

Patrialand Labor Code Reform Case Study

Background

Patrialand is not living up to its potential. A resource-rich country with a good port, it has failed to make substantial progress in alleviating poverty. Once on the cusp of middle income status, the country has experienced no real economic growth in the previous ten years. There is little new foreign direct investment and very slow growth in exports. Over 20% of the population earns less than \$2 per day. Among the working population, more than half scrape by in the informal sector with few options for increasing their incomes, pursuing training, or accessing credit. The constant threat of illness or injury risks propelling these workers and their families further into debt and debilitating poverty. Jobs with benefits are increasingly difficult to find.

Patrialand Economic and Labor Market Profile

GDP per capita:	US \$2,000
Workforce in agriculture:	35%
Trade union density:	10%
Informal sector:	50% of all jobs in urban areas
Unemployment rate:	10%

Trade unions are essentially limited to the public sector and a handful of large manufacturing plants. There is a large and growing urban informal sector. Job growth in the formal sector is minimal. The unemployment problem is most acute for women and youth.

The new government of Patrialand is concerned that the country will slip further behind as globalization has heightened competition for export markets and scarce FDI. Large foreign companies seem to be choosing neighboring countries to source their products and establish joint ventures. The new ruling party had campaigned on a platform of improving competitiveness and fighting poverty; now they must deliver. Desperate for fresh ideas and to learn from international experience, the Ministry of Finance called on the Global Agency for Development of Financially Literate and Intelligent Systems (GADFLIES) for advice.

GADFLIES strongly encouraged labor market reform as one element of a new economic and social program. At the request of the Ministry of Finance, GADFLIES prepared a proposal, based on international best practice, outlining a strategy for labor market regulation including reforms to the labor code. The following excerpt explains the premise of the changes they propose:

“The existing labor code in Patrialand includes substantial job protection for workers in the formal sector via mechanisms such as high severance pay obligations and strict regulation of hiring and firing workers. This has impeded the growth of formal sector jobs by creating hiring disincentives. The current policy framework provides strong protection to workers covered by the labor code, but offers virtually nothing to others.

For this reason, we recommend the proposed changes with the intent of balancing increased flexibility for employers in hiring and firing workers with broader social protection mechanisms and additional legal support for collective bargaining arrangements.”

The following table compares aspects of the proposal to the current system.

	Existing	GADFLIES proposal
Hiring and Firing	<ul style="list-style-type: none"> • Employer may dismiss workers for economic reasons only with the permission of the government and must provide 4 months advance notice. • Employers must make severance payments to terminated employees in the amount of one month’s salary for each year of employment. • Fixed term contracts may only be offered in specific cases and for limited duration. 	<ul style="list-style-type: none"> • Employer or employee may terminate employment with one month written notice. • Severance pay is limited to 3 months salary • No restriction on fixed term employment.
Income Support	<ul style="list-style-type: none"> • No income support for unemployed workers (beyond severance pay). 	<ul style="list-style-type: none"> • Initiate unemployment benefits system jointly funded by employer and employee contributions.
Industrial Relations	<ul style="list-style-type: none"> • Government may refuse to register a trade union if another union exists in that establishment, occupation, or industry. • Government establishes level at which collective bargaining takes place and must approve collective agreements. 	<ul style="list-style-type: none"> • Workers are free to establish and join trade unions of their own choosing. • Level of bargaining (enterprise, sector, national) determined by social partners • No government approval for collective agreements negotiated in the private sector

Upon receiving the proposed reform from GADFLIES, the Patrialand Minister of Finance has decided to solicit feedback from the key social partners affected by the proposal. To do so, the Minister has invited the central trade union federation, an umbrella association of NGOs working with informal sector workers, the national association of employers, and the Labor Ministry to participate in a National Consultation Forum to formally share their views on the GADFLIES proposal.

**Group 3: INFORMAL SECTOR WORKERS ASSOCIATION OF PATRIALAND
(Tanzania)**

1. (a) What, if anything, will your members gain if the GADFLIES proposal is adopted? (b) What, if anything, do your members stand to lose?

2. On balance, do you feel that the proposed changes to the labor code will help or hinder your country's ability to
 - (a) compete in export markets and attract foreign investment?

 - (b) to reduce poverty?

3. What, if any, changes would you propose to the GADFLIES code?

4. If you had to vote today on this proposal, would you:
 - (a) Accept as is
 - (b) Accept with changes
 - (c) Reject

What are the key reasons for your decision?

Group 4: PATRIALAND MINISTRY OF LABOR (Ethiopia)

1. On balance, do you feel that the proposed changes to the labor code will help or hinder your country's ability to

(d) compete in export markets and attract foreign investment?

(e) to reduce poverty?

2. How would the GADFLIES proposal change your work?

3. Do you feel that this proposal is more or less feasible to enforce.

4. What, if any, changes would you propose to the GADFLIES code?