specified "unfair labor practices" and establish obligations for both parties to engage in good faith collective bargaining. Labor laws aim to protect workers from arbitrary, unfair, or discriminatory actions by their employers (their monopsony power) while addressing potential market failures stemming from insufficient information and inadequate insurance against risk.<sup>5</sup>

To better understand the role of regulations on labor market outcomes, it is necessary to conduct a review and benchmarking of the current legal framework of labor market regulations around the world. The objective of this report is to improve and build capacity to conduct policy dialogue in the area of labor regulations by documenting these reforms and identifying key benchmarks in

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<sup>2</sup> World Bank, 2012

<sup>3</sup> Kuddo et al. 2015

<sup>4</sup> The labor law embraces employment regulation, social security laws, industrial relations, and workplace safety. See World Bank, 2004. This study focuses only on employment regulations.

<sup>5</sup> Angel-Urdinola and Kuddo, 2010

labor legislation by countries based on their income levels. The study is based on a comparative analysis of the main indicators/parameters of the individual labor contract particular to labor law of each country. The paper is intended as a sourcebook for practitioners reforming labor regulations in particular countries.

The main source of information for the report will be the Doing Business (DB) database. In particular, “Doing Business 2018: Reforming to Create Jobs,” a World Bank Group flagship publication, is the 15th in a series of annual reports measuring regulations, including labor regulations that both enhance and constrain business activity. DB presents quantitative indicators on business regulations that can be compared across 190 economies—from Afghanistan to Zimbabwe—and over time.<sup>6</sup>

The report is organized into four chapters. Chapter 1 discusses Doing Business methodology and overall framework for labor regulations including constraints and limitations in measuring labor regulations. Chapter 2 presents rules and regulations associated with entering into employment, and other aspects of working conditions, such as working time and leave entitlements. Chapter 3 examines setting of the minimum wage, and minimum wage levels. Chapter 4 presents the main rules and regulations regarding termination of employment contracts for economic reasons.

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<sup>6</sup> World Bank, 2017. Other methodologies see: ILO Summary indicators in the area of terminating regular contracts (individual dismissals) at: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---protrav/---travail/documents/publication/wcms\\_357390.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_357390.pdf); OECD indicators of employment protection at: <http://www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm>;

## Chapter 1. Overall framework for labor regulations

### 1.1 Doing Business methodology<sup>7</sup>

Evaluation literature reveals the limited role of labor legislation in labor market outcomes. In particular, the review by Betcherman (2012) of over 150 studies on impacts of four types of labor market institutions: minimum wages, employment protection regulation, unions and collective bargaining, and mandated benefits, presented findings that, in most cases, impacts of these institutions are smaller than the heat of debates would suggest. Efficiency effects of labor market regulations and collective bargaining are sometimes, but not always, found; effects can be in either direction and are usually modest. Distributional impacts are clearer, with two effects predominating: an equalizing effect among covered workers, but groups such as youth, women, migrant workers, and the less skilled disproportionately outside the coverage and its benefits. Nevertheless, labor regulations set up legal framework within which the private and public sectors operate.<sup>8</sup>

Between 2007 and 2017, 99 countries initiated reforms in labor regulations that affected DB labor indicators. The most common topics for reforms are: i) procedural requirements in case of contract termination, and changes in notification arrangements - 54 country cases; (ii) fixed-term contracts – 44 cases; (iii) severance payments – 35 cases; (iv) annual leave arrangements – 24 cases, and (v) working time arrangements – 10 cases of reforms (Table 1).<sup>9</sup>

**Table 1: Number of reforms in labor regulations between 2007 and 2017**

Reform area	Reforms made labor law more flexible/less costly to employer but less protective to worker	Reforms made labor law more rigid/more costly to employer but more protective to worker
Fixed-term contracts	23	21
Redundancy procedures	19	14
Advance notice requirements	13	8
Severance pay	18	17
Duration of annual leave	3	21
Provisions on overtime and night work, and work on holidays	10	5
Working hours	6	4
Probationary period	2	2

<sup>7</sup> The data details on labor market regulation can be found for each economy at <http://www.doingbusiness.org>. The Doing Business website also provides historical data sets. The methodology was developed by Botero et al., (2004).

<sup>8</sup> There is an enormous literature on the impact of labor regulations on various aspects of labor markets (see for example OECD 1999; OECD 2004; Freeman 2009, Boeri et al 2008; Kaplan 2008, Djankov and Ramalho 2008, Eichhorst et al 2016, Venn 2009, and Sanchez-Puerta 2010 for an overview of the literature).

<sup>9</sup> World Bank, 2017

Source: <http://www.doingbusiness.org/Reforms/Overview/Topic/Labor-Market-Regulation>

During that period, Bhutan, Cabo Verde, Germany, Hong Kong, Kosovo, Kiribati, Malaysia, Myanmar, and West Bank and Gaza introduced for the first time statutory minimum wage, and São Tomé and Príncipe adopted a minimum wage for the private sector.

Employment data collected by the Doing Business (DB) project fulfill several objectives. First, the data allow for creation of a worldwide inventory of the main provisions in labor laws. Inventory in turn allows identification of best practices, regionally or around the world. This is an invaluable resource for the World Bank operational work in client countries. Second, it can help to gauge different dimensions of labor market adaptability and flexibility.

DB measures flexibility in employment regulation. Six areas of employment regulation are measured by the Labor Market Regulation indicators: difficulty of hiring, rigidity of hours, difficulty of redundancy, redundancy cost, social protection schemes and benefits, and job quality.

Most DB indicators are based on laws and regulations, which makes them objective, transparent, and applicable in a consistent way across 190 countries/economies.<sup>10</sup> For 11 economies, data are also collected for the second largest business city. The labor market module of the DB 2018 report includes 43 indicators (and over 8,600 data points). The DB methodology does not use perception-based data or statistics. The limitation of this approach is the focus on the formal sector. Since 2009, DB does not present rankings of economies on the labor market regulation indicators.

Data on employing workers are completed by local lawyers and public officials. On employing workers indicators, in 2016 alone, 1,293 national experts were consulted (mostly law firms and labor lawyers).

For the 2018 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,005 or less; lower middle-income economies are those with a GNI per capita between \$1,006 and \$3,955; upper middle-income economies are those with a GNI per capita between \$3,956 and \$12,235; and high-income economies are those with a GNI per capita of \$12,236 or more.<sup>11</sup>

## **1.2. Limitations in measuring labor regulations**

Several categories of workers and firms are excluded from direct impact of some or all labor regulations as follows.

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<sup>10</sup> The first Doing Business report, published in 2003, covered 5 indicator sets and 133 economies. The 2018 report covers 11 indicator sets and 190 economies. The data are available online ([www.doingbusiness.org](http://www.doingbusiness.org)).

<sup>11</sup> World Bank, 2017; GNI per capita calculated using the World Bank Atlas method, see at; "<https://datahelpdesk.worldbank.org/knowledgebase/articles/378832-what-is-the-world-bank-atlas-method>"

**Limits for informal sector.**<sup>12</sup> As far as labor regulations are concerned, they primarily affect hired employment in the formal sector, although there is some evidence of spillover effects to the informal sector.<sup>13</sup> By ILO data, the informal economy comprises more than half of the global labor force and more than 90 percent of Micro and Small Enterprises (MSEs) worldwide.<sup>14</sup>

By OECD data, more than half of all jobs in the non-agricultural sectors of developing countries – over 900 million workers – can be considered informal, and out of scope of labor regulations. If agricultural workers in developing countries are included, the estimates size the informal sector to roughly 2 billion people, compared to 1.2 billion who benefit from formal contracts and social security protection.<sup>15</sup> In some regions, including Sub-Saharan Africa and South Asia, over 80 percent of non-agricultural jobs are informal. Most informal workers in the developing world are self-employed and work independently, or own and manage very small enterprises.<sup>16</sup>

**Categories of workers.** Some workers are employed on contracts – such as casual, daily, or seasonal contracts – that are not covered, or covered to only a limited degree, by standard employment protection.<sup>17</sup> In many countries, work may also be performed on the basis of civil law contracts used for work carried out by self-employed persons as well as to govern short-term employment relationships.

**Size of the firm.** Many countries exempt small firms from some or all employment protection requirements. Moreover, small firms themselves, the main source of job creation, often avoid complying with regulations either legally or illegally – legally because they are too small and not mandated to comply, or illegally, either because employers cannot afford to comply or because when comparing benefits to expected costs of non-compliance, they choose not to comply.

**Legal and institutional traditions.** The characteristics of Employment Protection Legislation (EPL) reflect different legal and institutional traditions. In countries with civil law traditions, EPL is regulated by law, while in common law countries, it relies on private contracts and litigations. In the latter countries, courts have ample judicial discretion as opposed to the former, where legislation plays a greater role.<sup>18</sup> In line with predictions of legal origin theory, the employment protection indicator is (on average) lower in countries with an English legal tradition (1.5) than in those with a French legal tradition (2.7). Countries based on the German (2.3) and Scandinavian systems (2.2) are in between.<sup>19</sup>

**Constraints on enforcement.** Data on statutory labor regulations and general (nationwide) collective agreements do not take account of implementation or enforcement effectiveness, nor of

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<sup>12</sup> In the ILO's Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), informality is described as referring to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements.

<sup>13</sup> Spillover effects of minimum wages see Kuddo et al., 2015

<sup>14</sup> ILO, 2017

<sup>15</sup> ILO, 2015b

<sup>16</sup> OECD, 2009; Schneider, 2011

<sup>18</sup> See at: [http://ec.europa.eu/europe2020/pdf/themes/23\\_employment\\_protection\\_legislation.pdf](http://ec.europa.eu/europe2020/pdf/themes/23_employment_protection_legislation.pdf)

<sup>19</sup> Venn, 2009

the incomplete applicability of these regulations.<sup>20</sup> There are important gaps between rules “on the books” and the reality on the ground. Employment laws may be ineffective because of evasion, weak enforcement, and failure to reach the informal sector. When labor regulations are perceived to be costly for employers, jobs are less likely to be created by formal sector firms, incentivizing informality.

Inadequate public awareness of legal rights and obligations associated with employment may also impair enforcement of labor rules. This constraint is particularly relevant in developing countries where low levels of education prevail, especially in terms of labor education. Workers should know their legal rights and how to enforce them. Thus, administrative measures can also incorporate better public education and information to shape perspectives of enterprises and individuals in terms of whether or not they choose to operate in the formal sector.

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<sup>20</sup> Kuddo and Ruppert Bulmer, 2017

## 2. Entering into employment, and working conditions

### 2.1. Employment contract

The objective of an employment contract is to set up rights and obligations of parties to the employment relationship. An employment contract is an important indicator for existence of an employment relationship. The employer is obliged to secure work for the employee as agreed upon in the employment contract. The employer is required to provide the employee all necessary means and materials for work, a safe and healthy work environment, and appropriate remuneration that may not be lower than the statutory minimum wage. The employer should take necessary measures to ensure each employee is given sufficient training.<sup>21</sup>

The worker's duty is to carry out the job agreed to in the employment contract, during working hours, at the location specified for carrying out the work. When entering into employment, the worker should have access to basic social protection arrangements that cover old age, disability, employment injury, maternity, unemployment, sickness, and medical care.

There has been an increase in recent years in prevalence of atypical contracts in the EU. Standard contracts only accounted for 59 percent of contracts in 2014, down from 62 percent in 2003.<sup>22</sup> There is also a gender dimension to atypical contracting: men are more likely than women to work on a full-time and permanent basis (65 percent, compared with 52 percent); conversely, women are more likely than men to work on a part-time basis. In addition, for those less educated and young, the likelihood of being employed on a standard contract decreases. Half of those aged between 15 and 24 work either part time, fewer than 20 hours per week, or on a temporary basis (fixed-term, apprenticeship, or trainee contract). About 64 percent of those with higher levels of education work on a full-time permanent basis, compared with 48 percent of those with lower levels of education.

Expanding atypical and informal arrangements is part of a vast scenario of job insecurity.<sup>23</sup> The DB database does not capture all these changes in contracting practices.

Globally, over 60 percent of workers lack any kind of employment contract, with most engaged in own-account or contributing family work in the developing world. However, even among wage and salaried workers, less than half (42 percent) work on a permanent contract.<sup>24</sup>

Employment contracts can be written or oral. In most Eastern European countries (except Hungary and Poland), and Nordic countries (except Finland), Switzerland, Italy, and Greece, a written employment contract is required. By contrast, in most of Western Europe, a written contract is considered good practice, but only required either for atypical employment (e.g., apprenticeship,

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<sup>21</sup> While the definitions of the basic terms 'employee' or 'worker', 'employer', and 'employment contract' are commonly left to national legislation, methods for determining the existence of an employment relationship are internationally recognized in the ILO Employment Relationship Recommendation, 2006 (No. 198). See also Kuddo et al., 2015 for discussions.

<sup>22</sup> Eurofound, 2017

<sup>23</sup> ILO, 2013a

<sup>24</sup> [http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_368252/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_368252/lang--en/index.htm)

fixed-term, seasonal, part-time, replacement, etc.), as in Austria, Belgium, France, and Portugal. In Hungary and Cyprus, it is only required for contracts of indefinite duration. In Poland, Finland, Germany, the Netherlands, Ireland, and the UK, it is not generally required. In all these cases, a contract is still required but may be oral (or, in Finland, electronic).<sup>25</sup>

The World Bank DB survey investigates the following aspects of entering into an employment contract:

What is the maximum length of probationary period?

Are fixed-term contracts prohibited for permanent tasks?

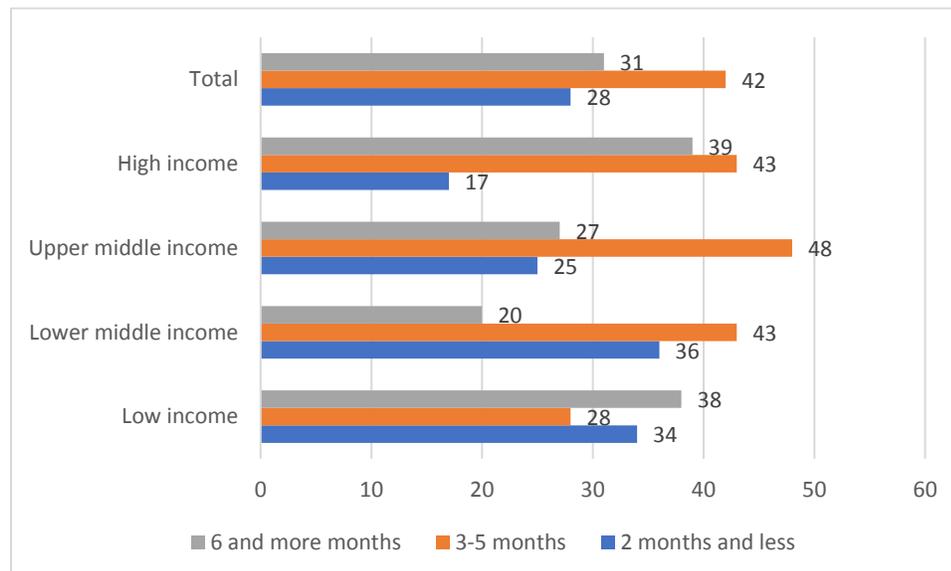
What is the maximum length of a single fixed-term contract (months)?

What is the maximum cumulative duration of a fixed-term employment relationship, including all renewals?

## 2.2. Probationary period

**Duration of probationary period.** In most countries, an employment contract may prescribe a probationary period in order to confirm that the employee has necessary professional skills and abilities, suitable social skills, and health to perform the work agreed upon. If employers are not satisfied, they can terminate employment contracts under probation, with more flexible conditions than for regular workers. If no probationary period condition is stated in a labor contract, an employee is accepted without a probationary period.

**Figure 1: Maximum length of probationary period in months in 2017; percent**



Source: World Bank, 2017

<sup>25</sup> See Hazans, 2011

The duration of the probationary period should be reasonable, usually ranging between three and six months. For many unskilled and semiskilled occupations, it is not necessary to have a lengthy probationary period to verify a worker's abilities but excessively short trial periods may not permit sufficient monitoring of workers and raise risk of disciplinary or economic dismissals for workers' unsuitability. However, a shorter or longer trial period may be stipulated in collective agreement or agreed upon by parties in an individual employment contract. In some jobs, particularly high-level positions, employers need more time to determine if a worker or employee is a good match.<sup>26</sup>

Length of the trial period is important because, during this period, labor contracts are not fully covered by employment protection provisions, and usually unfair dismissal claims cannot be made. The employer assesses results of the probationary period and may dismiss the employee if results are unsatisfactory. Upon dismissal due to unsatisfactory results, the employer is required to give a shorter prior notice or pay less compensation to the employee than in regular contracts.

In the Bahamas, Belgium and Haiti, there is no statutory worker probation period, while in Cyprus, it can be as high as 24 months, and 12 months in Greece, Ireland, the Gambia, Malawi, Nepal, Uganda, and Kenya.

**Reforms in probationary periods.** Between 2017 and 2013, ten countries changed the maximum probationary period,<sup>27</sup> for which eight countries shortened the maximum duration while two countries (Belize and Puerto Rico) extended it (Table 2). Most remarkably, in 2013, Morocco did not have any limits on trial period; however, by 2017, the duration was reduced to 1.5 months.

**Table 2: Maximum length of probationary period (months) in 2017 and 2013**

	2017	2013
Afghanistan	3	6
The Bahamas	0	6
Belize	6	2
Guinea-Bissau	1	3
Lao PDR	2	3
Mauritania	1	6
Morocco	1.5	No limit
Puerto Rico	9	3
Thailand	0	4
Tunisia	6	12

Source: World Bank, 2017

Employers may also seek flexibility by abusing probation and hiring workers, especially in micro and small enterprises, and the service sector, only for the trial period, then replacing them at the end of probation. As a solution, some labor laws set a maximum number of trial workers for a single position. For example, in Romanian national legislation, it is prohibited to successively employ more than three persons for trial periods for the same position.<sup>28</sup>

<sup>26</sup> 31 countries do not mandate or do not regulate maximum duration of probationary period.

<sup>27</sup> In 2017, data were not available for 30 countries out of 190.

<sup>28</sup> Kuddo, 2009

In many countries, the probationary period is not applied to minors (Belarus, Estonia, Lithuania, Russia and Tajikistan); disabled persons (Belarus and Estonia); pregnant women and women with children up to three years of age (Uzbekistan); and other categories of employees. In some countries, a shorter or longer trial period may be stipulated in the collective agreement or agreed upon by parties (Hungary and Ukraine). If the contracted term of a probation period expires and the employee continues to perform work, it is considered that he or she has passed the probation period. Therefore, differentiation is warranted to explore longer trial periods for employees in managerial/executive positions and skilled workers, and shorter periods for unskilled workers. Overall, this period should not be excessively long, for example, not more than six months.

### **2.3. Fixed-term contracts**

A contract of employment can be concluded for an indefinite term, fixed term, time of completion of a specified task, or the occurrence of a specific event. A job may be considered temporary if employer and employee agree that its end is determined by objective conditions such as a specific date, completion of a task, or return of an employee who has been temporarily replaced (usually stated in a work contract of limited duration).

Fixed-term or temporary employment contracts are not directly regulated by international labor standards. Nonetheless, the Termination of Employment Convention, 1982 (No. 158) requires that adequate safeguards be provided against using fixed-term contracts solely with the purpose of avoiding protections mandated by the Convention.<sup>29</sup>

Typical cases of temporary employment, *inter alia*, are:

- (i) Persons with seasonal employment;
- (ii) Persons engaged by an agency or employment exchange and hired to a third party to perform a specific task (unless there is a written work contract of unlimited duration);
- (iii) Persons with specific training contracts. Usually in the absence of an agreement, to the contrary, an employment relation is established for an indefinite duration.

In the last two decades, reforms in employment protection legislation have focused on easing regulations to facilitate more contractual diversity. Reforms are largely associated with easing recourse to temporary forms of employment, while existing provisions for regular or permanent contracts are much less altered.<sup>30</sup>

Although international evidence is limited, some studies have found policy reforms that facilitated creation of fixed-term jobs in Europe in the late 1990s raised the probability, on average, that a worker would be on a fixed-term contract, e.g., they appear to have encouraged substitution of

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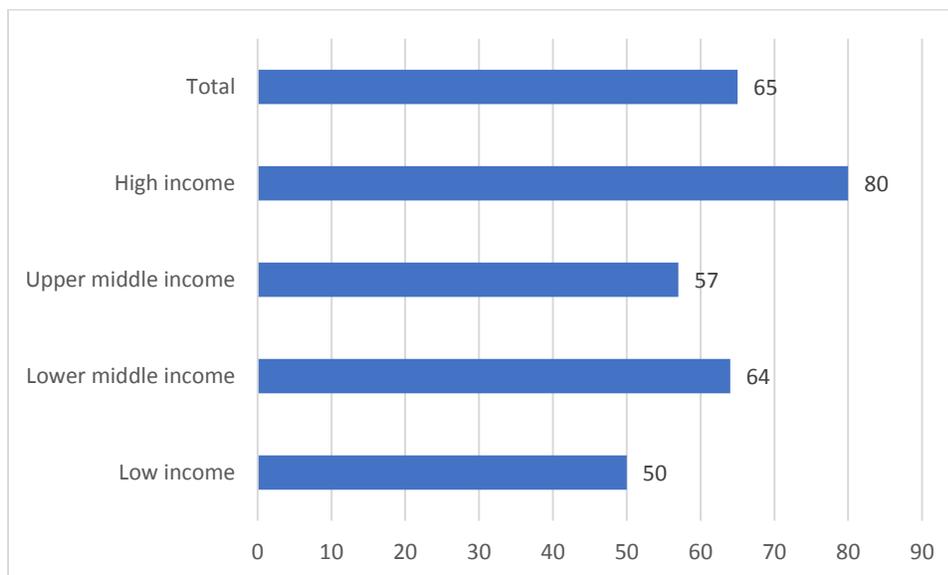
<sup>29</sup> ILO, 2016

<sup>30</sup> The term “fixed-term worker” means a person whose employment contract specifies a fixed ending that is determined by objective conditions, such as reaching a specific date, completing a specific task, or the occurrence of a specific event.

temporary for permanent work. However, temporary (fixed-term) contracts may be appropriate to allow firms to cope with unexpected fluctuations of demand; replace permanent staff on holiday, maternity, or sick leave; hire workers with specialized skills to carry out specific time-limited projects; or launch start-up ventures with risky and uncertain returns.<sup>31</sup>

In the EU28 countries, in 2016, on average, only 23 percent of workers transitioned from temporary to permanent contracts, including 59 percent in the United Kingdom, 57 percent in Latvia and Romania, and 56 percent in Estonia; but only 10 percent in France, 12 percent in Spain, and 15 percent in Malta.<sup>32</sup>

**Figure 2: Share of countries in which fixed-term contracts are not prohibited for permanent tasks in 2017, percent**



Source: World Bank, 2017

From the workers' perspective, fixed-term jobs are less secure and pay lower than average wages. Temporary workers also tend to have less access to training provided or subsidized by firms. When firms can easily hire temporary workers, but it is costly to dismiss regular ones, firms do not have incentive to convert workers from temporary to permanent contracts. Since temporary contracts can only be renewed a limited number of times, or have a given duration, temporary workers – mostly young and unskilled – are forced into an endless rotation across temporary jobs.<sup>33</sup>

Overall, flexible contractual arrangements with respect to fixed-term contracts dominate. By the DB 2018 database, in mid-2017, out of 190 countries on the roster, in 67 countries (35 percent of total), fixed-term contracts are prohibited for permanent tasks. However, 123 countries (65 percent) allow such contracts for permanent tasks, or the duration is not regulated in labor law (Figure 2).

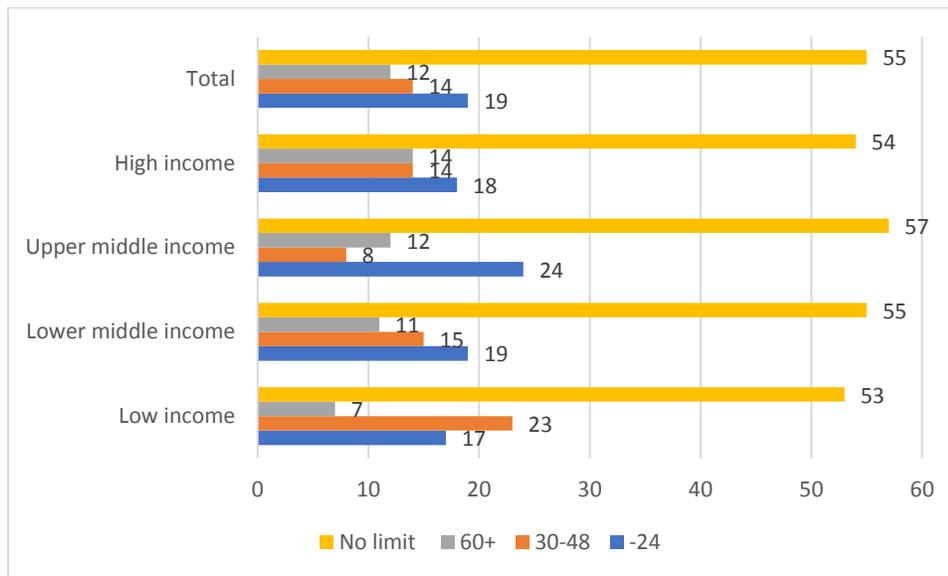
<sup>31</sup> Kuddo et al., 2015

<sup>32</sup> Eurostat online

<sup>33</sup> EC, 2010; ILO, 2016

As for the maximum cumulative duration of a fixed-term employment relationship (including all renewals), 104 countries have no duration limits, and 22 countries allow fixed-term contracts for 60 months or longer (Figure 3).

**Figure 3: Maximum length of fixed-term contracts, including renewals (in months), by country groups; percent**



Source: World Bank, 2017

Examples of justification of fixed-term contracts are presented in Table 3.

**Table 3: Restrictions on justification of fixed-term contracts in selected countries**

Albania	Fixed-term contracts should be justified by objective causes related to the temporary nature of the task for which the employee is going to be employed.
Cabo Verde	Fixed-term contracts are limited to temporary tasks, substitutions, and positions in new companies.
Croatia	Fixed-term contracts may be concluded only exceptionally where the contract's termination date is previously determined by objective terms, i.e., by a specific time limit, performance of a specific task, or occurrence of a specific event.
Lithuania	Fixed-term employment contracts are prohibited for permanent tasks, except for cases established by laws and collective agreements. For example, fixed term employment contracts are allowed for temporary agency workers.
Mozambique	Fixed-term contracts can only be concluded for temporary tasks and periods strictly necessary for the purpose.
Norway	Employers can hire temporary workers for a period up to 12 months without having to demonstrate that there are extraordinary circumstances justifying such hiring. However, temporary workers cannot comprise more than 15 percent of total staff in any business. Additionally, there is a 12-month

	"quarantine period" in which the employer cannot hire new temporary workers for jobs performed by previous temporary employees.
South Africa	If the task the employee has been appointed to perform is of an indefinite nature, then the contract should be for an indefinite period, subject to termination for any cause recognized as sufficient in law. If the contract is for a fixed period, but the task is for an indefinite period, this is considered an attempt on the part of the employer to avoid compliance with labor legislation.
Thailand	A fixed-term contract is only allowed for (i) a special project not normal for the business or trade of the employer, and the schedule for commencement and completion of work is fixed, (ii) work of a temporary nature with fixed schedule for commencement and completion, and (iii) seasonal work where employment is engaged during a particular season, on condition that the aforementioned works are completed within a period of two years. However, law does not prohibit a fixed-term contract for permanent tasks if the employer provides the employee all benefits as required by the Labor Protection Act, including severance pay when terminating the employee without cause.

Source: Doing Business database

**Reforms in fixed-term contracts.** Between 2013 and 2017, five countries made changes in their labor legislation regarding fixed-term contracts for permanent tasks: Angola, Norway and Uruguay allowed temporary contracts for permanent tasks; Ecuador and Zambia prohibited use of fixed-term contracts for permanent tasks.

Fourteen countries have changed the duration of fixed-term contracts. Nine countries made them shorter, and five extended their duration (see Table 4). Iraq and Mauritius have cut the duration from no limit to 12 and 24 months, respectively; while Croatia, Ecuador, and Taiwan have increased the duration from 36, 24, and 12 months, respectively, to no limit.

**Table 4: Changes in the maximum cumulative duration of the fixed term employment relationship (in months) including all renewals between 2013 and 2017; in months**

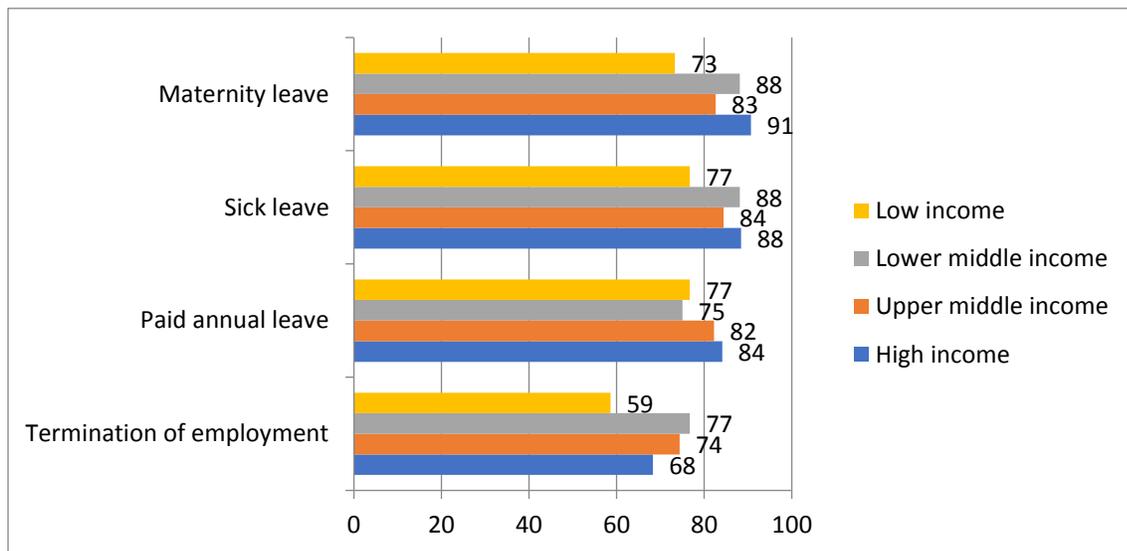
Duration shortened, in months		Duration extended, in months	
Georgia	From no limit to 30	Angola	From 12 to 120
Iraq	From no limit to 12	Croatia	From 36 to no limit
Italy	From 44 to 36	Ecuador	From 24 to no limit
Lao PDR	From no limit to 36	Latvia	From 36 to 60
Mauritius	From no limit to 24	Taiwan	From 12 to no limit
Netherlands	From 36 to 24		
Poland	From no limit to 33		
Portugal	From 54 to 36		
Saudi Arabia	From no limit to 48		

Source: World Bank, 2017

Overall, high income countries are more flexible in allowing fixed-term contracts for permanent tasks but as far as maximum length of such contracts is concerned, the country groups almost equally allow fixed-term contracts without indicating time limits.

**Equal treatment of workers on fixed term contracts.** It is also important to emphasize in law that fixed-term workers should not be treated in a less favorable manner in an employment relationship than comparable permanent workers. Equal treatment should apply in various fields: health and safety, remuneration, duration and organization of working time, paid leave and public holidays, vocational training, social benefits, information on available vacant posts, and remuneration. This is not the case in many countries. (See Figure 4).

**Figure 4: Economies in which the law requires that temporary workers enjoy conditions equivalent to those of comparable full-time workers in 2012, percent**



Source: Doing Business Worker Protection Measures Survey 2012

As far as termination of contracts is concerned, 110 out of 156 economies that reported such data legally require that temporary workers be treated the same as permanent workers, ranging from 59 percent in low-income economies to 77 percent in lower-middle-income economies (Figure 6). The law in other countries includes some restrictions. For example, in Bangladesh, temporary workers can be terminated with 30 days' notice whereas permanent workers must be given 90 days' notice. In Uganda, temporary workers who work for less than six months are not entitled to severance pay.

In some other countries, the law protects workers on temporary contracts more than workers on permanent contracts. In the Dominican Republic, termination without cause is not allowed in cases of temporary contracts. In Estonia, in case of redundancy, compensation payable to the temporary employee must be equal to the total of all of his or her pending salary installments until expiry of the fixed term of the employment contract, unless redundancy was caused by *force majeure*. The same is true in Lebanon, Paraguay, and Uruguay.

With respect to annual leave, 33 out of 163 economies place restrictions on temporary workers. Typically, workers have a right to annual paid leave if they have worked continuously for a certain period of time. For example, in Eritrea, this period of time is 90 days; in Armenia and Tanzania, it

is six months; and in Bangladesh, Cote d'Ivoire, and New Zealand, it is 12 months. In Grenada, temporary employees only have two weeks of annual leave per year, while full-time workers have three weeks of leave per year. In Poland, the duration of annual leave is proportionate to working time, with a full-time temporary employee being entitled to annual leave of two days for each month of work.

Twenty-four out of 160 economies have sick leave provisions for temporary workers. In Bulgaria, sick leave compensation is due if the person has at least six months on his/her social security record as being insured for sick leave. Paid sick days can be accumulated up to a maximum of 120 days. In Namibia, if a worker's employment has lasted less than one year, his or her sick leave is calculated at one day of paid sick leave for every 26 days worked during the first year.

Twenty-five out of 161 economies have rules regarding maternity leave for temporary workers. In Hong Kong, China, an employee is eligible for 10 weeks' paid maternity leave if she has been employed under continuous contract for not less than 40 weeks. She must have worked 18 hours in each week immediately prior to commencement of the scheduled maternity leave, and must have given notice of her pregnancy to her employer. In Namibia, there is no maternity leave entitlement for workers who have been employed for less than six months. In New Zealand, employees are entitled to maternity leave if they have worked for an average of at least 10 hours per week for the same employer over the preceding six or 12 months immediately before her delivery date. In Pakistan, maternity leave is provided if the worker has been employed in the establishment for a period not less than four months immediately preceding her delivery date.

As is the case with any other policy measures, liberalization of the regime of fixed term contracts has its pros and cons. Fixed-term employment makes labor markets more flexible. It allows companies to reap market opportunities by engaging in projects of short duration without bearing disproportionate personnel costs. This is especially important in those labor markets where permanent employment is protected by strict regulations and high firing costs.<sup>34</sup> To counterbalance the latter, some countries have established the minimum service length of one to three years with the same employer to be eligible to claim severance pay, which makes short term fixed-term contracts less attractive.

To prevent abuse arising from use of successive fixed-term employment contracts or relationships, the EU Council Directive 1999/70/EC concerning the framework agreement on fixed-term work suggests listing in national legislation one or more of the following measures:

- (a) Objective reasons justifying renewal of such contracts or relationships;
- (b) Maximum total duration of successive fixed-term employment contracts or relationships;
- (c) Number of renewals of such contracts or relationships.

In sum, although a share of workers on temporary contracts tends to increase, the number of countries that place restrictions on such type of contracts tends to be higher than those of liberalizing such arrangements. In many developing countries and emerging market economies, flexible arrangements for fixed-term contracts have the potential to be abused, although in the current circumstances, they could become an engine for job creation. Relaxing restrictions on use

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<sup>34</sup> For a summary, see EC, 2010

of temporary or fixed-term contracts, especially for young or inexperienced workers, would also improve incentives for firms to hire formal workers.

## 2.4. Working time

“Working hours and working time arrangements are increasingly important issues in today’s labor markets, in particular with regard to their relation to productivity, labor market flexibility, and quality of work.”<sup>35</sup> Flexible working-time arrangements have a more positive impact on participation rates of certain disadvantaged groups in the labor force, such as low-skilled, female, and young workers.

The traditional five-day schedule of eight hours of work per day starting somewhere between 6 and 9 a.m. and ending between 3 and 6 p.m. is no longer applicable to many workers. There has also been dramatic expansion of operating/opening hours with the move towards a 24-hour 7-day economy, which has resulted in growing diversification, decentralization, and individualization of working hours, as well as an increasing tension between enterprises’ business requirements and workers’ needs and preferences regarding their hours.<sup>36</sup>

This section investigates working hours, wage premiums, and annual leave entitlements around the world.

The DB Employing Workers database captures the following dimensions of working time:

- (i) Duration of a standard workday;
- (ii) Maximum working days per week;
- (iii) Maximum number of hours in a workweek, including overtime;
- (iv) Premium for night work (percent of hourly pay);
- (v) Premium for work on weekly rest day (percent of hourly pay);
- (vi) Premium for overtime work (percent of hourly pay);
- (vii) Restrictions on night work;
- (viii) Non-pregnant and non-nursing women permitted to work same night hours as men;
- (ix) Restrictions on weekly holiday work;
- (x) Restrictions on overtime work;
- (xi) Paid annual leave for a worker with 1, 5, and 10 years of tenure (in working days).

**Maximum work days and work hours per week.** Over the years, international standards have been adopted on a variety of working-time related subjects, including not only standards establishing limits on working hours, but also those providing for minimum daily and weekly rest periods, paid annual leave, protections for night and shift workers, and equal treatment for part-time workers.<sup>37</sup>

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<sup>35</sup> EC, 2006

<sup>36</sup> ILO, 2006

<sup>37</sup> Eight 8 ILO conventions regulate working time arrangements. International labor standards on working time see: <http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang-->

The first ILO Hours of Work (Industry) Convention from 1919 was devoted to hours of work in industry. Article 2 of the Convention states, “Working hours ... shall not exceed eight in the day and forty-eight in the week...” The follow-up Forty-Hour Week Convention No. 47 from 1935 states that each country that ratifies the convention declares its approval of the principle of a forty-hour workweek. In practice, working hour arrangements vary significantly by country.

Most countries allow maximum six working days per week. However, 10 countries limit maximum working days per week to five days, including, among others, the Bahamas, Barbados, Estonia, Greece, Gambia, Ghana, Sierra Leone, Mongolia, Ecuador, Hungary, and Romania; 20 countries allow 5.5 working days per week, including, among others, Albania, Argentina, Austria, Bangladesh, Dominican Republic, Lebanon, Sierra Leone, Spain, and Sri Lanka; and 7 countries allow maximum seven working days per week, including, among others, Australia, Georgia, New Zealand, and Puerto Rico.

Standard workday in most countries around the world is eight hours, but varies from 6.6 hours in Italy, 7 hours in France and Republic of Congo, 7.4 hours in Denmark, 7.5 hours in Turkey, 7.6 hours in Australia and Belgium, 7.75 hours in Guyana, to 8.5 hours in Rwanda and Zimbabwe, 8.7 hours in Swaziland, and 9 hours, among others, in Chile, India, Israel, Lesotho, Norway, Oman, Pakistan, Switzerland, and Tanzania. Working hours above these thresholds are considered overtime and regulated separately.

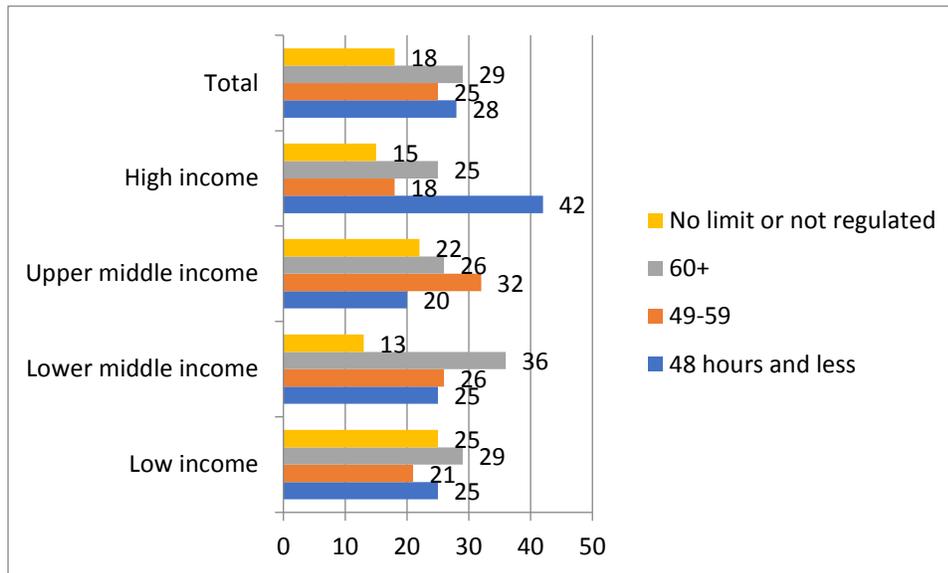
**Weekly working hours and overtime.** Reduction of excessively long hours of work in order to improve workers’ health, workplace safety, and enterprise competitiveness is a long-standing concern.<sup>38</sup> International standards require that overtime be subject to a limit, without indicating a specific level. ILO’s Committee of Experts on the Application of Conventions and Recommendations, however, requires that such limits be reasonable and in line with goals of averting fatigue and ensuring workers have sufficient time to spend on their lives beyond paid work.<sup>39</sup>

On many occasions, workers would like to work overtime in excess of a standard work week to earn extra income. On the other hand, overtime arrangements can also be abused by employers, especially on-season or during increases in volume of work. Instead of hiring additional labor, existing workers are requested to work overtime.

Limits on overtime working hours are established in most countries and vary significantly. Most commonly, the limit for overtime is two hours per day. For example, in Greece, there are no restrictions on overtime as long as overtime hours do not exceed two hours per day and 120 hours/year.

<sup>38</sup> ILO, 2007

<sup>39</sup> ILO, 2007; ILO 2005

**Figure 5: Maximum number of hours in a workweek, including overtime, in 2017; percent**

Source: World Bank, 2017

The maximum number of hours in a workweek legally allowed (including overtime) by law, is as low as 40 hours in Republic of Congo, Ghana, and Ukraine; 42 hours in France; 44 hours in Angola and Morocco; and 44.5 hours in Spain. On the other end of the spectrum, there are 54 countries (28 percent of total) in which law allows 60 hours or more per week, including, among others, Australia, Iraq, Thailand, Afghanistan, Kenya, Madagascar, Finland, and Iceland. In addition, in 33 countries, law does not specify limits on weekly working hours, e.g., the duration of weekly working hours is not regulated. Examples of long working hours follow.

In Afghanistan, Labor Code stipulates that “overtime hours shall not exceed the average of normal working hours during a day.” Thus, weekly working hours should not be more than two work shifts total, or 80 hours.

In Kenya, the normal working week shall consist of not more than fifty-two hours of work spread over six days, and overtime plus time worked in normal hours per week shall not exceed the following number of hours in any period of two consecutive weeks: (a) 144 hours for employees engaged in night work; (b) 116 hours for all other adult employees.

In Madagascar, working week may include 46 normal hours of employment plus maximum 20 hours overtime.

In Malaysia, the Employment Act stipulates that maximum regular hours of work include 48 hours per week, maximum of 12 hours per day, maximum of 6 days per week, and thereby can reach a maximum of 72 hours in a week.

In Taiwan, weekly working hours can reach 72 hours, as the Labor Standards Act says that overtime working hours combined with regular working hours shall not exceed 12 hours per day. Employees shall have a minimum of one day of regular leave every seven days, so the maximum

number of hours (including overtime) allowed in a workweek is 72 (or 12 hours per day times six days).

Generous statutory overtime limits are also in Slovakia. Under the Labor Code, overtime work may not exceed eight hours per week, on average, in the period of four consecutive months at most, unless a longer period (up to 12 consecutive months) is agreed upon by employer and employee representatives. Employers in this country may order the employee to work overtime, up to 150 hours in a calendar year, and an additional 250 hours may be agreed upon.

Overtime limits are high in some countries. In Hungary and Italy, maximum 250 hours of overtime in a given calendar year is allowed. In Brunei Darussalam, overtime is limited to 72 hours per month. In Moldova, overtime may not exceed 120 hours during one calendar year. In exceptional circumstances, and with prior approval of employees' representatives, this limit may be extended to 240 hours. In Botswana, law allows maximum 14 hours overtime per week.

On the other end of the spectrum, in Austria and Myanmar, the number of overtime hours per year must not exceed 60.

In few countries, there are other restrictions on overtime work. In Afghanistan, female employee with children under two years of age are not allowed to work overtime.

In the Czech Republic, overtime work is prohibited in case of pregnant employees and minors (i.e., employees under age 18). The employer may only request overtime work from employees taking care of a child under 1 year of age based on an express agreement with such employee.

In some countries, such as Republic of Congo and Senegal, prior authorization from the Labor Inspectorate is required; in Lebanon, notification to the Social Affairs Service is requested.

In Japan, an employer must first enter into a written agreement, either with a labor union organized by most workers, or with a person representing a majority of workers. Employers should also notify the relevant government agency of such agreement.

In Ukraine, overtime work is not permitted and may be used only in cases prescribed by law and prior approval of trade union representatives.

In sum, in many countries, due to statutory provisions, it is costly for employers to arrange overtime work. Even if an employee wants to work overtime to earn extra income, high wage premium restricts overtime work. While minimum overtime premium might be mandated in law, concrete compensation for overtime work may be determined by collective contract, local normative act, or labor contract. Also, in accordance with an employee's desire, overtime work in lieu of higher compensation may be compensated by provision of an additional rest period, but not less time than the overtime worked.

**Work on weekends and public holidays.** Employers may require employees to work on weekends and public holidays, if necessary, to provide public services, ensure uninterrupted production processes (the employer operates in continuous shifts), or perform temporary and

urgent work arising from force majeure. In most countries, labor legislation allows work on weekly rest days and legal holidays, but additional remuneration or compensatory leave should be provided.

The countries differ on a specified day or customary day for weekly rest. In particular, the employer shall allow workers to perform their religious obligations. This rest day is:

Sunday: in most countries;

Friday: Afghanistan, Bangladesh, Saudi Arabia, Somalia, etc.;

Saturday and Sunday: Ecuador, Estonia, Mongolia, Romania;

Friday and Saturday: Oman;

Law does not specify the designated rest day; Australia, Azerbaijan, Barbados, Botswana, Canada, Costa Rica, Egypt, Sierra Leone, Singapore, South Africa;

Sunday, or any other day the employer might determine as a rest day: Brunei, Eritrea;

Customarily Friday but, the employer may schedule any other weekly day of rest: Iraq;

An employee can choose his rest day: Lebanon.

In Saudi Arabia, weekly rest day is Friday, but it can be changed by an employer through notification to the competent Labor Office in exchange of a compensatory rest day to the worker. The weekly rest day may not be compensated in cash. In Bahrain, the weekly rest day is also usually Friday, but the employer has the right to change this day.

In Denmark and the United Kingdom, the weekly holiday is flexible by law. In the UK, however, employees have the right to opt-out of working on Sunday with notice.

In Germany, generally, no work is permitted on Sundays. In Austria, the employer has to provide compensatory time off for work on Sundays, according to the Rest Periods Act. In Finland, employees can be required to work on Sunday or church holiday only when the work concerned is regularly carried out on the said days due to its nature, agreed upon in the employment contract, or allowed with consent of employees. The wage payable for Sunday work performed as part of regular working hours is twice the regular wage.

In sum, on weekends or public holidays, one may carry out work that cannot be suspended due to production-technical conditions (uninterrupted work regime), work needed to provide public services, necessity repair, or loading/unloading works. Limitations regarding working on public holidays and nonworking days may apply to certain protected categories of employees, including employees under age 18, pregnant women, women with children under age three, disabled employees, and other categories as defined by law or collective agreement.

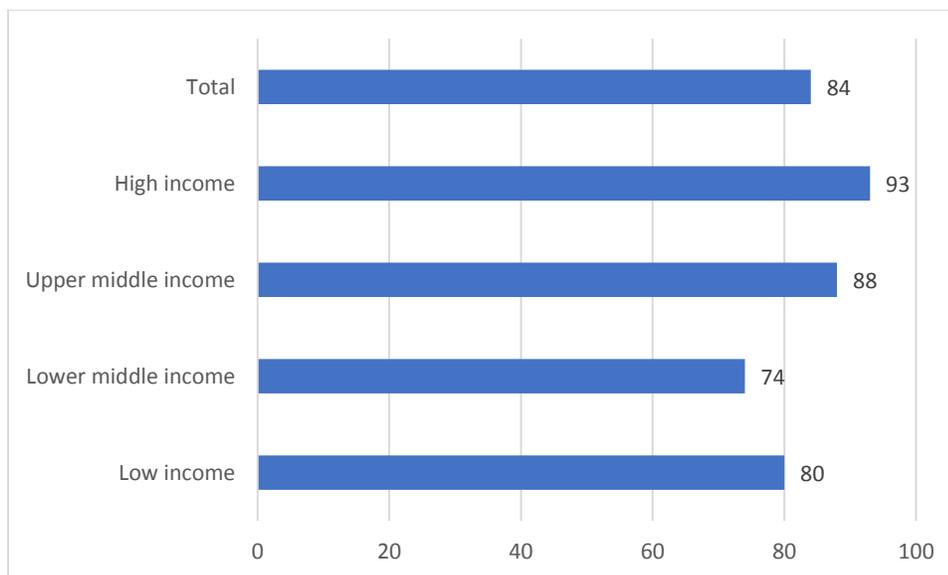
**Night work.** As far as restrictions on night work are concerned, the human body is more sensitive at night to environmental disturbances. Long periods of night work can be detrimental to health of workers and can endanger workplace safety.

Article 8 of the ILO’s Night Work Convention No. 171 states that compensation for night work shall “recognize the nature of night work.” Article 10 states that, before introducing a night work schedule, the employer must consult the workers’ representatives, and continue to consult them on a regular basis.

The ILO’s Night Work Convention also requires measures to ensure that an alternative to night work is available to women during pregnancy and after childbirth; and most industrialized countries have enacted some rules on performance of night work by pregnant and breastfeeding workers, often in the form of a right for individual workers to request a transfer to day work. Rights to refuse to work at night available to all workers are less common, although one is in operation in Switzerland.

Restrictions on night work may apply. Most countries allow non-pregnant and non-nursing women to work same night hours as men, but 16 percent of the countries prohibit females from working same night hours as men, including, among others, Algeria, Azerbaijan, Bolivia, Chad, Costa Rica, Guinea-Bissau, India, Iraq, Jordan, Kuwait, Nepal, Oman, Pakistan, Saudi Arabia, Somalia, Sri Lanka, South Sudan, Sudan, Tunisia, Turkey and Ukraine (Figure 6).

**Figure 6: Non-pregnant and non-nursing women permitted to work same night hours as men in 2017; percent**



Source: World Bank, 2017

There may be other restrictions for night work associated with length of night shift, categories of workers not permitted to work at night, and some other criteria. For example, in Belarus, night work is prohibited for pregnant women, women who are on postnatal leave, and women who have children under age three. In Oman, women shall not be required to work between 7 pm and 6 am,

except in such circumstances, works or occasions as may be specified by a decision of the labor minister.

In Kosovo, night shifts shall be prohibited for persons less than 18 years of age, pregnant employees, and breastfeeding women. Night shifts may be performed by single parents, women with children younger than three years of age, or parents with children with permanent disabilities only with their consent.

In Latvia, labor legislation stipulates that a night worker is entitled to undergo a health examination before he/she is employed in night work, and subsequently not less frequently than once every two years or once every year from 50 years of age. Similarly, in Bulgaria, law requires that employees be medically examined in advance so that the employer is sure night work will not harm their health.

In many countries, the night shift is shorter. For example, in Honduras and Guatemala, the maximum limit of night shift is 6 hours (and 36 hours per week). Shift for night work is shorter by one hour in Afghanistan, Moldova, Tajikistan, Bolivia, Iraq, Kyrgyzstan, Latvia, Paraguay, Argentina, Mexico, Venezuela, El Salvador, Nicaragua, and Panama.

In Azerbaijan, there are limitations for night work for pregnant women, persons under 18, and handicapped individuals.

In Barbados, the employer must obtain authorization from chief labor officer to employ workers for night shift; in FYR Macedonia, the employer who engages employees for night work on a regular basis shall notify the labor inspection thereof.

In Norway, night work is only permitted by nature of the work (police, firemen, hospitals). In Belgium, night work (defined as work in the period between 8pm and 6am) is in principle prohibited, with a number of exceptions, depending on the sector or specific function of the worker.

**Wage premiums.** The main incentive for workers, and main restriction to work overtime, on weekly rest day and at night is wage premium. However, 20 countries do not have any statutory wage premiums, including Bhutan, Croatia, Denmark, Djibouti, the Gambia, Georgia, Germany, Ghana, Hong Kong, Ireland, Kiribati, Marshall Islands, Netherlands, New Zealand, Nigeria, Palau, Rwanda, Sweden, Tonga and United Kingdom. These may be negotiated in collective agreement or individual employment contract.

On average globally, statutory wage premiums equal 46 percent for overtime work, 44 percent for work on weekly rest day, and 12 percent for night work (in countries with relevant wage premiums).

Overall, 23 countries (12 percent of total) do not have statutory overtime premiums, and 84 countries (44 percent) do not mandate a pay premium for work on weekly rest days, but 63 countries (33 percent) mandate a pay premium for work on weekly rest of 100 percent or more, including Lao PDR, West Bank, and Gaza, 150 percent; and Serbia, 110 percent (Table 5).

In 2017, 112 countries in the DB sample, or 59 percent, do not mandate any wage premium for night work. Only a handful of countries (12 total) prescribe premium for night work of 50 percent of wages and higher, the highest being in Slovenia, 75 percent; Austria, 67 percent; and lowest being in Fiji and Zambia, 4.3 percent; Tanzania, 5 percent; Namibia, 6 percent; and Spain, 6.6 percent.

**Table 5: Number of countries with no wage premium for overtime work, for work on weekly rest day and for night work, and with premium 100 percent and over, respectively in 2017**

	Number of countries		Number of countries
No wage premium for overtime work	23	Wage premium for overtime work 100+ percent	16
No wage premium for work on weekly rest day	84	Wage premium for work on weekly rest day 100+ percent	63
No wage premium for night work	112	Wage premium for night work 100+ percent	0

Source: World Bank, 2017

Compared to overtime premium, and premium for work on weekends and holidays, protection of night shift workers has the lowest priority.

In Angola, overtime premium is dependent on size of the firm. Overtime of up to 30 hours per month is paid at an additional 50 percent of hourly wages for employees of big businesses; 30 percent for employees of medium-sized businesses; 20 percent for employees of small-sized businesses; and 10 percent for employees of micro-sized businesses.

**Reforms in statutory work hours, in work week and wage premiums.** Between 2013 and 2017, seven countries changed the duration of a standard workday – mostly shortening; however, Finland (in general collective agreement) and Chad increased the duration of workday. Five countries made changes in the number of working days per week – mostly shortening the workweek (Table 6).

**Table 6: Changes in the standard workday (hours) and in the maximum number of working days per week between 2013 and 2017**

Changes in the standard workday (hours)		Changes in the maximum number of working days per week	
Belize	From 9 to 8 hours	Congo Dem. Rep.	From 5 to 6 days
Botswana	From 8.5 to 8 hours	Guyana	From 7 to 5.5 days
Chad	From 6.5 to 8 hours	Kiribati	From 7 to 5 days
Congo Dem. Rep.	From 9 to 8 hours	Lebanon	From 6 to 5.5 days
Finland	From 7.5 to 8 hours	Liberia	From 6 to 5.5 days
Guyana	From 8 to 7.75 hours		
Zimbabwe	From 9 to 8.5 hours		

Source: World Bank, 2017

Between 2013 and 2017, 17 countries changed wage premiums for work on weekly rest day and at night. In most cases, the premiums were slashed, such as Bahrain and Croatia, where both premiums were abolished, and Brazil, Chad, and Guiana, which abolished premium for work on weekly rest day. Malta, in turn, introduced double wages for work on weekly rest day.

**Table 7: Reforms in premium for night work and for work on weekly rest day between 2013 and 2017 (percent of hourly pay)**

	Premium for night work (percent of hourly pay)		Premium for work on weekly rest day (percent of hourly pay)	
	2017	2013	2017	2013
Angola	10	25	75	10
Azerbaijan	40	40	100	150
Bahrain	0	50	0	50
Bosnia and Herzegovina	25	30	15	20
Brazil	20	20	0	100
Bulgaria	8	3	0	0
Cambodia	30	130	0	0
Chad	0	0	0	100
Chile	0	0	30	0
Croatia	0	10	0	35
Finland	16	15	100	100
France	8	20	20	20
Guyana	0	0	0	100
Kazakhstan	50	50	50	100
Malta	0	0	100	0
Samoa	0	0	0	100
Slovenia	75	75	100	50

Source: World Bank, 2017

Between 2015 and 2017, 13 countries have revised the level of wage premium for overtime work, or introduced for the first time the wage premium. For example, in 2015, Mexico did not have a statutory wage premium for overtime work. By 2017, the premium was established at double rate; in Indonesia, the premium was set up at 75 percent. Meanwhile, Kiribati abolished the wage premium for overtime work; Angola, Bosnia and Herzegovina, and Cabo Verde reduced the rate (Table 8).

**Table 8: Reforms in premium for overtime work (percent of hourly pay) between 2015 and 2017**

	Premium for overtime work (percent of hourly pay)	
	2017	2015
Angola	20	50
Bosnia and Herzegovina	25	30

Cabo Verde	35	50
China (Beijing)	50	0
Indonesia	75	0
Japan	25	0
Kiribati	0	50
Mexico	100	0
Micronesia Fed. Sts.	50	0
São Tomé and Príncipe	38	0
St. Vincent and the Grenadines	50	0
Syria	38	0
USA (New York City)	50	0

Source: World Bank, 2017

In sum, working time arrangements are diversified in the world, with few countries, in recent years, abolishing restrictions on night work and work on weekends and public holidays, but keeping other provisions stable. The capacity of firms to pay premiums depends on many factors, and it is preferable to set up lower premiums in law, allowing parties to negotiate higher premiums in collective agreements or individual employment contracts.

## 2.5. Leave entitlements

By the ILO, “Paid leave is the annual period during which workers take time away from their work while continuing to receive an income and to be entitled to social protection. Workers can take a specified number of working days or weeks of leave, with the aim of allowing them the opportunity for extended rest and recreation. Paid leave is available in addition to public holidays, sick leave, weekly rest, maternity and parental leave, etc.”<sup>40</sup>

Most countries have labor laws that mandate employers give a certain number of paid time-off days per year to workers. Various leave entitlements incur costs to the employer, especially if the employee should be replaced for a prolonged period of time. On the other hand, flexible leave policies allow work time to be reconciled with family duties and recreational or social activities. Family leave entitlements have especially positive implications for care of children, as well as encouraging entry into the labor market, and enabling people to remain at work<sup>41</sup>.

The following patterns can be observed in regards to annual leave.

i) Overall, annual leave is more generous in high income countries, but is above average also in low income countries (Figure 7).

<sup>40</sup> ILO, 2004

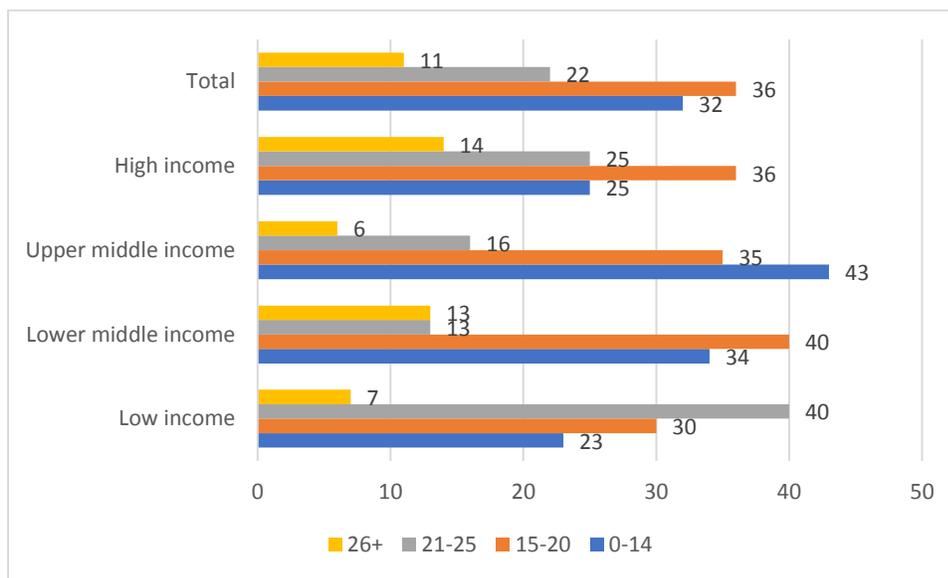
<sup>41</sup> ILO Convention (Revised) No. 132 (1970) states that “Every person to whom this Convention applies shall be entitled to an annual paid holiday of a specified minimum length...The holiday shall in no case be less than three working weeks for one year of service.”

ii) The most generous minimum annual leave for workers with one year of tenure, 30 working days, applies in Bahrain, Djibouti, Guinea, Finland, France, Kiribati, Kuwait, Libya, Maldives, Nicaragua, Togo, and Yemen.

iii) In many countries, the duration of minimum annual leave is dependent on a worker's length of service: 35 percent of countries use a sliding scale of annual leave arrangements, while 62 percent use a flat rate entitlement formula.

iv) Six countries (3 percent of total) do not mandate minimum duration of annual leave – mostly in the Pacific islands (Marshall Islands, Micronesia, Palau, Tonga), but also the Gambia, and United States.<sup>42</sup>

**Figure 7: Working days of mandatory paid annual vacation for a worker with tenure of one year in 2017; percent**



Source: World Bank, 2017

As for other countries, in 2017, there were 61 countries, or one third of the total, who had an annual leave entitlement of 14 working days or less, e.g., less than three working weeks suggested by the ILO as a minimum standard, including 43 percent of upper middle income countries and 23 percent of low-income countries.

Some countries regulate a minimum period of service required for entitlement to an annual holiday with pay, typically six months of service. In many countries, employees who are engaged in work that poses a health hazard are entitled to supplementary leave. Also, in many countries, minors and/or disabled persons are entitled to additional days of leave. Examples follow.

<sup>42</sup> In the United States, there is no state or federal law requiring employers to grant employees paid vacation. However, it is common to provide at least some vacation to employees, often about 2 weeks per year, increasing with seniority.

In Bulgaria, employees below age 18 are allowed 26 days per year of paid vacation (compared to 20 days for regular workers), and employers are obliged to allow them to take those days off during the summer. In Romania, young workers are entitled to a supplementary paid annual vacation of at least three days.

In Hungary, single parents and parents with three or more children under 16 years of age are entitled to supplementary leave. In Slovenia, workers are entitled to one additional day for every child under the age of 15.

In some countries, labor legislation envisages additional days of family leave for various family events for which employers must bear relevant costs; in other countries, payment for family leave is determined by collective agreement or provided as unpaid leave. For example, in FYR Macedonia, the employee has the right to paid leave for personal and family reasons (e.g., marriage, child birth (only for the father) and/or death of close family member) up to seven working days. In other countries, such as Russia, family leave can be provided as unpaid leave.

**Reforms in leave entitlements.** The general trend is that, over time, annual leave entitlements have become more generous. However, a few countries have reduced the duration of annual leave (i.e., Brunei Darussalam for workers with one year of tenure; Liberia for workers with 5+ years of tenure; Puerto Rico, Slovenia, and Tajikistan). The Gambia abolished statutory leave altogether (Table 9).

**Table 9: Reforms in annual leave entitlements between 2013 and 2017; in working days**

	Paid annual leave for a worker with 1 year of tenure	Paid annual leave for a worker with 5 years of tenure	Paid annual leave for a worker with 10 years of tenure	Paid annual leave for a worker with 1 year of tenure	Paid annual leave for a worker with 5 years of tenure	Paid annual leave for a worker with 10 years of tenure
	2017			2013		
Belize	12	12	12	10	10	10
Bosnia and Herzegovina	20	20	20	18	18	18
Brunei Darussalam	7	14	14	12	14	14
Dominican Republic	14	18	18	14	14	14
France	30	30	31	30	30	30
Gambia	0	0	0	21	21	21
Iraq	21	23	25	20	22	24
Kiribati	30	30	30	0	0	0
Liberia	5.5	22	22	0	24	24
Puerto Rico	9	12	12	15	15	15
Swaziland	12	15	18	11	11	11
Taiwan, China	7	15	16	7	14	15
Slovenia	20	22	24	20	21	22

South Africa	15	20	20	15	15	15
Tajikistan	18	18	18	19.5	23	27.5

Source: World Bank, 2017

**Public holidays.** In addition to annual leave, public holidays may extend rest time for workers. Public holidays have their origin in religion and local culture, and depending on the country, the number differs significantly. If employees render work on these days, such work is deemed as, as a rule, overtime and paid as such.

The ILO Holidays with Pay Convention (Revised) 1970 (No. 132) states that public and customary holidays, whether or not they fall during an annual holiday, shall not be counted as part of the minimum annual holiday with pay.

Cambodia has the highest number of paid public holidays, 27 days per year; followed by Azerbaijan and Malaysia, 19 days; Colombia, 18 days; and Tanzania, 17 days. On the other end of the spectrum, there are no legal provisions for pay on public holidays in Guyana, Cape Verde, Denmark, Indonesia, Iran, Japan, Mongolia, Netherlands, Puerto Rico, and Togo.<sup>43</sup>

In sum, various leave entitlements incur costs to the employer, but flexible leave policies allow work time to be reconciled with family duties and recreational or social activities. Low income countries more often allow generous paid annual vacation with the duration of at least 21-25 working days for a worker with tenure of one year.

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<sup>43</sup> [https://en.wikipedia.org/wiki/List\\_of\\_minimum\\_annual\\_leave\\_by\\_country](https://en.wikipedia.org/wiki/List_of_minimum_annual_leave_by_country)

### Chapter 3. Minimum wages

The ILO has defined minimum wages as “the lowest level of remuneration permitted ... which in each country has the force of law and which is enforceable under threat of penal or other appropriate sanctions. Minimum wages fixed by collective agreements made binding by public authorities are included in this definition.”<sup>44</sup>

As part of its Decent Work Agenda, the ILO encourages member States to adopt a minimum wage to reduce working poverty and provide social protection for vulnerable employees.<sup>45</sup>

The European Commission has also expressed the view that Member States should establish “decent and sustainable wages” and that “setting minimum wages at appropriate levels can help prevent growing in-work poverty and is an important factor in ensuring decent job quality.”<sup>46</sup>

As with most labor market policy measures, statutory minimum wages imply both benefits and costs. Effective minimum wages – by providing a wage floor – can reduce wage inequality in the bottom half of wage distribution, limit low pay, and reduce the gender pay gap.

While minimum wages may boost earnings of low-income employees, they may also lead to unemployment where the minimum wage is above the market-clearing level and is actually binding. Their effectiveness in bolstering incomes of low-paid workers will also depend on their interactions with other policies designed to support low-income households. Different views on minimum wage policies essentially hinge on the relative weight attached to these positive and negative effects.

High minimum wages are typically more damaging for small and medium size businesses (SMEs) because these enterprises tend to be more labor intensive and financially weaker. This likely contributes to keeping many SMEs smaller than they might otherwise be. High minimum wages also give firms an incentive to stay in the informal sector.

Differences in levels of minimum wages among countries reflect different institutional mechanisms through which levels are determined. They also reflect different perceptions about risks that minimum wages may pose in respect of displacement of low-paid workers or number of jobs available in the labor market.<sup>47</sup> High minimum wages in some countries are also likely to be influenced most by insiders, that is, those who already have a job.

In many low income countries, the nation-wide minimum wage is so high that it may be damaging to some low-paid sectors and regions with below average wages, as well as to workers deemed to be the most vulnerable on the labor market, such as low skilled workers, youth, and females. In many cases, statutory minimum wages are simply not enforced.

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<sup>44</sup> ILO, 2009

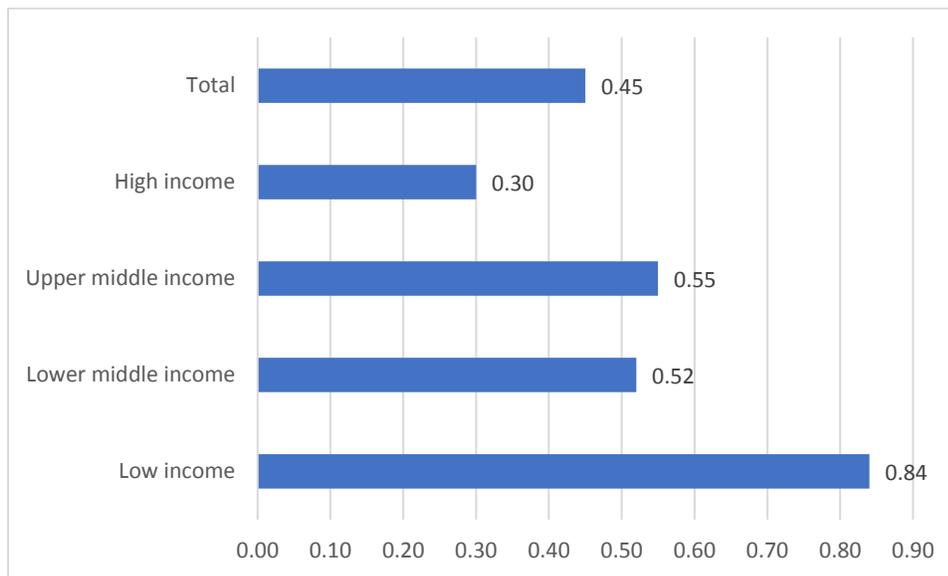
<sup>45</sup> ILO, 2013

<sup>46</sup> EC, 2012

<sup>47</sup> Lee, 2012; ILO, 2013

For example, South Africa has a large degree of non-compliance of bargaining council agreements by employers, especially with respect to the prescribed minimum wage. Bhorat et al. (2011) utilize 2007 South African labor force data, and estimate that, on average, 44 percent of workers covered by a bargaining agreement are paid a wage below the minimum; furthermore, the authors estimate that the average shortfall was approximately 35 percent of the prescribed minimum wage. By Flowerday et al (2017), despite minimum wages prescribed by bargaining councils, the average employee still receives a wage that is 42 percent below the stipulated minimum. These figures are extremely high, and give reason for alarm.

**Figure 8: Ratio of minimum wage to value added per worker by country groups in 2017**



Note: excluding Liberia with the ratio of 2.54 and Venezuela with the ratio of 5.99 as outliers

Source: World Bank, 2017

The World Bank DB survey investigates the following aspects of minimum wages:

What is the minimum wage applicable to the worker assumed as “our worker;”

What is the minimum wage for a full-time worker in US\$ per month; and

What is the ratio of minimum wage to value added per worker.

Comparing minimum wage levels across countries poses measurement and comparability challenges. The DB survey collects wage data for international comparisons by expressing the minimum wage as a share of GNI per worker (a proxy for average earnings).<sup>48</sup> Data are collected on the minimum wage applicable to an adult cashier in the food retail industry, aged 19, with one year of work experience (“our worker”).<sup>49</sup>

<sup>48</sup> The average value added per worker is the ratio of an economy’s GNI per capita to the working-age population as a percentage of the total population.

<sup>49</sup> The ratio of the nominal legal minimum wage to average wage (so-called Kaitz index) or to median wage may be a more appropriate comparative measurement of minimum wage levels but the wage data are missing for a number of countries.

These data should be interpreted with care, however, because countries differ in proportion of their population employed and subject to a minimum wage. Some sectors of the economy or categories of workers may have lower levels of minimum wages, such as agricultural or domestic workers.

Of 190 countries in the DB database, in 2017, 24 countries lack a statutory minimum wage.<sup>50</sup>

In some countries, the ratio of minimum to average wages is very low, and virtually nobody receives wages at that level. In particular, in mid-2017, the minimum wage relative to average value added per worker was the lowest in Botswana (0.10, or US\$84 per month), Burundi (0.05, or US\$2), Georgia (0.04, or US\$18), Kuwait (0.05, or US\$119), and Uganda (0.02 or US\$2 per month). On the other end of the spectrum, in 11 countries, this ratio exceeds 1.0, including, among others, Central African Republic, 1.43; Haiti, 1.47; Honduras, 1.64; Mozambique, 1.33, and Zimbabwe, 2.16. Overall, low income countries have much higher ratio of minimum wage to value added per worker but in many cases minimum wage laws are not enforced.

Young workers are especially likely to experience negative effects of high minimum wages. Apprenticeship wages are one way to address these issues and create new opportunities for young workers. As the chances of being employed informally are substantially higher for young workers, introducing a discounted minimum wage for youth could reduce informal employment for this group and generate a significant increase in job opportunities for recent graduates. The lower minimum wage rates for young persons would also ensure that young persons remain in education as long as possible and do not drop out of school.

By the DB 2014 database, 42 countries have introduced youth minimum wages in order to encourage employers to hire this age group, given their lack of experience. Young workers can get training and a job opportunity, and businesses have an incentive to keep the workers once they have invested in their training. This is an easy reform to introduce: beneficiaries are easy to target and political opposition is unlikely, especially in countries with high youth unemployment.<sup>51</sup>

As an example, in France, for 19-year old workers hired under a formal apprenticeship contract, the minimum wage is 41 percent for the first year, 49 percent for the second year, and 65 percent for the third year. In El Salvador, youth minimum wage is at 50 percent for the first year, 75 percent for the second year, and 100 percent thereafter (if hired in a formal apprentice program).

Minimum wages can be an important regulatory tool, but their labor market impacts depend heavily on the level at which they are set and how well they are enforced. International evidence demonstrates that, if the minimum wage is set at a moderate level, then it is not likely to entail substantial employment losses.

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<sup>50</sup> These countries include high income countries: Bahrain, Brunei, Denmark, Qatar, Saudi Arabia, Singapore, Sweden, Switzerland, United Arab Emirates; low income countries: Afghanistan, Comoros, Eritrea, Ethiopia, the Gambia, Guinea-Bissau, Rwanda, South Sudan, Bangladesh, Djibouti, Egypt, and upper middle income countries: Maldives, Namibia, St. Lucia, and Tonga.

<sup>51</sup> World Bank, 2014; World Bank, 2007

Setting the minimum wage at a lower level and enforcing it effectively is, in general, a more efficient and equitable approach than setting the minimum wage at a higher level with weak or selective enforcement.<sup>52</sup>

At the same time, minimum wages tend to have only a limited and often transitory impact on earnings of low wage workers. Other tools for poverty reduction can be more effective than a minimum wage.<sup>53</sup>

If the level of minimum wages is high, businesses are unwilling to hire less experienced workers, discriminating against youth, new entrants to the labor market, and workers who have been out of the workforce for some time. It may have an impact on formal employment in sectors with relatively low average wages, as well as employment in certain regions, such as remote and rural areas.<sup>54</sup>

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<sup>52</sup> Rutkowski, 2003

<sup>53</sup> Betcherman, 2012; Kuddo et al., 2015

<sup>54</sup> Gorauš-Tanska and Lewandowski, 2016

## Chapter 4. Redundancies

This section discusses key policy issues associated with difficulty and/or high cost for employers to terminate employees for economic or business-related reasons (e.g., at initiative of the employer) based on DB survey data.<sup>55</sup>

Corporate restructuring is an important element of change. In countries for which data are available, between two and seven percent of workers face dismissal in a typical year.<sup>56</sup> Compared with prime-age workers, older and younger workers are at greater risk of dismissal. Others at higher risk include workers in small firms and those employed on fixed-term and other temporary contracts whose contracts might not be renewed.

Governments are constrained by budget deficits and could provide only limited benefits to redundant workers. An appealing alternative to introducing or raising government benefits is to require employers to provide the bulk of social guarantees, including cash payments to workers they dismiss. Labor legislation includes various restrictions, entitlements, and benefits to dismissed workers or workers under the threat of being made redundant.<sup>57</sup>

Country regulations appear highly heterogeneous, even within country grouping, reflecting similar socio-economic characteristics. The regime for individual dismissals on regular contracts differ not only in terms of stringency, but also in terms of instruments to protect workers against dismissal. The largest differences concern the definition of fair and unfair dismissal and related remedies.

As far as dismissal procedures are concerned, there is a need for safeguards to ensure that (a) there is valid reason to terminate the employment contract; (b) employers do not discriminate against workers; (c) there is advance notice; and (d) income protection and activation measures are in place. Special provisions, however, may be considered in case of mass redundancies.<sup>58</sup>

Prior to initiating dismissals, an employer may initiate preventive measures to avert or minimize impact of dismissals. Examples include spreading workforce reduction over a certain period to permit natural workforce reduction, internal transfers, (re)training, voluntary early retirement with appropriate income protection, restriction of overtime, reduction of normal work, and work-sharing.

### 4.1. Procedural requirements

Most countries allow termination of employees for economic or business-related reasons at the initiative of the employer, but the employer may face procedural requirements when starting dismissal procedures. As far as the individual dismissal is concerned, the employer may be

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<sup>55</sup> “Economic” reasons include business-related causes for termination (e.g., declining demand, shrinking markets, increasing competitiveness, etc.) or technological and organizational changes in the business entity. This class of terminations stands in contrast to dismissals for “non-economic” reasons.

<sup>56</sup> OECD, 2013

<sup>57</sup> Kuddo, 2009

<sup>58</sup> Kuddo et al, 2015

required to notify a third party before dismissing redundant workers, and, in some cases, approval of a third party is needed. There may be a retraining or reassignment obligation before an employer can make a worker redundant. Law may establish priority rules that apply to redundancy dismissals or layoffs. Finally, there may be priority rules applying to re-employment.

The World Bank DB survey investigates the following procedural requirements for dismissals:

Is the dismissal due to redundancy allowed by law?

Must the employer notify or consult a third party before dismissing one redundant employee?

Must the employer obtain third party approval in order to dismiss one redundant employee?

Must the employer notify or consult a third party before dismissing a group of nine redundant workers?

Must the employer obtain third party approval in order to dismiss a group of nine redundant workers?

Is there a retraining or reassignment obligation before an employer can make a worker redundant?

Are there priority rules that apply to redundancy dismissals or lay-offs?

Are there priority rules that apply to re-assignment?

Out of 190 countries surveyed by DB, only Bolivia, Venezuela, Tonga and Oman do not allow contract termination for economic reasons, limiting grounds for dismissal to disciplinary and personal reasons.<sup>59</sup>

In Bolivia, Decreto Supremo 28699 requires worker's consent for any contract termination without "just grounds." As redundancy is not one of these just grounds, "dismissal" (i.e., termination of a worker's employment contract without the worker's agreement) is not legally possible on the basis of redundancy.

In Venezuela, under provisions of the Organic Labor Law, work stability has been extended on an indefinite basis to protect non-executive employees with more than one month of service against dismissals without cause. Redundancy is not a "cause" under Venezuelan Law, and therefore is considered unjustified dismissal, which implies compulsory reinstatement of the employee.

It is reported from Venezuela that, as a result, absenteeism rates are ranging from 15 to 40 percent of the workforce depending on the industry and time of year. Under these circumstances, most firms are unsurprisingly reluctant to recruit. Labor inspectors refuse to approve dismissals, whatever the grounds, leaving many employers with no choice but to bribe workers to leave.<sup>60</sup>

**Notification and approval in case of individual dismissals.** The ILO Termination of Employment Convention No. 158 states that when the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, the employer shall provide the workers' representatives concerned in good time with relevant information including reasons for

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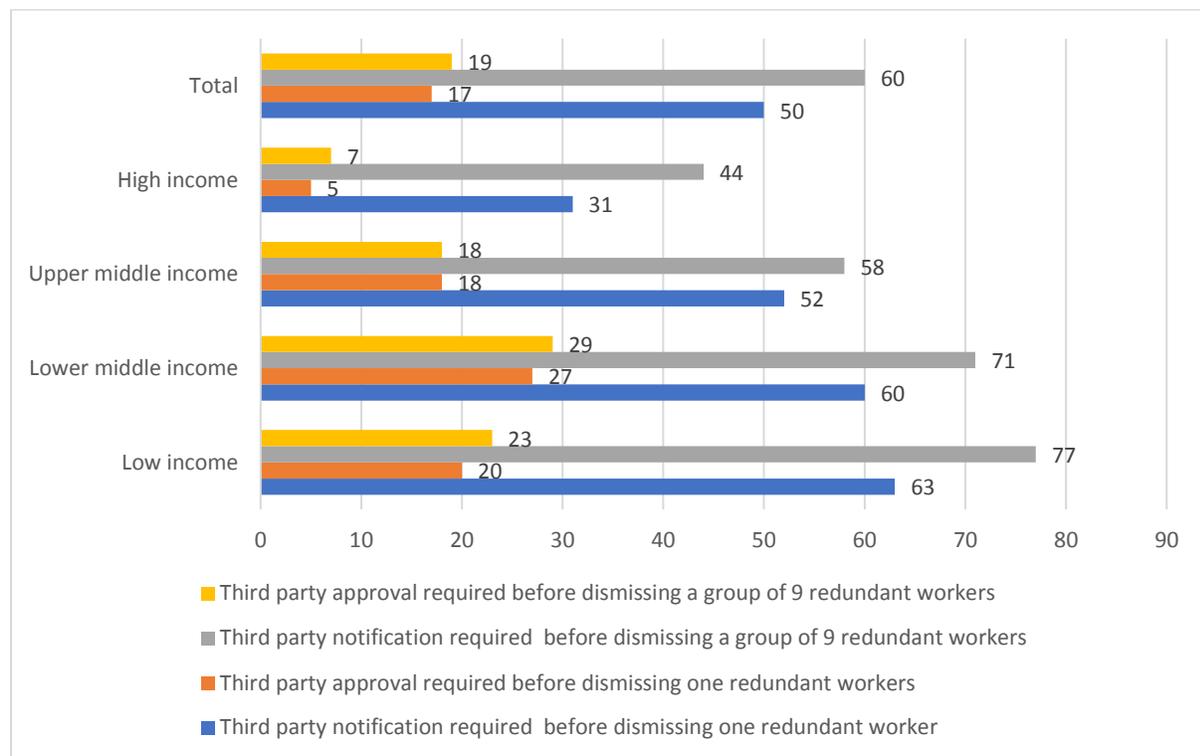
<sup>59</sup> These four countries are excluded from the analysis.

<sup>60</sup> Economist, January 25<sup>th</sup>, 2014

terminations contemplated, number and categories of workers likely to be affected, and the period over which terminations are intended to be carried out.

The Convention specifically states that applicability of this paragraph may be limited to cases in which the number of workers whose termination of employment is contemplated is at least a specified number or percentage of the workforce (e.g., to group redundancies). Also, the workers' representatives concerned, as early as possible, should be given an opportunity for consultation on measures to be taken to avert or minimize terminations and measures to mitigate adverse effects of any terminations on the workers, such as finding alternative employment.

**Figure 9: Share of countries in which a third-party notification and approval is required if one or nine workers are dismissed, 2017, in percent**



Source: World Bank, 2017

The DB data show that, in case of individual dismissals, in 93 out of 186 countries (50 percent of the total), the employer is obliged to notify or consult with a third party (typically workers' representatives, labor inspectorates, or other bodies of labor administration) before terminating one redundant worker. This requirement is strongly biased towards low-income countries (Figure 9).

In Afghanistan and Bahrain, the employer has to notify the Ministry of Labor and Social Affairs. In Bhutan, the employer must notify the Chief Labor Administrator, including number and categories of employees involved and reasons for their termination. In Chile, a copy of the written notice to the worker must be delivered to the Labor Inspectorate at the same time the redundancy dismissal takes place.

In Guyana, the employer must notify and consult with the recognized trade union, or if none exists, the employee or the employee's representative and Chief Labor Officer. Consultation regarding possible measures to avert or mitigate adverse effects of the circumstances causing potential redundancy must be done no later than one month from the date of the circumstance causing potential redundancy.

In Kenya, the employer should only notify a labor officer and union, if any. In Morocco, the employer must notify and consult the employees' representative and, where applicable, union representative, at least one month before dismissal. At the same time, he must provide the latter with all necessary information relating to reasons for such dismissal. The public regional representative for employment should also be notified.

In 32 countries (17 percent of the total), the employer needs approval of a third party. For example, in Indonesia, an approval from the Industrial Relations Dispute Settlement Board is required; in Mexico, the employer must notify and obtain approval from the Conciliation and Arbitration Labor Board. In Sri Lanka, the employer must obtain prior written consent of employee or approval of the Commissioner of Labor, and in Suriname, from the Ministry of Labor.

In Germany, approval in general is not required except in case of an employee with special protection, including works council members (from the Works Council), severely disabled person (Integration Office), and an employee on maternity/parental leave (Labor Inspectorate).

In Angola, employers may face rigid procedural requirements and justification thresholds that affect magnitude of and speed with which layoffs can be executed. For example, approval of the third party - the General Labor Inspectorate (or, in addition, the labor ministry in case of collective dismissals) is required before an employer can make a worker redundant.

## **4.2. Collective redundancies**

Legislation often defines additional requirements to employers in case of collective dismissals, in view of social implications arising from the lay-off of many employees in a short time period, and in a specific geographical area. More often than in case of individual dismissals, a third-party notification and approval is required, including that the companies must inform responsible state labor institutions before notifying dismissals. The employer is obliged to prepare a program of measures aimed at mitigating impact of mass layoffs. Re-employment guarantees to employees made redundant as a result of mass layoffs might be stipulated in employment legislation.

Criteria for collective redundancies are important since these thresholds instigate special procedures associated with mass layoffs. By the ILO study of labor laws in 125 countries, in 18 percent, law does not provide any definition of collective dismissals for economic reasons and does not provide any specific procedure, including in Antigua and Barbuda, Brazil, Chile, Costa Rica, Cuba, El Salvador, Georgia, Guatemala, Indonesia, Israel, Jamaica, Kuwait, Lesotho, Libya,

Malawi, Malaysia, Maldives, Nicaragua, St. Lucia, Saudi Arabia, Singapore, United Arab Emirates, and Uruguay.<sup>61</sup>

The EU Council Directive 98/59/EC of 20 July 1998 on approximation of laws of Member States relating to collective redundancies determines criteria for collective redundancy as follows: “Collective redundancies” means dismissals effected by an employer for one or more reasons not related to the individual workers concerned where, according to choice of the Member States, the number of redundancies is either, over a period of 30 days:

- At least 10 in establishments normally employing more than 20 and less than 100 workers;
- At least 10 percent of the number of workers in establishments normally employing at least 100 and less than 300 workers;
- At least 30 in establishments normally employing 300 workers or more;
- Or, over a period of 90 days, at least 20, whatever the number of workers normally employed in the establishments in question.

However, employers may attempt to carry out foreseeable redundancies in such a way that applicable provisions governing collective redundancies can be avoided. In general, this is accomplished by discharging a correspondingly smaller number of employees over a longer period of time for economic reasons. The shorter the period for counting redundancies to be reckoned as collective redundancy, the easier this becomes.

Notification and consulting requirements are much more common in case of dismissing a group of workers.<sup>62</sup> In case of collective redundancies, 113 countries (60 percent) require prior notification and/or consultation.

For example, in Benin, in case of group redundancies, the employer has to both notify and consult with staff representatives and the labor inspector. In Burkina Faso, the employer considering dismissal for economic reasons of more than one employee must consult staff representatives and seek all solutions for maintaining jobs. In Malaysia, employers retrenching five or more workers need to notify the Labor Department. In Moldova, the employer must notify the employment agency within 2 months prior to dismissals. Also, they must inform the company's union as well as branch union at least three months before dismissal.

In several countries, the employer only has to notify a third party about upcoming dismissals. In Chile, a copy of the written notice to the worker must be delivered to the Labor Inspection. In Iraq, the employer has to only notify the Ministry of Labor and Social Affairs; in Kenya, the labor

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<sup>61</sup> Muller, 2011

<sup>62</sup> In a number of countries, dismissal of 9 workers, which is a criterion of collective termination in Doing Business survey, is not considered a group dismissal. For example, in Australia, notification to Centrelink, a Federal Government agency, applies only when 15 or more employees are dismissed. In Canada, notification is required only if dismissal involves 50 or more workers, and in the Czech Republic and Estonia, a minimum of 10 workers is required. In Bosnia and Herzegovina, the employer has both to notify and consult employees' representatives, as long as the number of workers dismissed within a 3-month period is more than the greater of 10 percent of or 5 employees.

officer; in Peru, the Labor Ministry; and in Philippines, the Department of Labor and Employment. In Singapore, notification is needed only if the worker is a union member.

In some other countries, the employer has also to consult with the third party. For example, in Timor-Leste, the employer has to both notify and consult workers' representatives, and notify the Department of Labor. In Vietnam, the employer must notify the local body in charge of State administration of labor and consult and agree with the executive committee of the trade union of the enterprise in accordance with procedures stipulated in the Labor Code. In Korea, the employer has to both notify and consult the labor union or a workers' representative.

Third party approval in order to dismiss a group of nine redundant workers is required in 35 countries (19 percent). For example, in Greece, the employer and employees' representatives must meet in order to reach an agreement. If this is not successful within 20 days, consultation can be extended for 20 more days by decision of the Prefect or Minister of Labor and Employment. In case a common solution is not reached, it is up to the Prefect or Minister of Labor to accept or reject the demand for collective dismissals within ten days.

**Reforms of notification and approval procedures.** Between 2013 and 2017, five countries reformed requirements concerning notification and approval, mostly by making them more rigid. For example, in Barbados, law now requires that the employer notify the Chief Labor Officer, and notify and consult the affected employee(s) or their representative before dismissal, where it is contemplated that workforce will be reduced by at least 10 percent or any other significant number.

In Morocco, the employer must notify and consult the employees' representative also in case of individual dismissals and, where applicable, the union representative, at least one month before dismissal. At the same time, the employer must provide the latter with all necessary information relating to reasons for such dismissal. A minute relating to the consultation result must be notified to the public regional representative for employment.

In Singapore, the Binding Tripartite Guidelines on Mandatory Retrenchment Notifications mandate that employers who hire at least 10 employees are required to notify the Ministry of Manpower if five or more employees are retrenched within any six-month period. The employer must notify the Ministry within five working days after the employee is notified.

**Table 10: Changes in notification and approval of individual and collective redundancies between 2013 and 2017**

	Third-party notification if one worker is dismissed?	Third-party approval if one worker is dismissed?	Third-party notification if nine workers are dismissed?	Third-party approval if nine workers are dismissed?	Third-party notification if one worker is dismissed?	Third-party approval if one worker is dismissed?	Third-party notification if nine workers are dismissed?	Third-party approval if nine workers are dismissed?
	2017				2013			
Azerbaijan	Yes	No	Yes	No	No	No	No	No
Barbados	No	No	Yes	No	No	No	No	No
Kiribati	Yes	No	Yes	No	Yes	Yes	Yes	Yes
Morocco	Yes	Yes	Yes	Yes	No	No	Yes	Yes

Singapore	No	No	Yes	No	No	No	No	No
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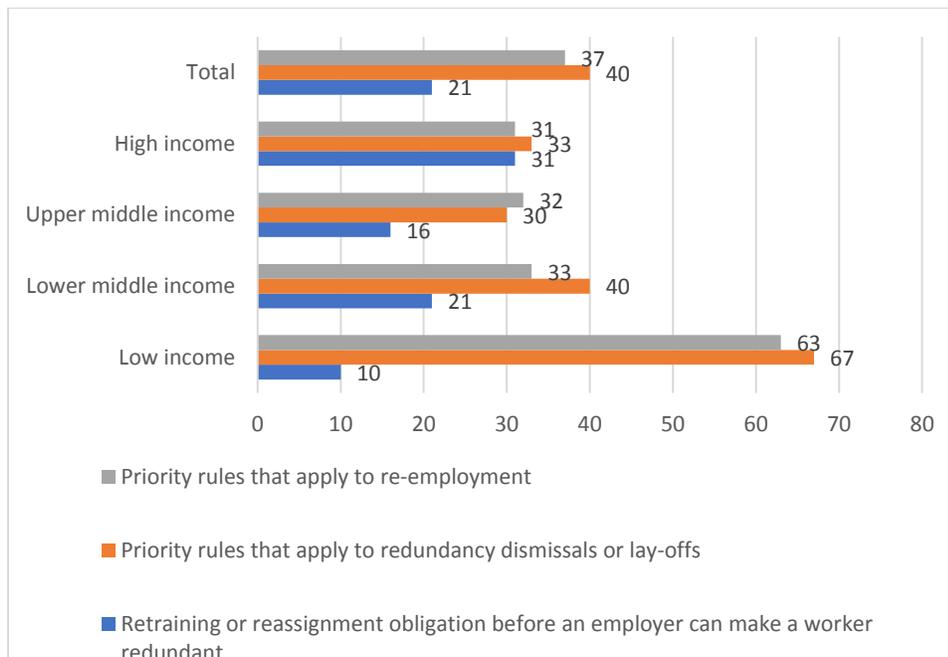
Source: World Bank, 2017

### 4.3. Retraining and/or reassignment obligation

One obstacle for employers to adjust their workforce is provision of retraining, or reassignment obligation before an employer can make a worker redundant. This requirement is also emphasized in the ILO Recommendation No. 166. This obligation is more common in high and upper middle-income countries.

A retraining or reassignment obligation is stipulated in labor law of many high-income countries, namely Finland, France, Germany, Greece, Italy, Portugal, and Sweden. In the Netherlands, this obligation is established in case law. In the United Kingdom, the employer, though not obliged, does have to consider suitable alternative employment. In Australia, under the Fair Work Act 2009, employers will be required to consider reassignment within the employer's enterprise, or an associated entity of the employer, before a redundancy will be considered "genuine".

**Figure 10: Economies with retraining or reassignment obligation before redundancy, with priority rules for redundancies, and with priority rules for re-employment in 2017, percent**



Source: World Bank, 2017

Similar requirement is stipulated in labor law of many developing countries and emerging market economies. For example, in Kazakhstan, the employer must take steps to transfer the employee to another job if the employee consents. In Pakistan, according to judgments of the Superior Judiciary, every effort must be made to reassign or retrain redundant workers prior to layoff. In Sierra Leone, the employer has to consider if workers can be placed elsewhere, and undertakes to retain them if that is the case. In Vietnam, in case of organizational restructuring or technological

changes, the employer is responsible to devise and implement the employment plan; if new positions are available, the employer must retrain and assign worker(s) to a new job.

#### 4.4. Priority rules

ILO Recommendation No. 166 suggests that selection by the employer of workers whose employment is to be terminated for economic reasons should be made according to criteria, established wherever possible in advance, with due weight both to interests of the enterprise and interests of workers. These criteria, order of priority, and their relative weight should be determined by national laws, regulations, or collective agreements.<sup>63</sup>

In the case of redundancies, professional qualities like the worker's professional education, qualification for work, necessary additional skills and capacities, work experience, job performance, or years of service may serve as criteria.

While 33 percent of high income countries have priority rules in their labor legislation, the ratio is 67 percent among low-income countries (Figure 10).

The list of individuals with preferential rights to protection of the employment contract may also be based on social criteria applying to new entrants, workers with long seniority, or advanced career workers completing the minimum conditions to collect an old-age pension unless the right to the unemployment benefit has been ensured. A common group of protected categories of workers is pregnant employees, female employees on maternity leave, female or male employees on parental leave, single female or male employees caring for a child younger than three years of age, or employees who personally cares for a close relative with severe disability. As a rule, the employer is also not allowed to terminate a contract of employment during an employee's leave, including annual, maternity, parental, sick leave, unpaid or other leave, or during other justified absences from work. Elected trade union officials have also been a traditionally protected category; their ordinary dismissal requires consent of the superior trade union organ.

If this priority list based on predominantly social criteria is too exhaustive, the employer especially in SMEs, may have no other choice than to keep the protected individuals on the job and perhaps let some of the best professionals go.

In many countries, the employer shall first terminate employees with less seniority e.g., the principle of "last in first out" is applied when selecting redundant workers, such as in Botswana, Gambia, Kenya, Malta, Mexico, Nigeria, Panama, and Sierra Leone.

Law may establish a priority rule for re-employment that, in opening of the liquidated workplace, the worker dismissed can hold a priority in applying for a job. The priority clause of re-hiring of dismissed workers is usually valid at six or 12 months.

This is in line with ILO Recommendation No. 166, which provides for priority of rehiring, whereby workers whose employment has been terminated for economic reasons should be given priority of

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<sup>63</sup> Muller, 2011

rehiring if the employer recruits workers with comparable qualifications. In 2017, in 69 countries out of 186 (37 percent), labor law stipulates obligations on rehiring, including 31 percent of high income countries and 63 percent of low-income countries.

For example, in Croatia, law states that an employer who gives notice of termination for economic, technological, or organizational reasons to a worker must not employ another worker in the same job for the following six months. In Gambia, the Netherlands, Serbia, Togo, and Turkey, the priority of re-hiring dismissed workers is also established at six months.

In Cyprus, provided that vacant positions are the same type or specialization as the ones made redundant, priority for re-hiring is established for a period of eight months from the date of redundancies. In Djibouti, Lebanon, FYR Macedonia, and Peru, the priority period for re-hiring is within one year from dismissal.

The lengthiest period for re-hiring is in Korea, where, under the Labor Standard Act: "If an employer who dismissed a worker ... intends to employ a worker for the same job the dismissed worker was in charge of at the time of dismissal, within three years from the day when the worker was dismissed, the employer shall preferentially employ the worker dismissed, provided that the worker wants that job."

**Reforms in retraining and reassignment obligation, and in the priority rules for redundancies and reemployment.** Between 2013 and 2017, 13 countries reformed rules under discussion. Most countries have liberalized some rules.

Labor laws in Cabo Verde, Croatia, Pakistan, and Romania no longer require provision of retraining or reassignment before making a worker redundant (Table 11). Dominica, Montenegro, Portugal, Sri Lanka, and Trinidad and Tobago have abolished priority rules for redundancies, while Bahrain and Mauritius have introduced them.

**Table 11: Reforms in retraining and reassignment obligation, and in the priority rules for redundancies and reemployment between 2013 and 2017**

	Retraining or reassignment obligation before redundancy	Priority rules for redundancies	Priority rules for reemployment	Retraining or reassignment obligation before redundancy	Priority rules for redundancies	Priority rules for reemployment
	2017			2013		
The Bahamas	No	No	Yes	No	No	No
Bahrain	No	Yes	No	No	No	No
Cabo Verde	No	Yes	No	Yes	Yes	No
Croatia	No	Yes	Yes	Yes	Yes	Yes
Dominica	No	No	Yes	No	Yes	Yes
Kazakhstan	No	No	No	Yes	No	No
Mauritius	No	Yes	No	No	No	No
Montenegro	Yes	No	No	Yes	Yes	No
Pakistan	No	Yes	Yes	Yes	Yes	Yes
Portugal	Yes	No	No	Yes	Yes	Yes

Romania	No	Yes	Yes	Yes	Yes	Yes
Sri Lanka	No	No	No	No	Yes	No
Trinidad and Tobago	No	No	No	No	Yes	No

Source: World Bank, 2017

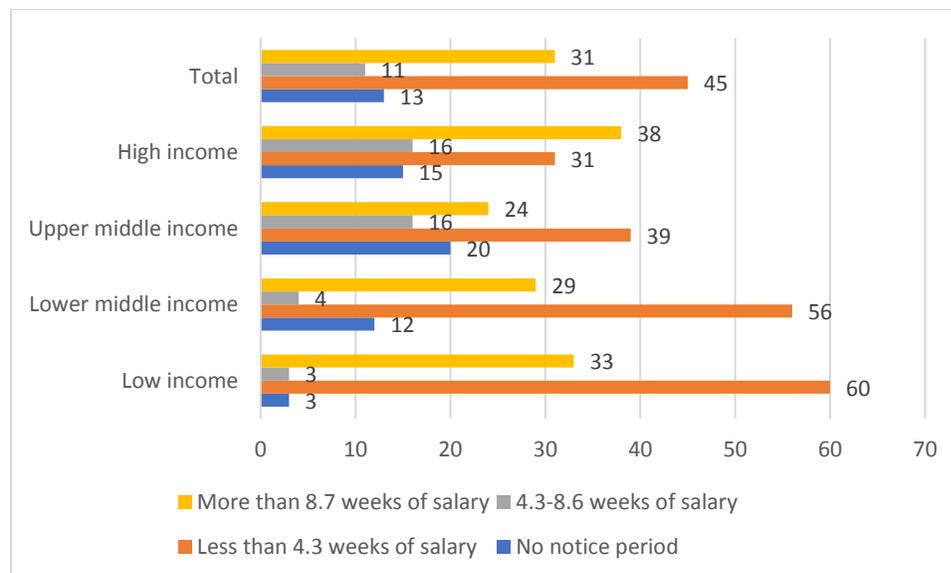
These rules aim to provide more protection to workers, but may delay necessary adjustments and downsizing of labor according to market conditions.

Overall, these employment protection rules are intended to increase job security. However, the tradeoff is that employers may be reluctant to hire (especially older workers with a higher risk of becoming disabled due to illness) if constraints inhibit future dismissal for reasons related to business. Strict administrative requirements for redundancy dismissal are a serious impediment to labor market adjustments, hiring of new employees, and formalization of labor relations.

#### 4.5. Notice period

Advance notice is a means to give workers ample warning of future layoffs, and thus facilitate job search.<sup>64</sup> While the employee has no obligation to provide a reason for notice of termination, in most countries, the employer must provide notice for contract termination according to law. The period of notice is a cost-factor for employers, as they imply involuntary and potentially unproductive employment.<sup>65</sup> If an employer wants a rapid reduction in its workforce, then both severance pay and notice pay for period is required. In that case, notice payments look much like severance payments.

**Figure 11: Notice period for redundancy dismissal after 10 years of continuous employment in weeks of salary in 2017; percent**



<sup>64</sup> OECD, 1999

<sup>65</sup> EC, 2012

Source: World Bank, 2017

Different legal solutions address advance notice provisions in various countries. In 2017 in 73 countries, the length of notice was made conditional on the period spent with the same employer; in 89 countries, the notice period is fixed with no regard to job tenure at the particular employer; and 25 countries do not have legally mandated notice period, including, among others, Denmark, Greece, New Zealand, Uruguay, Guinea-Bissau, El Salvador, Guatemala, Indonesia, Mexico, Peru, and Serbia. In some of these countries, a notice period has been established in collective agreements.

The most generous notice period is in the Gambia and Luxembourg, which have a notice period of 26 weeks for redundancy dismissal for a worker with at least 10 years of tenure, and even 33 weeks in Sweden.

Some countries have established minimum job tenure to be eligible for notice. In Greece and Lesotho, the first 12 months of work are considered a trial period, throughout which no notice period is required. In Ireland, statutory minimum of two weeks' notice only applies to employees having at least 104 weeks continuous employment with the employer.

In some countries, the advance notice period is differentiated according to professional criteria. In Lao PDR, notice is required for 30 days for manual workers and 45 days for skilled workers. In Austria, it is a fixed term; two weeks for blue collar workers, but for white collar workers it depends on tenure. Also in Madagascar, the notice period depends on length of service and professional group (it is different for laborers, skilled trades, foreman, middle managers, and senior managers).

In some countries, the advance notice period is differentiated according to social criteria. In Lithuania, it is typically two months, but four months if the redundant worker is entitled to the full old-age pension in less than five years, and also for persons less than 18 years of age, disabled persons, and employees raising children under 14 years of age.

In Croatia, given difficulties finding a new job for older workers, the notice period is extended by two weeks if the worker has reached 50 years of age, and by one month if the worker has reached 55 years of age. Furthermore, notice due to business or personal reasons is allowed in Croatia only if the employer cannot train or qualify the worker for work at another job, or if the circumstances are such that it is not reasonable to expect the employer to train or qualify the worker for work at another job.

In FYR Macedonia, the notice period is extended in case of mass redundancies: where more than 150 employees, or alternatively, not less than five percent of the total number of employees prior to termination of the labor relation have experienced termination of contracts, the notice is extended from one to two months.

The ILO Termination of Employment Recommendation No. 166 suggests that the worker should, for purpose of seeking other employment, be entitled to a reasonable amount of time off without

loss of pay, taken at times convenient to both parties. Thereby, in order to search for another job during the notice period, the employee may benefit from paid leave of absence.

For example, in Poland, within a minimum two week period of notice, the worker has the right to take two to three days leave from work for purpose of seeking new employment, depending on duration of the notice period. In Lithuania, this length of time should not be less than 10 percent of the employee's rate of working time during the term of notice. Time off from work is granted in accordance with the procedure agreed between employee and employer.<sup>66</sup>

Overall, notice period is more often of short duration, less than one month, among low income and lower middle income countries.

#### **4.6. Severance pay**

Severance pay is the most prevalent form of protection in case of redundancies in most low-income economies and middle-income economies that have not implemented unemployment benefit schemes. Severance payments typically provide lump-sum cash transfers to workers who involuntarily or voluntarily separate from their jobs. The lump sum is usually based on the worker's earnings and length of service preceding dismissal. Social guarantees associated with separations and redundancies, including the amount of severance pay, and even obligation to pay the benefit, usually depend on circumstances of separation from the company.

Relatively few workers, even if their contract is terminated for economic reasons, receive severance pay. First, especially in emerging market economies and developing countries, pro forma, few terminations of employment contracts are for economic, technological, or organizational reasons, often not exceeding one to two percent of the total number of workers annually. Formal voluntary resignations remain the most common reason for leaving a job. Second, many laid-off workers do not qualify for severance pay since their length of service may be too short, or for other reasons, such as their firm is too small and is not obliged to pay severance.

The term "voluntary resignation" is, nevertheless, often misleading. There is a clear correlation between rates and levels of voluntary resignation from sectors and firms, and level of wages and wage growth: the lower the wages, the higher the "voluntary" resignation from jobs. In many cases, firms have no funds for severance payment, thus forcing workers to leave "voluntarily."<sup>67</sup> Many de facto laid-off workers may lose their entitlement not only to severance pay, but to unemployment benefits as well.

It is notable that 61 countries (33 percent) do not have statutory severance pay for redundancy dismissal after one year of job tenure; 37 countries (20 percent) still do not have access to statutory severance pay after five and 10 years of job tenure.<sup>68</sup>

While most countries mandate severance pay, important details differ. These include extent of coverage, eligibility conditions, and generosity of benefits. Severance consists of a lump sum

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<sup>66</sup> Kuddo, 2009

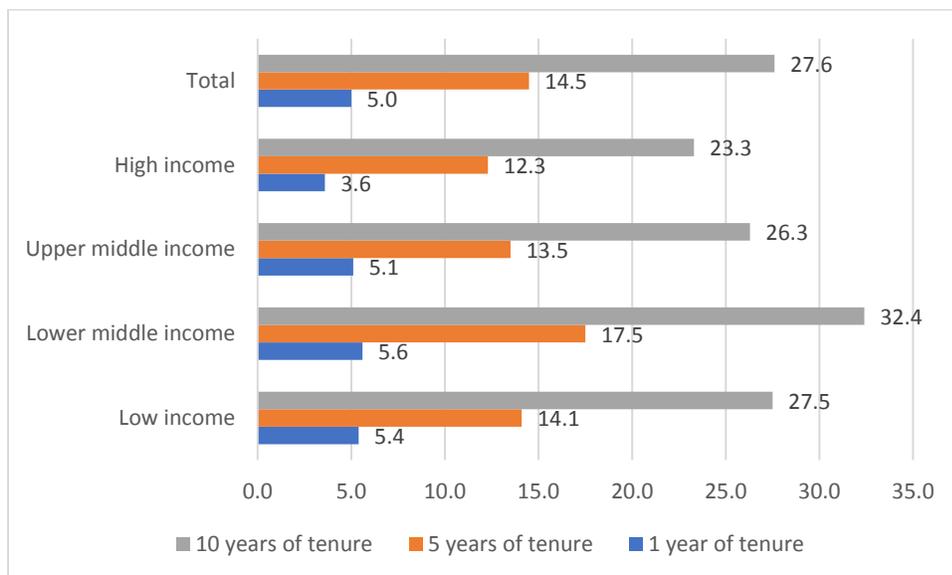
<sup>67</sup> Kuddo, 2009

<sup>68</sup> World Bank, 2017

payment to a worker who has been involuntary laid-off. Severance payment entitlements may be enshrined in law or bargained in collective agreements. Payment may differ according to reason for dismissal. In some countries, size of severance payments is negatively linked to length of notice period given to the dismissed employee.

Severance pay has traditionally been of the defined benefit type, and most designs still take this form. Increasingly, however, defined contribution benefits are being introduced. Under defined benefit plans, severance pay usually depends on years of service and last wage, and has a vesting period (that is, a minimum number of months of employment are required for eligibility).

**Figure 12: Average statutory severance pay in countries requiring severance pay (for a worker with 1, 5 and 10 years of tenure, in salary weeks, 2017)**



Source: World Bank, 2017

More complex formulas exist in which compensation is adjusted according to years of service or age tiers. Under such structures, older workers or those with long service records are usually entitled to more generous severance pay.

In some countries, generosity of severance benefits may differ by type of separation (for example, dismissal, redundancy, collective redundancy, end of service); between white and blue collar workers; between permanent and fixed-term workers; or between those covered by collective agreements and those not covered. In some countries, workers receive a seniority premium depending on reason for separation (usually in cases of no-fault dismissal). Some countries do not have explicit benefit formulas and leave determination of severance pay, as well as authorization to lay off workers, to special government bodies or court decisions.

Most countries use a sliding scale for severance pay. By design, a sliding-scale country is more generous to its more senior than less senior workers. However, workers with shorter tenure (young,

females) are cheaper to dismiss and expected to suffer higher dismissal probabilities in downturns.<sup>69</sup>

Only 17 countries with severance pay have a flat rate scheme, who, as a rule, have much less generous severance benefits, including, among other countries, two-week salary in Kenya; one month salary in Armenia, Bulgaria, Estonia, Georgia, Kazakhstan, Mongolia, and Ukraine; two month salary in Russia and Uzbekistan; three months in Algeria, and Belarus, Kyrgyzstan, and Tajikistan; four months in Central African Republic; and six month salary in the Gambia.

As noted above, in some countries, law requires minimum period of seniority (a vesting period) at a particular employer before a worker is entitled to severance pay for dismissals. Altogether, labor legislation in at least 24 countries requests between six months and three years of job tenure at the employer, depending on the country, before the worker is eligible for severance, including, among others, in Bosnia and Herzegovina, Burundi, Canada, Chad, Republic of Congo, Croatia, Gabon, Jamaica, and United Kingdom. The lengthiest vesting period, three years, is in Hungary and Albania.

In Germany, there is no compulsory severance payment. However, voluntary severance in order to avoid employees' claim to labor court must be calculated on basis of one half of the monthly salary per year of service.

There is no statutory severance pay in Jordan since a worker would be covered by the social security system.

In some countries, termination benefits depend on type of contract. For example, in Nicaragua, workers on temporary contracts are not entitled to severance pay once a contract is terminated. In other countries, the law protects workers on temporary contracts more than workers on permanent contracts. In Estonia, in case of redundancy, compensation payable to the temporary employee must be equal to the total of all of his or her pending salary installments until expiry of the fixed term of the employment contract, unless redundancy was caused by force majeure. The same is true in Lebanon, Paraguay, and Uruguay. In Spain, if workers are working part-time because they have to care for children or relatives, then they are given severance pay equivalent to a full-time employee's salary, whereas ordinary part-time employees simply receive severance pay based on their actual paid salary.

In the UK, severance is linked to age of a redundant worker as follows: 0.5 week's pay for every year the employee is aged 21 or less, one week's pay for every year the employee is aged 22 to 40, 1.5 weeks' pay for every year the employee is aged 41 or older. A maximum of 20 years' work is considered. The current cap on a week's pay is £479.

In Switzerland, there is no severance given if the employee is less than 50 years of age. If the worker is 50 years or older and has worked for 20 years, he shall receive a severance pay of two

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<sup>69</sup> Boeri et al. 2008

to eight months' wages. The amount is determined by agreement, collective bargaining agreement, or by the judge using his full discretion.

Labor laws in some countries - including the Czech Republic, Hungary, and Poland—explicitly state that severance pay is not required when employment relations transfer to a new employer.

Severance payments preferably should be capped at a certain maximum. In Bosnia and Herzegovina, minimum severance pay is one third of the average monthly salary paid to the employee in the last three months of employment, for every full year of work with the employer. Calculated severance pay may not exceed six average monthly salaries paid to the employee in the last three months of employment.

Other countries, conversely, establish a cap on minimum benefit. For example, in Guinea-Bissau severance equals one month per year of service (increased for workers over 50 years of age), with a minimum of three months' salary. The same threshold of one month per year of service, with a minimum of three months, also applies in São Tomé and Príncipe. In Vietnam, severance equals one month of last wages per year of work, with a minimum of two months' wages.

Labor legislation may stipulate provisions aimed at stimulating early registration of workers made redundant and seeking a job at Public Employment Service (PES). In particular, in several Commonwealth of Independent States (CIS), the duration of severance pay is conditional on finding a new job and/or registration at the employment service within a certain period of time, typically within 10 days after contract termination.

For example, in Russia, severance pay equals an average monthly wage. However, average monthly wages are preserved for the period of taking up a job, but not more than two to three months from date of dismissal (considering also a dismissal allowance) on the basis of decision made by employment agency, providing that the employee applied to the employment agency within two weeks after dismissal, but was not placed in a job.

Rapid registration with PES allows the jobseeker/laid-off worker to be immediately offered available vacancies, provided employment services, such as job counseling and job search assistance, or participation in ALMPs, thus shortening job transition.

**Reforms in severance pay.** Severance is one of the most actively reformed labor regulations. Between 2013 and 2017, 17 countries changed costs of severance pay. Most countries have made it less generous and costly to employers, including Angola, Laos, Taiwan, and Zimbabwe; Gambia, Iraq; the Netherlands have introduced statutory severance pay, and Bahrain and Tunisia have boosted generosity of the benefit.

In 2013, Zimbabwe had one of the highest severance pays in the world, reaching 130 weeks of salary for a worker with 10 years of tenure. By 2017, the threshold was lowered to 22 weeks of salary.

**Table 12: Reforms in severance pay for redundancy dismissal between 2013 and 2017 (severance in salary weeks)**

	Severance pay for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	Severance pay for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	Severance pay for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)	Severance pay for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	Severance pay for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	Severance pay for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)
	2017			2013		
Angola	8.7	12.6	19.5	4.3	21.7	54.2
Armenia	4.3	4.3	4.3	4.2	5.0	5.8
Bahrain	2.2	60.0	120.0	2.4	2.4	2.4
Barbados	0.0	12.5	25.0	2.5	12.5	25.0
Cabo Verde	2.9	14.3	28.6	4.3	21.7	43.3
Gambia	26.0	26.0	26.0	0.0	0.0	0.0
Guyana	1.0	5.0	15.0	2.0	10.0	25.0
Iraq	2.0	10.0	20.0	0.0	0.0	0.0
Lao PDR	5.2	26.0	52.0	5.2	39.0	78.0
Malaysia	1.7	16.7	33.3	1.7	33.3	33.3
Moldova	12.9	13.6	18.6	9.6	13.6	18.6
Netherlands	0.0	7.2	14.3	0.0	0.0	0.0
Portugal	1.7	8.6	17.1	2.9	14.3	28.6
Taiwan	2.2	10.8	21.7	2.2	10.8	43.3
Tajikistan	13.0	13.0	13.0	4.3	5.4	10.8
Tunisia	4.3	21.4	26.0	1.7	8.6	13.0
Zimbabwe	4.3	10.8	21.7	13.0	65.0	130.0

Source: World Bank, 2017

Overall, severance obligations may be a major problem, in the sense that many firms that need to restructure may be cash strapped and have no funds for severance payments. Severance payments set too high have negative implications for job creation and efficient labor reallocation, as they tend to discourage employers from undertaking necessary restructuring, and can therefore be a constraint to firms as they seek to enhance productivity and move up the value chain.

Replacing coercive firing regulations and expensive severance pay upon dismissal by an unemployment benefit scheme could be a way to improve functioning of the urban labor market. This is consistent with policies to shift focus from protection of jobs to protection of transitions, so that individual risk of unemployment and income loss is reduced, while the potentially negative effects of job protection are avoided.<sup>70</sup>

<sup>70</sup> EC, 2006

## Conclusions

The study revealed that, beyond general principles, there is no overall blueprint to design or adapt labor regulations. Rather, there are different reform paths that depend on country characteristics shaped by social, political, economic, and historical circumstances, combined with different legal traditions. This suggests that reforms in labor regulations should be carried out in a systematic and comprehensive manner.<sup>71</sup> A summary of particular reforms and main findings are as follows.

Recent changes in the world of work have created a demand for a wider variety of employment contracts. As a result, recent reforms in employment protection legislation have focused on easing regulations to facilitate more contractual diversity. Reforms are largely associated with easing recourse to temporary forms of employment, while existing provisions for regular or permanent contracts are much less altered. By DB data, fixed-term contracts are allowed for permanent tasks in most countries, and most countries have no limits in duration of fixed-term employment relationships, or the duration is not regulated in labor law. However, although a share of workers on temporary contracts tends to increase (at least in advanced countries), the number of countries that place restrictions on such type of contracts tends to be higher than those of liberalizing such arrangements.

The reduction of excessively long hours of work in order to improve workers' health, workplace safety, and enterprise competitiveness is a long-standing concern. In particular, overtime arrangements can be abused by employers, especially on-season or during increases in volume of work. Instead of hiring additional labor, existing workers are requested to work overtime. Between 2013 and 2017, the countries who changed duration of a standard workday or a workweek, in most cases, shortened their duration. For the same period, most countries who revised the level of wage premium for overtime work mostly increased the wage premium or introduced it for the first time.

Flexible leave policies allow work time to be reconciled with family duties and recreational or social activities. Family leave entitlements have especially positive implications for care of children, as well as encouraging entry into the labor market and enabling people to remain at work. The general trend is that, over time, annual leave entitlements have become more generous; however, a few countries have reduced the duration of annual leave. In 2017, there were still 61 countries, or one third of the total, who had an annual leave entitlement of 14 working days or less, e.g., less than three working weeks suggested by the ILO as a minimum standard.

Of 190 countries in the DB database in mid-2017, 24 countries still lack a statutory minimum wage. In some countries, the ratio of minimum wages relative to value added per worker (measured as a share of GNI per worker - a proxy for average earnings) is very low, and virtually nobody receives wages at that level. On the other end of the spectrum, in 11 developing countries, pro forma statutory minimum wages exceeded the level of average value added per worker. In these countries, minimum wage arrangements are commonly not enforced, and a significant share of workers covered by a minimum wage agreement are paid a wage below the minimum.

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<sup>71</sup> Kuddo et al., 2015

By discouraging firing, employment regulations may slow down adjustment to shocks and impede reallocation of labor, with potentially negative implications for productivity growth and adaptation to technological change.

The DB data show that, in case of individual dismissals, in half the countries, the employer is obliged to notify or consult with a third party (typically workers' representatives, labor inspectorates, or other bodies of labor administration) before terminating one redundant worker. This requirement is strongly biased towards low-income countries. In less than one fifth of countries, the employer also needs approval of a third party. Notification and consulting requirements are much more common in case of dismissing a group of workers.

One obstacle for employers to adjust their workforce is provision of retraining, or reassignment obligation before an employer can make a worker redundant. This obligation is more common in high and upper middle-income countries.

Selection by the employer of workers whose employment is to be terminated for economic reasons should be made according to criteria, established wherever possible in advance, which give due weight both to interests of the enterprise and interests of workers. Professional qualities, like the worker's professional education and/or qualification for work and necessary additional skills and capacities, work experience, job performance, or years of service may serve as criteria.

Advance notice is a means to give workers ample warning of future layoffs, and thus facilitate job search. Long notice periods may have relevant monetary implications, as they imply involuntary and possibly unproductive, employment. Most labor laws require employers to give advance notice before terminating workers and to pay workers dismissed without adequate notice the salary that they would have received in the notice period.

Severance pay is the most prevalent form of protection in case of redundancies in most low-income and middle-income economies that have not implemented unemployment benefit schemes. Severance payments typically provide lump-sum cash transfers to workers who involuntarily or voluntarily separate from their jobs.

While most countries mandate severance pay, they differ in important details. These include extent of coverage, eligibility conditions, and generosity of benefits.

In some countries, generosity of severance benefits may differ by type of separation (for example, dismissal, redundancy, collective redundancy, end of service); between white and blue collar workers; between permanent and fixed-term workers; or between those covered by collective agreements and those not covered. In some countries, workers receive a seniority premium, depending on reason for separation (usually in cases of no-fault dismissal). Some countries do not have explicit benefit formulas and leave determination of severance pay, as well as authorization to lay off workers, to special government bodies or court decisions. Severance payment may be limited by a ceiling.

Overall, enterprise restrictions on terminations in many countries are considerable. Countries should consider eliminating or limiting some of these restrictions. Such reform would give

employers greater flexibility in responding to market fluctuations through their workforce. If not, employers will be reluctant to hire workers, and more inclined to operate in the informal sector.

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