

DRAFT



BRICS
INDIA: 2016

BUILDING RESPONSIVE, INCLUSIVE & COLLECTIVE SOLUTIONS

ISSUE NOTE I

'Boosting Growth and Employment in the BRICS'

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DRAFT - 15 September 2016



Boosting Growth and Employment in the BRICS

1. Introduction

1.1 The quintet of BRICS - Brazil, Russia, India, China and South Africa- have been deservedly celebrated as a major force in the global economy. Accounting for approximately 45 per cent of the global labour force, the sheer size of the BRICS means that developments in the labour markets of the BRICS have major implications for the world of work across the world.

1.2 The BRICS community can use their size and status to foster a shared vision on policies for quality employment promotion and for inclusive growth, emphasizing sustained commitments to improving labour market and social indicators through appropriate policy interventions. Such a vision would be a much welcome development in a global context in which there are continuing concerns about slow growth and the risk that socio-economic progress across the world might be impaired. Indeed, the BRICS themselves might become vulnerable to a synchronous growth slowdown. What matters in such circumstances is a renewed commitment to the quality and inclusiveness of growth rather than merely focusing on its quantitative dimensions. This issue note reviews the macroeconomic and labour market situation in the BRICS and highlights the policy issues that follow from such a review.

2. The macroeconomic situation: synchronous growth slowdown and its implications

2.1 The BRICS were collectively seen as drivers of global economic growth following the global recession that afflicted the international community in 2008-2009. This optimism was justified as the BRICS rebounded vigorously from the global recession by 2010. Since then growth, with some exceptions, has faltered. As Table 1 shows, Russia and Brazil are experiencing negative growth rates in 2015 and 2016. Growth in China has dipped below the near double digit growth that it experienced in the 1998 to 2007 period and this is expected to prevail over the medium-term. South Africa's growth has moderated in the last three to four years. Projections suggest that this trend is likely to persist. Only India is growing in excess of 7 per cent, based on estimates of the revised national accounts system. Medium-term projections suggest that this salutary performance is likely to continue.

Table 1: BRICS, GDP growth rates, 1998 to 2017

Country	<u>Growth of GDP 1998-2007</u>	<u>2008-2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Brazil	3.0	3.2	-3.8	-3.3	0.5
Russia	5.8	1.7	-3.7	-1.2	1.0
India	7.1	7	7.6	7.4	7.4
China	9.9	8.8	6.9	6.6	6.2
S Africa	3.7	1.7	1.3	0.1	1.0
Average	7.3	6.7	4.8	4.9	5.4

Source: All estimates are derived from IMF (2016) *World Economic Outlook*, April and its *Update* in July 2016. Figures for 2016 and 2017 are projections.

2.2 Recent evaluations suggest external factors have largely been responsible for the synchronous growth slowdown in the BRICS. Weak global trade, which is about 20 per cent below trend growth, have had a negative impact on the BRICS. Tumbling commodity prices have hit commodity exporters like Brazil, Russia and South Africa. Tightened financial conditions and the volatility of short-term capital flows have exacerbated the inhospitable external conditions facing the BRICS community. There is also evidence of a reduced pace of total factor productivity growth juxtaposed with substantially reduced investment growth. These might be attributed to domestic policy uncertainty as governments in the BRICS seek to navigate their way through a turbulent external economic environment after the boom of 1998 to 2007.¹

2.3 Concerns have been expressed about the negative spillover effects of the growth slowdown in the BRICS on emerging economies and the global economy. Some estimates suggest that the reduced pace of growth in the BRICS is likely to shave off 0.8 per cent from GDP growth for emerging economies as a whole and about half that for global growth.²

2.4 Under normal circumstances, governments in the BRICS would have reacted with vigorous counter-cyclical fiscal and monetary policies to respond to recession and slow growth as they did during the last global downturn. Now, there are continuing concerns about lack of fiscal space, at least in some of the BRICS. For example, in South Africa public debt to GDP ratio has increased 19 percentage points since the last global recession. In other commodity exporting BRICS, there are also concerns about debt to GDP ratio and perceived financial market pressures in the wake of evidence of lax fiscal policies.

2.5 In the case of monetary policy, there is also evidence of cautious manoeuvres. Inflation targeting central banks in BRICS are hesitant to reduce rates as long as the prevailing and projected inflation rate is above the target rate as is the case in Brazil and South Africa. Russia has only very recently decided to reduce the policy rate by 50 basis points even though the prevailing inflation rate is significantly above the target rate. India and China have been more forthcoming in reducing policy rates.³

2.6 It is also possible that the growth slowdown is part of a secular phenomenon. The boom of the 1998-2007 period that preceded the global recession of 2009 was probably exceptional. They were driven at least partially by a global commodity price boom and plentiful supply of cheap credit. These conditions that can enable a boom are unlikely to be replicated for prolonged periods. Hence, the emphasis should be on the quality and inclusiveness of growth rather than its quantitative dimensions. Certainly, a growing economy is necessary for enhancing quality employment generation and social indicators, but in turn, improvements in labour and social indicators are important because they signal positive changes in human capabilities that promote growth.

¹ World Bank (2016), 'Sources of the growth slowdown in the BRICS', January 11, available at <http://blogs.worldbank.org/prospects/global-weekly-sources-growth-slowdown-brics>

² Huidrom, R, Kose, M.A, and Ohnsorg, F (2016) 'Painful spillovers from slowing BRICS growth', February 17, available at <http://voxeu.org/article/painful-spillovers-slowing-brics-growth>

³ The latest monetary policy developments can be downloaded from central bank websites of the BRICS available at https://www.bis.org/central_bank_hub_overview.htm

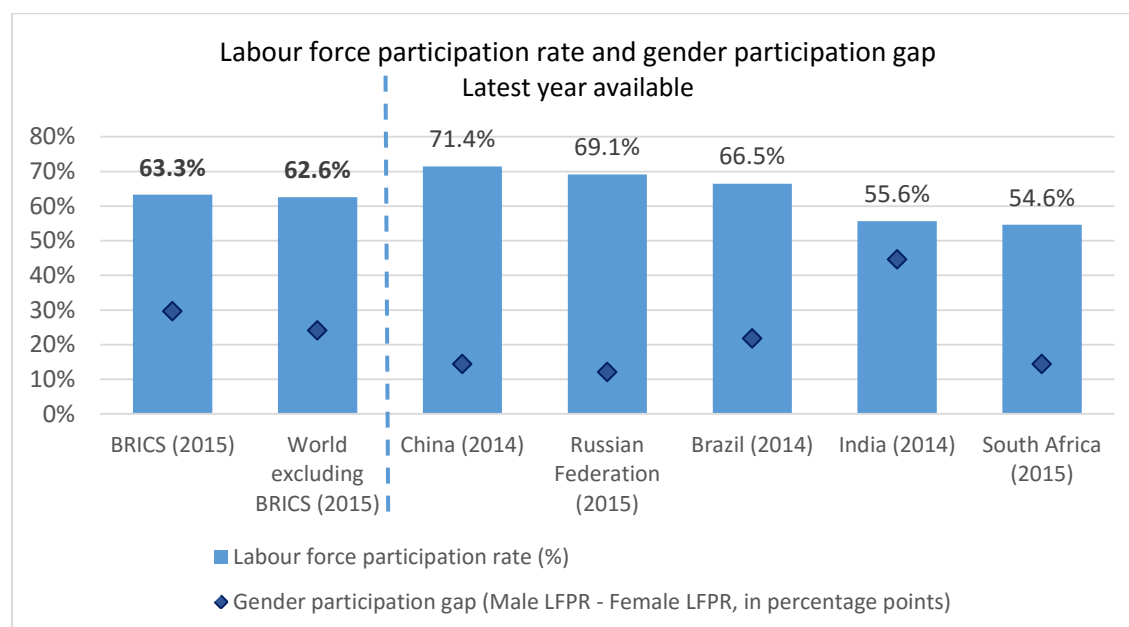
3. Assessing labour market performance in the BRICS: a holistic approach⁴

3.1 Assessing labour market performance – whether at a point in time or over time – requires a holistic approach that can highlight both common features and distinctive aspects of country-specific labour markets in the BRICS. This would entail using a multiplicity of indicators which range across labour force participation rates, employment and unemployment, informal employment, wages, industrial relations, occupational health and safety, social protection, the status of young people in the labour market as well as gender disparities and inequality. The statistical annex offers an illustration of the multiple dimensions of the labour market in BRICS using the latest available information. The discussion in the text offers a selective exposition of key labour market indicators that is drawn primarily from the statistical annex.

3.2 Labour force participation rates

3.2.1 There is broad diversity amongst the BRICS. China has the highest labour force participation rate (71.4 per cent) followed by the Russian Federation and Brazil. South Africa, and India in particular, are notable for their moderate participation rates (just over 50 per cent). Low female labour force participation rates in India have been well documented by a number of studies leading to a high gender gap in terms of this indicator.⁵

Figure 1



Source: Labour Bureau for Indian data; ILOSTAT and KILM 9th edition for other country-level data, ILO, Trends Econometric Models, April 2016 for regional aggregates (Ages 15-72 for the Russian Federation, 16+ for China and 15+ for the rest).

⁴ This section draws heavily on ILO (2016) 'Towards labour market indicator harmonization in BRICS countries', background paper at Meeting of BRICS Ministers of Labour and Employment, January 25-26, and updates the data with the latest edition of ILO Key Labour Markets Indicators (KILM 2016).

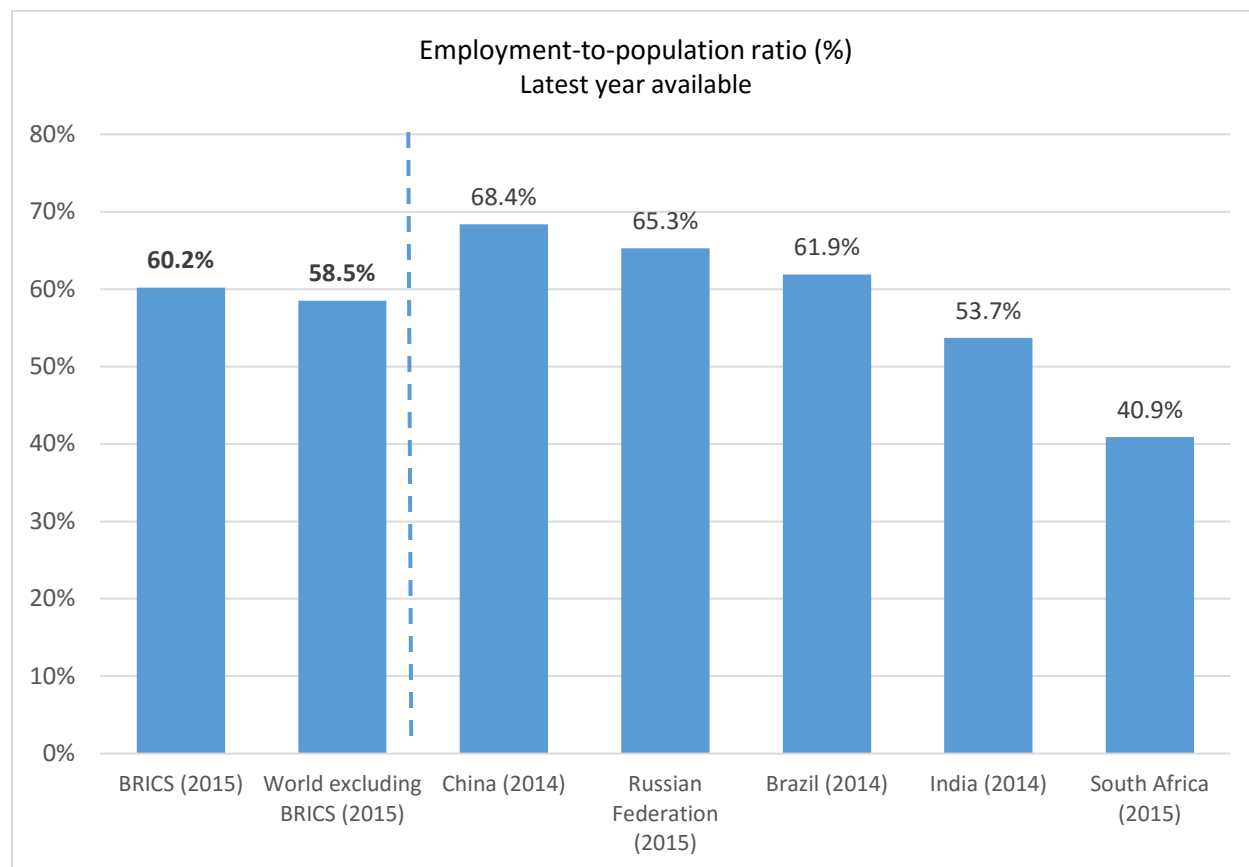
⁵ See, for example, Chaudhary, R and Verick, S (2014) 'Female labour force participation in India and beyond', ILO Working Paper, New Delhi.

3.3 Employment and its multiple dimensions

3.3.1 The employment rate – or the employment to population ratio (EPR) - is a measure of assessing the extent to which the labour market is able to absorb the work-force in productive activities.

3.3.2 Figure 2 shows the EPR for the BRICS. The average EPR for the group is 60 per cent, but there are significant variations around this average. China has the highest EPR at 68 per cent which can be juxtaposed with South Africa exhibiting an EPR of 41 per cent.

Figure 2



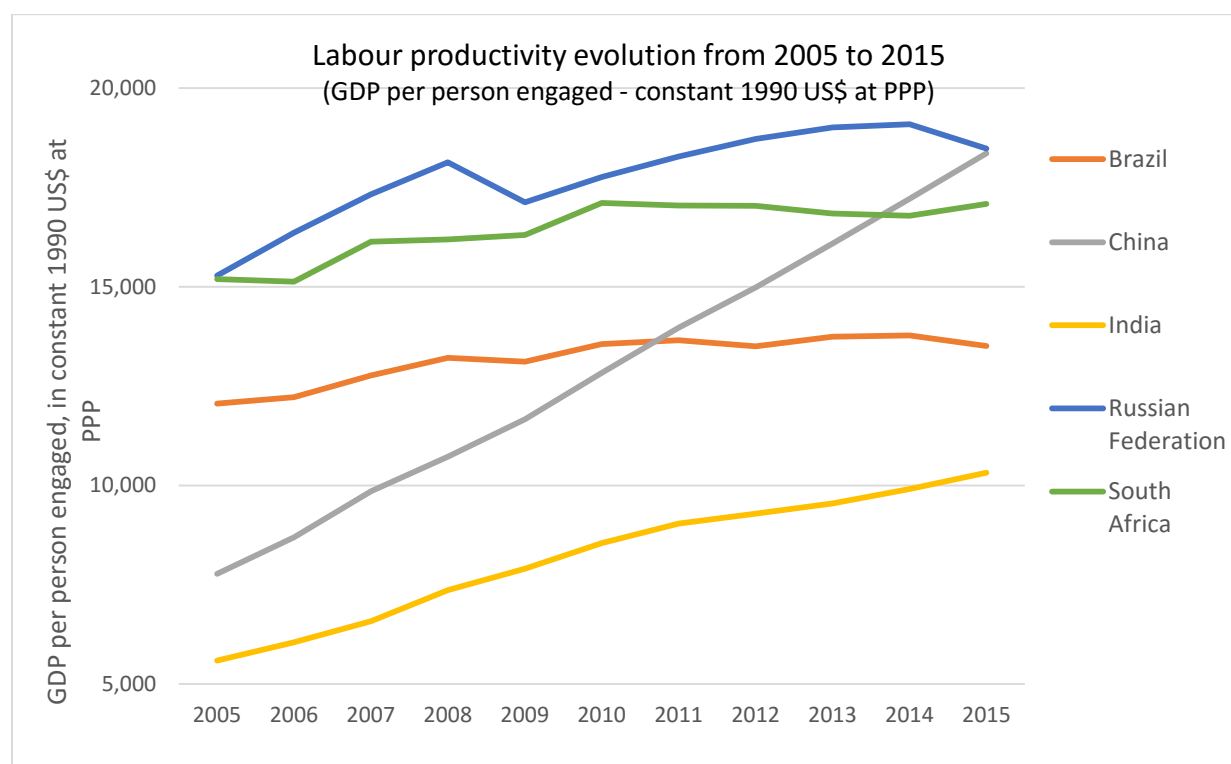
Source: Labour Bureau for Indian data; ILOSTAT and KILM 9th edition for other country-level data, ILO, Trends Econometric Models, April 2016 for regional aggregates

3.3.3 While the EPR is useful, it does not capture qualitative aspects of employment. A country might have a high EPR but this could hide a proliferation of low quality jobs. Accordingly, it would be useful to examine additional indicators. One way to assess this, is to monitor labour productivity. A high and growing labour productivity juxtaposed with high EPR might be interpreted as a case of more and better jobs.

3.3.4 There are significant gaps in labour productivity among the BRICS, although this has narrowed in recent years (Figure 3). Russia and South Africa had the highest labour productivity levels in the group, but China has caught up rapidly. Thus, China displays a

combination of high LPR, EPR and high labour productivity. South Africa, on the other hand, has low EPR and moderate LFPR.⁶ Stagnant productivity levels in Brazil are probably due to a range of structural factors including weak infrastructure, technology and skills development, which pose an obstacle to sustained and job-rich growth. Figure 3 also shows that despite the upward trend in the past decade, India has a large productivity gap to circumvent along with the need to increase both EPR and LFPR.

Figure 3

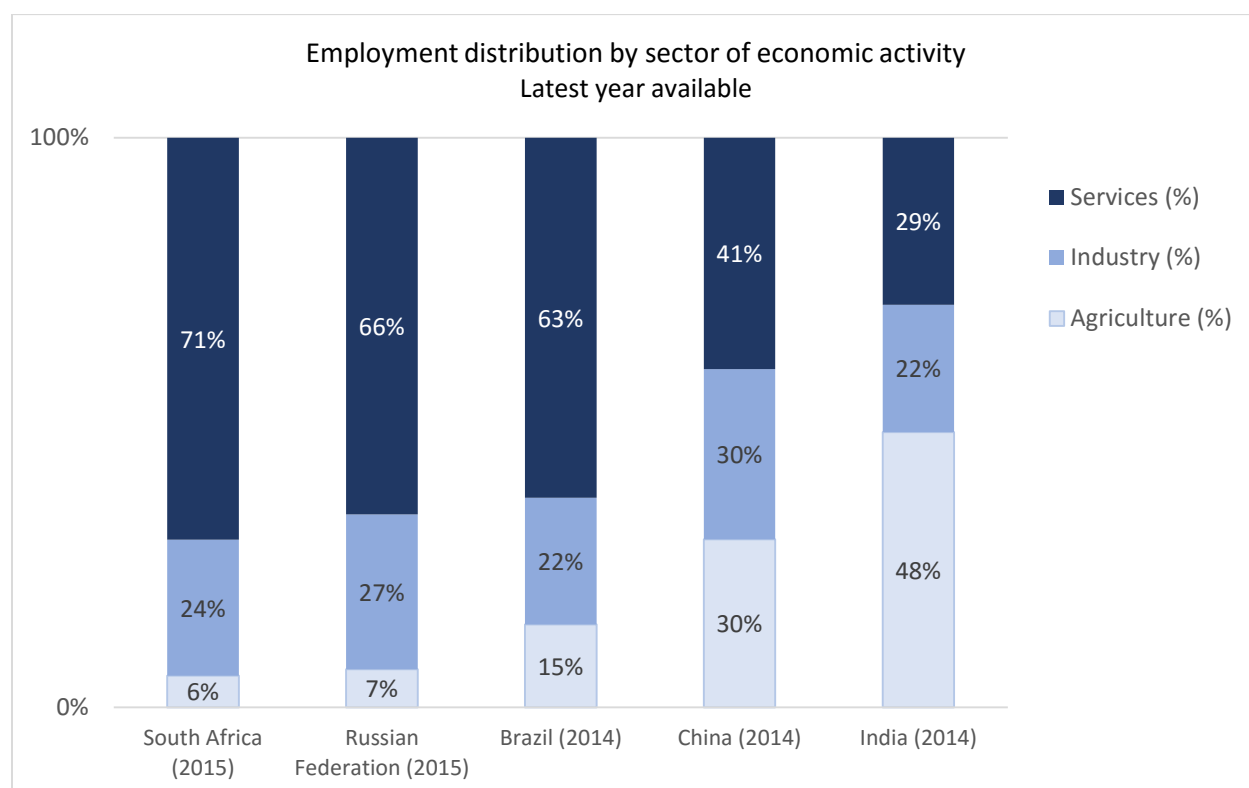


Source: Key Indicators of the Labour Market, table KILM 16b (Conference Board estimates)

3.3.5 Figure 4 offers an illustration of the sectoral composition of employment in the BRICS. Almost half of the work-force in India are employed in agriculture. In the other BRICS, the service sector is the dominant employer, over 60 per cent for Brazil, Russia and South Africa, with China accounting for a relatively large share on employment in manufacturing.

⁶ Majid (2015) offers a thorough analysis of the 'great employment transformation' in China. See Majid, N (2015) 'The great employment transformation in China', *Employment Working Paper No.195*, ILO, Geneva

Figure 4



Source: Labour Bureau for Indian data; ILOSTAT and KILM 9th edition for other country-level data, ILO, Trends Econometric Models, April 2016 for regional aggregates

3.3.6 This sectoral composition of employment provides the context to recent debates on ‘premature de-industrialization’, that emerging and middle income economies – of which the BRICS as a group is a prime exemplar – have become service sector-oriented too soon relative to historical norms.⁷ This is indeed a concern if the service sector is insufficiently productive relative to industry, so that the premature rise of the service sector acts as an impediment to productive structural transformation.

3.3.7 However, the evidence supporting this concern is unclear. With this uncertainty, the BRICS cannot rely on a single pathway to sustained prosperity and productive structural transformation. Improving livelihoods within agriculture – especially for a country like India – and services through an appropriate strategy for productive upgrading and formalization is a pragmatic response to current realities and future prospects. Industrial policies including targeting those sectors and value chains that have significant backward and forward linkages and potential for value addition, skills development and job creation can be relevant options. A focus on facilitating transition to formality of the low end segments of the services sector is key for all the BRICS.

⁷ This thesis is advanced by leading development economist Dani Rodrik in its article on "Premature deindustrialization," *Journal of Economic Growth*, vol 21(1), pages 1-33, 2016.

3.3.8 An important way of assessing the quality of the employment in the BRICS is to reflect on the incidence of informality. Transition from the informal to the formal economy, through context specific coordinated actions, as advocated in the ILO Recommendation No. 204 is a major policy goal in the BRICS.

3.3.9 Information on the share of informal employment as a proportion of the non-agricultural work-force is provided in figure 5. The figure shows that the level and characteristics of informality vary across BRICS countries. While the large majority of informal employment occurs in the informal sector in India, a significant share of workers are informally employed outside the informal sector; many of them being undeclared or under-declared by formal sector enterprises or households.

Figure 5 - Composition of informal employment in the BRICS, in % of total non-agricultural employment (latest year available)



Source: Data on China and India from ILO, *Women and men in the informal economy: a statistical picture (second edition)*, ILO: Geneva, 2013a; Data on Russian Federation from Soboleva, I.; Kubishin, E. 2014, “Situation analysis of the key drivers of informal employment in the Russian Federation and main recommendations to promote transition from informal to formal employment”, in Koulaeva, O. and F. Lapeyre, eds.: *Facilitating the transition to the formal economy: Some country experiences*, Working Document No.6, ILO DWT for Eastern Europe and Central Asia (Moscow, ILO); Data on Brazil and South Africa from ILOSTAT Database, 2016.

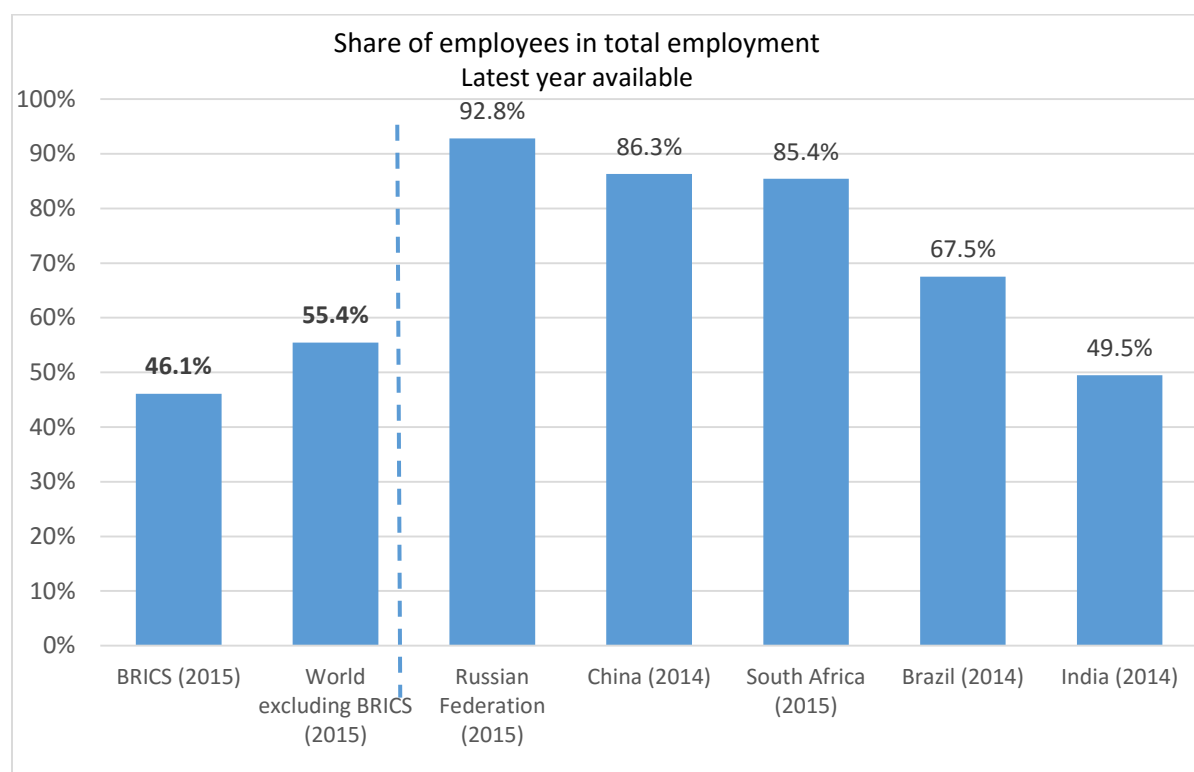
Note: Estimates for urban China based on six cities: Fuzhou, Guangzhou, Shanghai, Shenyang, Wuhan and Xi-an. Estimates only for informal employment in the informal sector for the Russian Federation. Estimates combining informal employment in both the formal and informal sectors for South Africa

3.3.10 All BRICS countries are implementing specific or comprehensive measures to facilitate a progressive transition to the formal economy. In countries where those efforts are

more sustained, the results are significant. The case of Brazil is of considerable interest as the incidence of informality has come down significantly in recent years thanks to coordinated policy interventions. Such comprehensive and integrated strategies take into account that in order to sustain the transition to the formal economy, policies should focus both on supporting economic growth, productivity and innovation as well as promoting rights and expanding social protection.⁸ In the present context of slow growth, it would be particularly important to consolidate results and continue sustained efforts to both speed up formal job creation as well as support transition to formality of those in the informal economy, workers and economic units.

3.3.11 Increasing productive wage employment opportunities in the formal sector, in particular in the non-agriculture sector is a major component of structural transformation. As figure 6 shows, the share of employees in total employment is the highest in Russia followed by China, South Africa, Brazil and India. It is important to keep mind that, as mentioned earlier, a significant and growing number of employees in the BRICS are informally employed in formal sector enterprises or households, strengthening the need for specific policy initiatives based on a balanced approach that combine incentives with compliance measures.

Figure 6



Source: Labour Bureau for Indian data; ILOSTAT and KILM 9th edition for other country-level data, ILO, Trends Econometric Models, April 2016 for regional aggregates

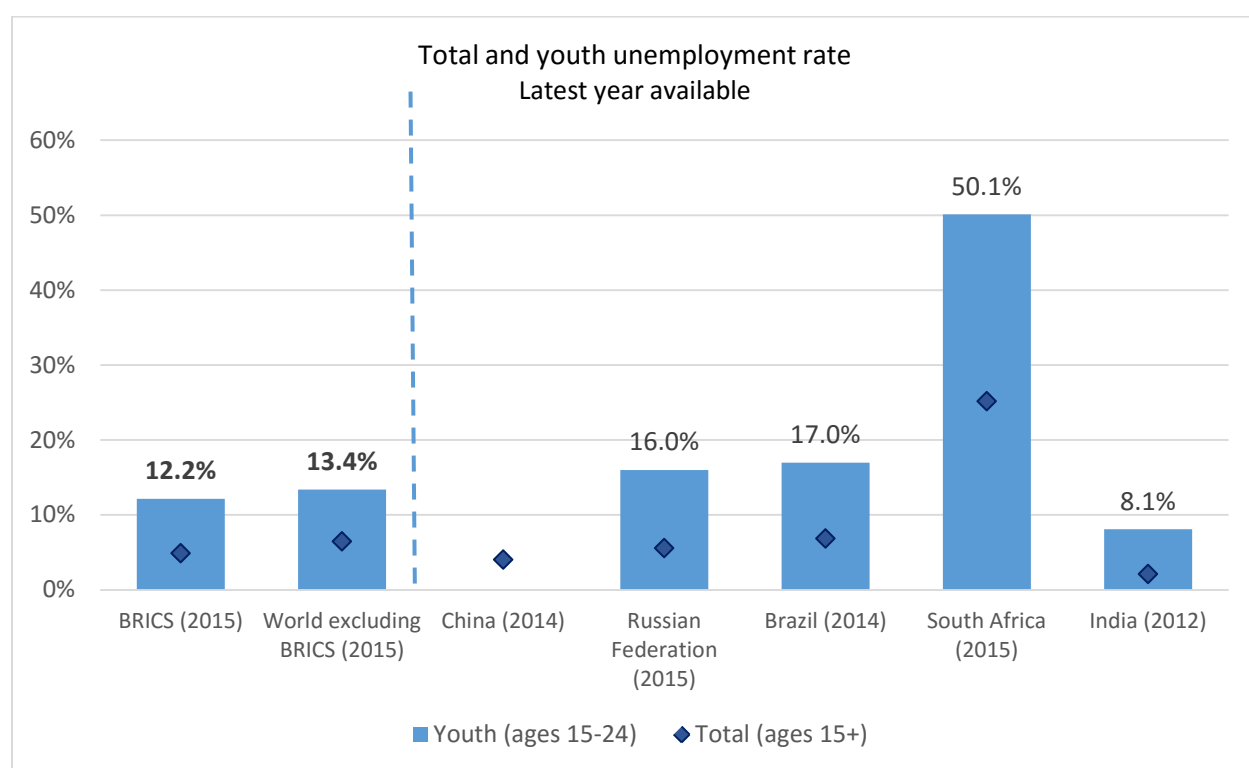
3.4 Unemployment and the labour market for young people

⁸ This was extensively discussed in an earlier paper prepared for the BRICS, see ILO, “Transition to Formality: The BRICS experience”, paper for the First BRICS Labour and Employment Ministers, January 2016

3.4.1 The unemployment rate and in particular, the youth unemployment rate – which is much higher than the aggregate unemployment rate – is the object of concern among policy makers. It is also well known that the unemployment rate is not necessarily the most appropriate indicator of labour market distress either for adults or young people, especially in a context in which the incidence of informality and underemployment is significant. It is possible that the unemployment rate might decline or remain low and stable at a time of rising informality.

3.4.2 With these caveats in mind, figure 7 which compares the aggregate unemployment rate with the youth unemployment rate. The latter is typically twice as high as the total unemployment rate. The case of South Africa is notable for its high unemployment rate which is well in excess of 20 per cent and a youth unemployment rate which more than twice the aggregate rate.

Figure 7



Source: Labour Bureau for Indian data; ILOSTAT and KILM 9th edition for other country-level data, ILO, Trends Econometric Models, April 2016 for regional aggregates

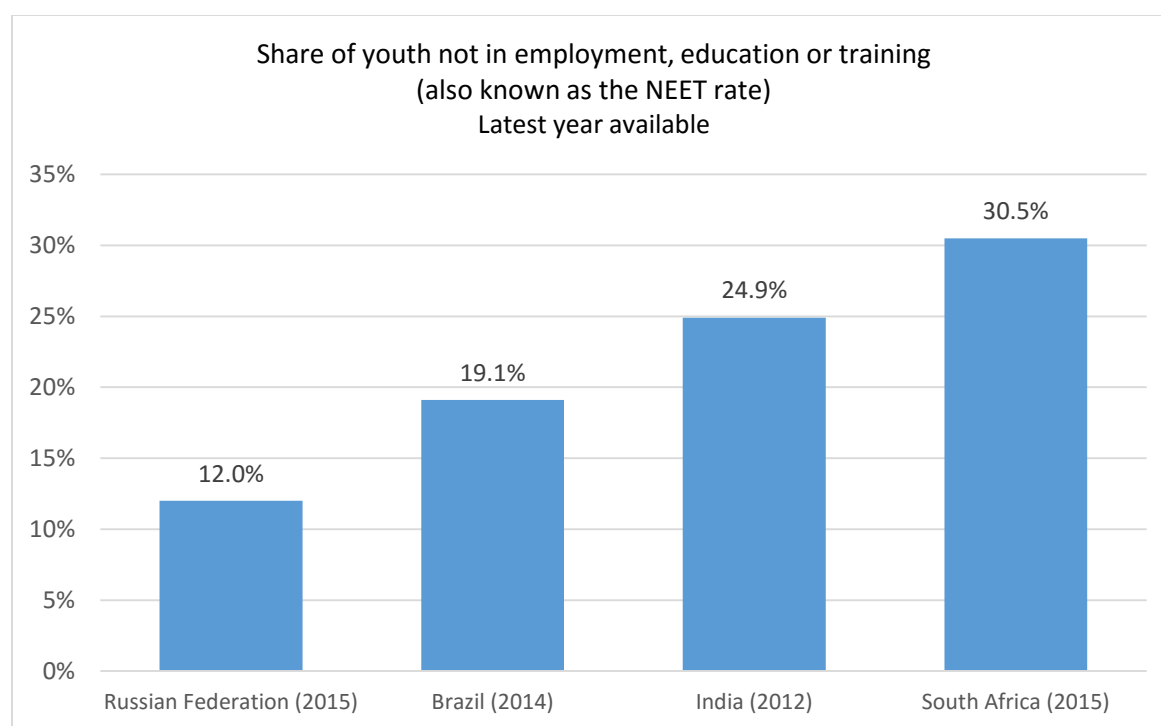
Note: Youth unemployment rate for China is not available.

3.4.4 Another way of reflecting on the ability of the economy to integrate young people into the labour market is to focus on young women and men who are not just outside the labour market but also outside the education and training system as a proportion of total young population. This indicator, known as NEET (neither in employment, education and training), is one of the indicators retained by the 2030 SDGs. As can be seen in figure 8, more than 27 per cent of Indian youth are in NEET, although a much less modest number are unemployed. So, the

NEET indicator seems to provide additional information on the labour market experience of young men and women that is useful from the perspective of policy makers. In other members of BRICS where relevant data is reported (Brazil, Russia), the incidence of NEET is significantly lower than in India, but it is the highest in South Africa (over 30 per cent).⁹

3.4.5 The gender dimensions of NEETs should be acknowledged. Young women tend to comprise the larger share of the NEETs due to factors such as early motherhood or other family responsibilities related to care of siblings or elder members of the family, as well as non-voluntary factors such as discrimination or culture that limit the participation of young women in the labour market.

Figure 8



Source: ILOSTAT and KILM 9th edition for other countries; Indian data is from the National Sample Survey, 68th Round

Note: Data on the NEET rate for China is not available.

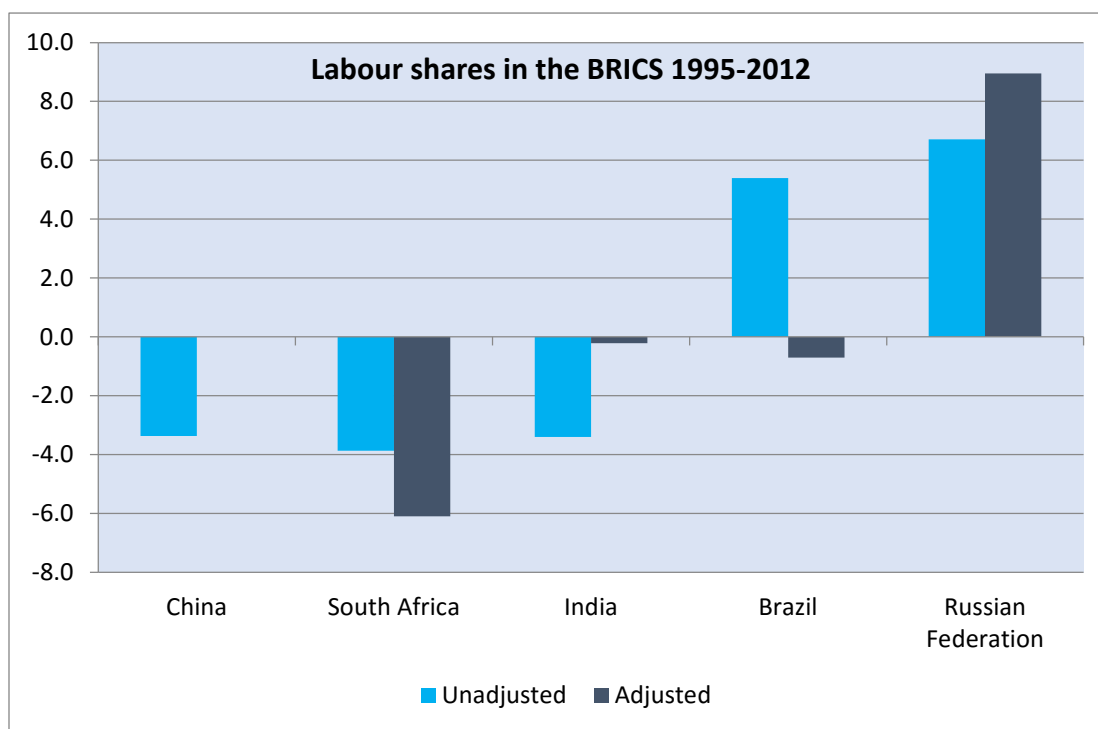
3.5 Wages and the welfare of workers

3.5.1 One of the key trends in labour markets across the world is declining wage shares. Wage shares (or labour income shares) refer to the share of national income allocated to worker's compensation. This phenomenon has been observed in all types economies, both developed and developing. In the case of BRICS, and taking as reference period 1995-2012, the

⁹ The difference between the youth unemployment rate and the NEET rate in South Africa is due to the fact that in the former indicator the denominator – the total labour force – is much smaller than the latter indicator – the total young population.

wage share has fallen in China, India and South Africa, has remained fairly stable for Brazil and has increased in Russia (see Figure 9).

Figure 9



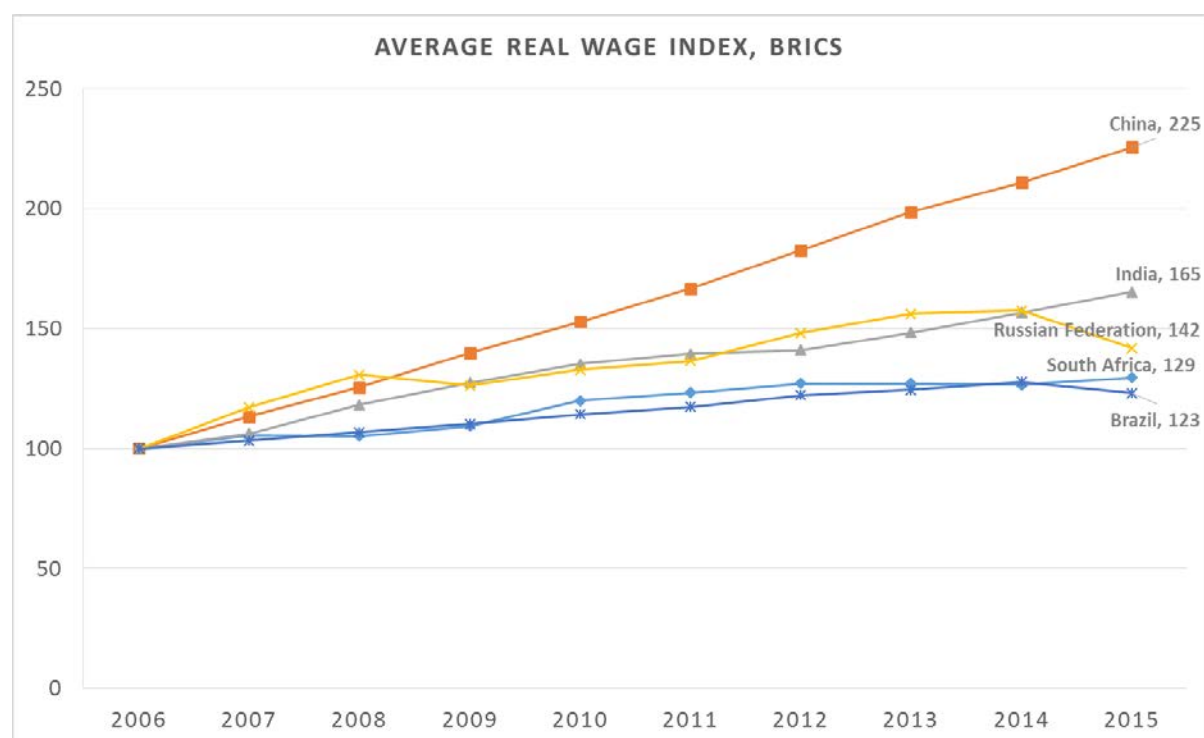
Notes: Figures are sorted from left to right in increasing order based on adjusted labour shares (where available). Figures refer to the change in the adjusted labour share between 1995-2012. Exceptions include: India and Brazil: 1995-2009.

Source: ILO based on AMECO Database and ILO Databases.

3.5.2 Of course, declining wage shares per se do not necessarily mean that the living standards of workers are falling in absolute terms, as long as real wages rise over time. This is generally the case in the BRICS, most notably China (see Figure 10). Nevertheless, declining wage shares are of some concern as they indicate that wage growth lags behind productivity growth and workers are not obtaining a fair share of the fruits of economic progress. They can also have a deleterious impact on aggregate demand, if consumption demand falls because of declining wages shares, provided there is no compensating boost to competitiveness because of lower unit labour costs.

3.5.3 An important policy which directly affects the welfare of workers and their families is the minimum wage. All BRICS countries have functioning minimum wage policies. In Brazil, the minimum wage is a constitutional right since 1988 and regular increases in the federal rate were implemented since 2005; China strengthened its system of Provincial minimum wages in 2004; India's Minimum wage Act of 1948 established a system of mostly State-level minimum wages; the Russian Federation complemented its national minimum wage with regional floors in 2007; and South Africa established a system of sectoral minimum wages after the end of apartheid in 1997.

Figure 10



Source: ILO estimates based on national statistics

3.5.4. It is now generally accepted that properly set minimum wages can be an effective policy tool to provide an adequate wage floor and thus secure a minimum living standard for low-paid workers and their families, avoiding in-work poverty and providing incentives to work. They have also proven effective in reducing inequality at the bottom of the wage distribution. A growing body of evidence suggests that the employment effect of raising minimum wages within ranges that are often observed tend to be small and can be either positive or negative. It is also worth noting that raising minimum wages does not increase fiscal demands and in fact can lower them, as many minimum and low wage workers are eligible for means-tested social benefits¹⁰.

3.5.5 Common challenges for effective minimum wages, however, include the questions of: how best to ensure full consultation and, where appropriate, the direct participation of social partners in the operation of minimum wages; how to set and adjust minimum wages at levels that balance the needs of workers and their families and economic factors; and how to ensure a high rate of compliance. Some countries with sectoral rates are also grappling with the question of how to extend the legal coverage to a broader range of workers. In South Africa, a panel of independent experts has been created in 2016 to provide recommendations on the

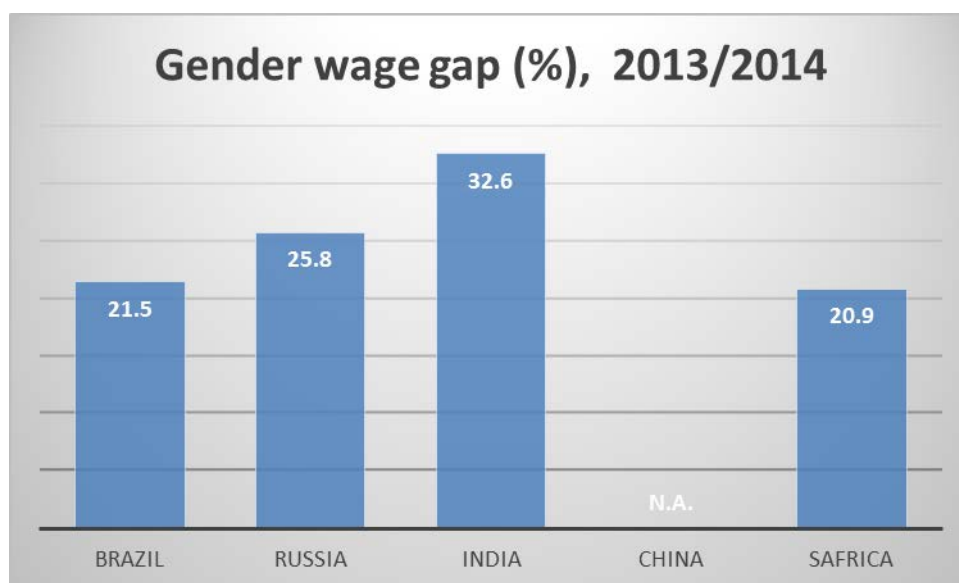
¹⁰ See the joint ILO, OECD, World Bank Report prepared for the G-20: http://www.ilo.org/wcmsp5/groups/public/-/dgreports/---dcomm/---publ/documents/publication/wcms_398025.pdf

possible modalities of a national minimum wage. In India, the question of a possible broader legal coverage has surfaced in the context of the discussions on labour law reforms.¹¹

3.5.6. Minimum wages should best be seen as complements to other wage policies and in particular to collective bargaining which can be used to set wages above the floor and help to increase wages in line with productivity. If collective bargaining systems are weak or non-existent, minimum wages bear too heavy a burden in terms of achieving policy goals regarding equity, poverty and aggregate demand.

3.5.7 The welfare of workers in terms of wages should also be analyzed in terms of the gender wage gap. Figure 11 offers a comparative perspective on the unadjusted gender wage gap using the most recently available estimates. As can be seen, the gender wage gap is the lowest in South Africa and highest in India. Even after adjusting for differences in characteristics of men and women workers, gender wage gaps persists across the world.

Figure 11



Notes: The unadjusted gender pay gap is calculated as one minus the ratio of average wages of women relative to men

Source: ILOSTAT, see statistical annex

3.6 Inequality and redistributive capacity of the fiscal system

¹¹ On minimum wage policy design see also the ILO policy guide on minimum wages at <http://www.ilo.org/global/topics/wages/minimum-wages/lang--en/index.htm>

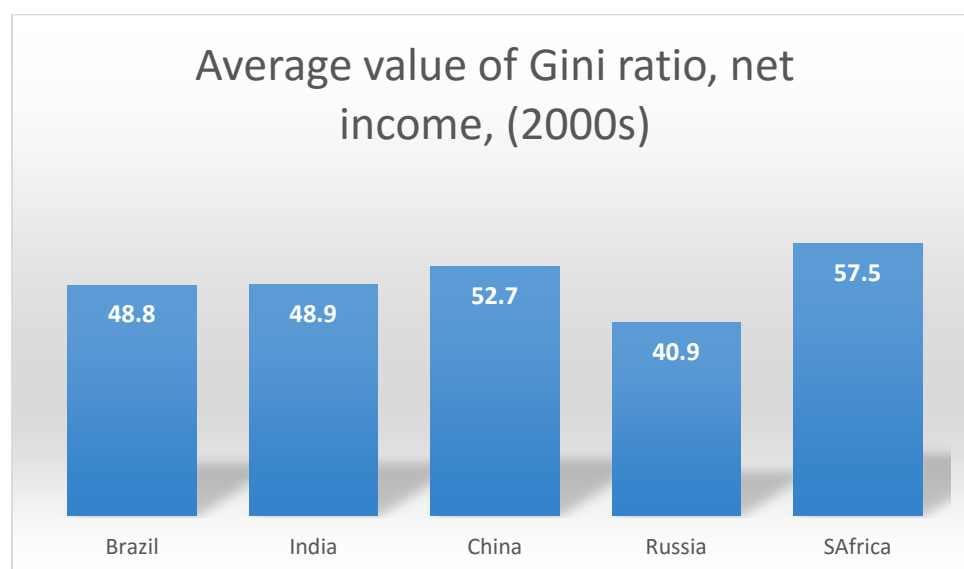
As well as a recent World Bank publication

<http://www.worldbank.org/en/topic/jobsanddevelopment/publication/balancing-regulations-to-promote-jobs>

3.6.1 Figure 12 draws on the ‘standardized world income inequality dataset’ to assess the level of inequality as it prevailed in the 2000s in terms of the Gini ratio as it pertains to ‘net income’, that is after adjustments for taxes and transfers.¹²

3.6.2 It is worth noting that some countries experienced significant declines in net income inequality in 2000s, such as Brazil, while it increased in others, such as China and India. Part of the reason could be that the redistributive capacity of the fiscal system was reasonably effective in reversing market-driven inequality in Brazil and elsewhere. Evidence for this is shown for the latest available estimates in the SWIID database (Figure 13). In the case of China and India, the redistributive capacity of the fiscal system does not seem large, while it looks more significant in Brazil and Russia. However, this does not take into account the redistributive impact of the large expansion of social protection measures and employment programmes of the most recent years, which will be discussed in the following section.

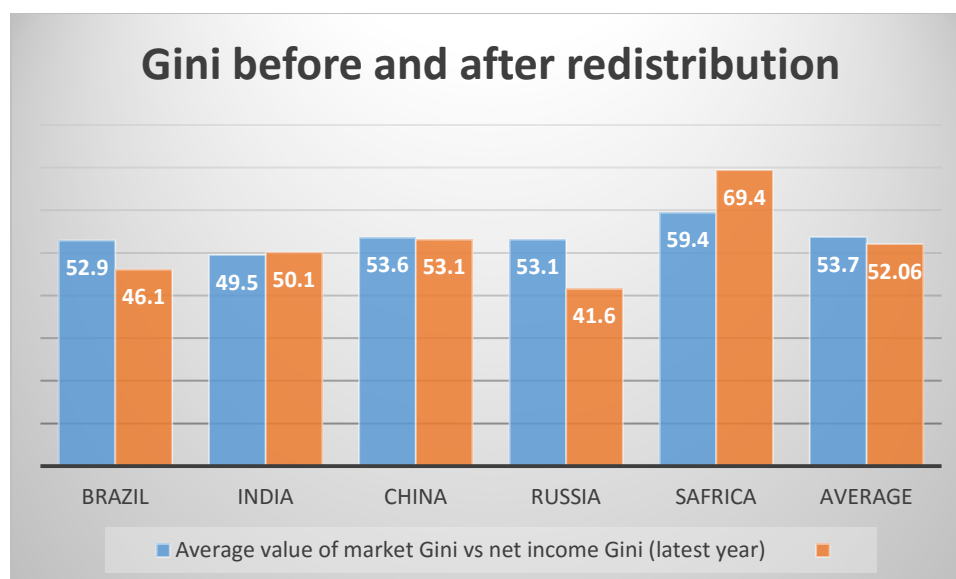
Figure 12



Source: SWIID - The Standardized World Income Inequality Database at <http://fsolt.org/swiid/>

Figure 13

¹² This dataset is maintained and updated by Frederic Solt of Iowa University, available at <http://fsolt.org/swiid/>. Data for some countries are estimated and might differ from estimates from similar datasets by the World Bank and OECD. For a full discussion of patterns and trends in income inequality see ILO, IMF, OECD, WBG, “Income inequality and labour income share in G20 countries: Trends, Impacts and Causes”, paper prepared for the G20 Labour and Employment Ministers Meeting and Joint Meeting with the G20 Finance Ministers, Ankara, Turkey, 3-4 September 2015



Source: SWIID - The Standardized World Income Inequality Database at <http://fsolt.org/swiid/>

3.7 Social protection and active labour market programmes

3.7.1 The ability of governments to provide social protection to its citizens is an important way in which it can positively influence labour market outcomes and promote inclusive growth. Everyone, those who work, and those who are too young or old or unable to work, requires protection from idiosyncratic and economy-wide shocks and unanticipated events. Social protection systems are an important element of economic and social policies to foster productive employment and inclusive growth.¹³ The State has a key role to play in shaping social protection policies and to ensure effective, equitable and sustainable social protection systems.

3.7.2 Hence, over time, most countries have developed social protection systems that cover workers, the unemployed and the old and the young who are outside the labour force.¹⁴ Most of the BRICS have accelerated the development of their social protection systems in recent years, developing an innovative capacity to respond to their particular circumstances rather than uncritically emulating the social welfare state as it has evolved in developed countries.

3.7.3 Some BRICS countries became well known for developing cash transfer schemes and public works programmes that strive to strike the right balance between work-incentives, improving human capital and income protection. They are best seen as active labour market policies. Salient examples include *Bolsa Familia* cash transfer programme in Brazil, the grant programmes for children, persons with disabilities and older persons in South Africa, *the*

¹³ ILO (2014). World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice. (Geneva, International Labour Office). Available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf.

¹⁴ ILO (2014). World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice. (Geneva, International Labour Office). Available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf.

Mahatma Gandhi National Rural Employment Guarantee Act in India and *Expanded Public Works Programme (EPWP)* in South Africa. Evaluations of these schemes have been generally positive. The *MGNREGA* has evolved as the largest programme of its kind in the world. *Bolsa Familia* has been credited with reducing poverty and inequality in Brazil, and EPWP has exceeded its target of providing offering work opportunities to poor and vulnerable workers.¹⁵ Moreover, an influential evaluation of the South African old age pension system demonstrated positive impacts not only on older persons but also on the physical development, health and school attendance of children living with them¹⁶

3.7.4 In addition, the social protection systems of BRICS countries place a strong emphasis on social insurance as a contributory social protection mechanism that can play a key role in ensuring income security and access to health care for workers, and especially the growing middle class. BRICS offer some important examples of the extension of coverage to uncovered populations, such as China's extension of health insurance and pension coverage to urban and rural workers, Brazil's extension of pension coverage to rural populations and South Africa's extension of unemployment and maternity benefits to domestic workers. By combining different types of social protection programmes addressing the broad range of lifecycle and economic risks, social protection systems move towards achieving universal social protection coverage. The extension of social protection coverage is key to building comprehensive social protection systems, including solid social protection floors, in line with the ILO Social Protection Floors Recommendation No. 202, and contributing to achieving the Sustainable Development Goals (particularly targets 1.3, 5.4, 8.5 and 10.4).

3.7.5 Despite these achievements, there is much to be accomplished in the sphere of social protection systems in the BRICS. Thus, for example, providing comprehensive old age pension represents a major challenge. While China, Brazil and the Russian Federation have achieved almost universal coverage for old age pensions through the combination of tax- and contribution-financed schemes, less than half of the labour force contribute to an old age pension scheme; and even less in the other BRICS (well below 10 per cent).¹⁷ Some of the BRICS already face the challenge of catering to the particular needs of aging societies. Hence, adequate implementation of old age pension schemes cannot be ignored. In addition, greater emphasis on the development of unemployment benefits would be important to provide income security while unemployed workers look for a job or are in training or other ALMPs, avoid the devaluation of human capital and facilitating the mobility of workers towards more productive sectors of the economy, thus supporting the structural change of the economy.

3.7.6 More generally, the BRICS face, as do other countries, the issue of designing and implementing comprehensive social protection schemes and systems that are also effective, and fiscally and socially sustainable. Effective monitoring frameworks are key to ensuring that the social protection system provides effective and adequate protection for all, that the different

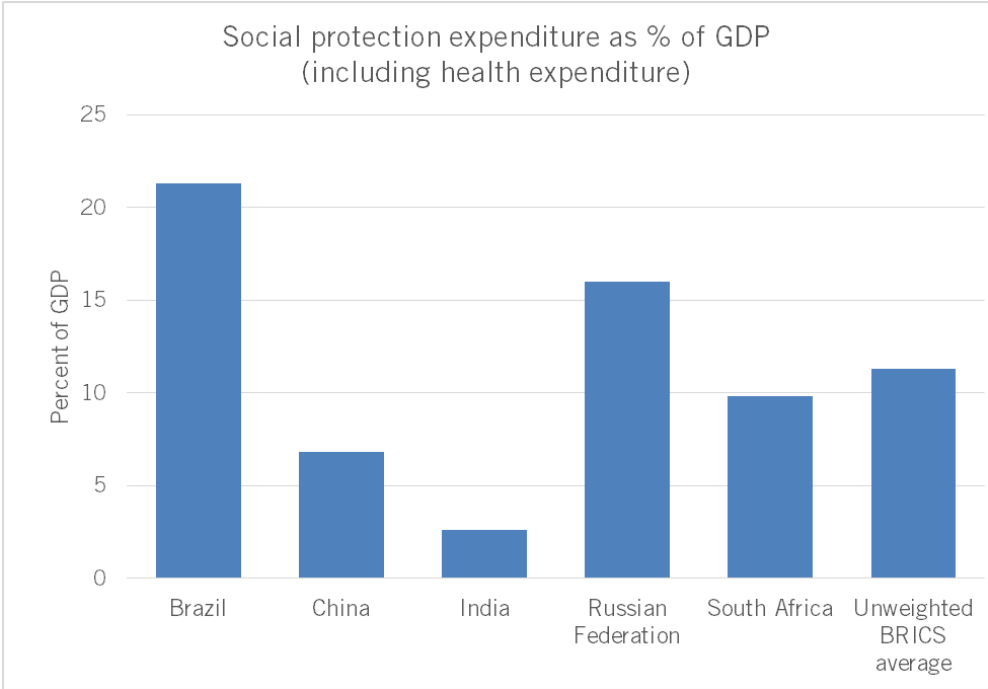
¹⁵ Details are available in <http://www.gov.za/about-government/government-programmes/expanded-public-works-programme>.

¹⁶ Duflo, E. 2000. Grandmothers and Granddaughters: Old Age Pension and Intra-household Allocation in South Africa. (Washington D.C., National Bureau of Economic Research). Available at: <http://www.nber.org/papers/w8061.pdf>.

¹⁷ Some of the recent expansion of pension coverage may not yet be reflected in these figures.

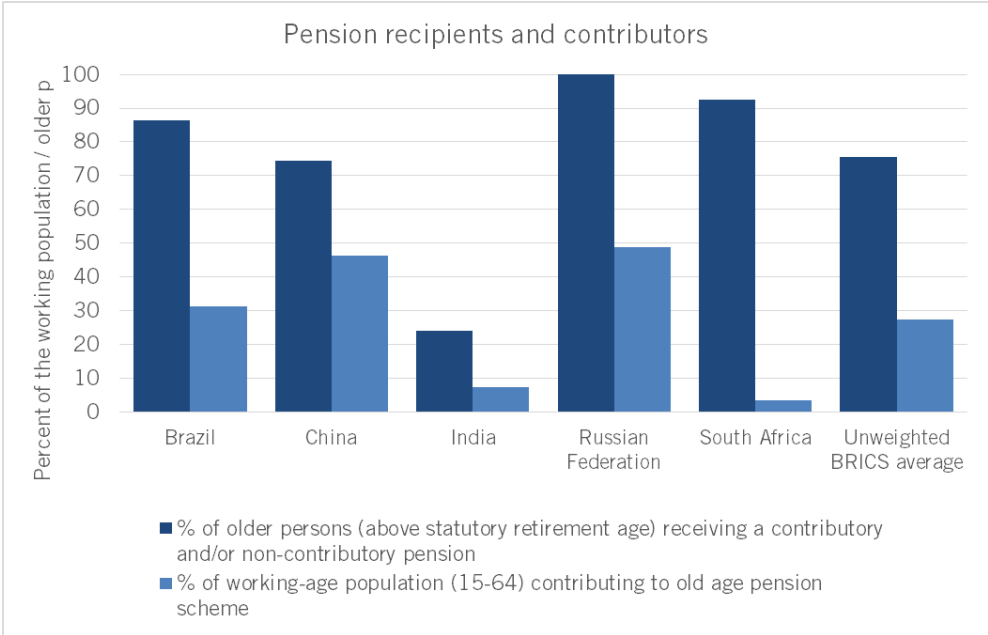
elements of the social protection systems are well coordinated and aligned, and that the system is financed in a fiscally, economically and socially sustainable way.

Figure 14



Source: Based on ILO World Social Protection Report 2014/15, table B.13.

Figure 15



Notes: Latest available year (2009/2012)

Source: Based on ILO World Social Protection Report 2014/15, tables B.8 and B.9 .

4. Policy issues: boosting growth and employment in the BRICS

4.1 What credible policy options do the BRICS have in making progress towards the goal of inclusive growth and productive employment creation, especially given evidence of a synchronous growth slow-down in this group of economies?

4.2 One suggestion has been “structural reforms” within a framework of macroeconomic stability. These “structural reforms” essentially entail a deregulatory agenda cutting across product and labour markets that would boost growth and employment in the BRICS by unleashing the entrepreneurial energies of the private sector. However, this approach is increasingly being challenged as it has not produced the promised results, neither with regard to stimulation of growth nor towards achieving greater inclusiveness. Recent studies show that, while there are likely to be ex-ante long-term gains in terms of higher output and more jobs, a lot depends on the state of the business cycle.¹⁸ The qualitative aspects of growth and employment are often ignored in an agenda of structural reforms.

4.3 While model-based findings are sometimes used for assessing the evidence on the impact of such structural reforms on employment and growth and guide policy reform, closer attention should also be paid to firm-level evidence to identify major firm-level constraints that impede the capacity of the private sector to expand and create jobs. A review of the latest available results from the World Bank’s Enterprise Surveys shows that firms rate a number of factors as the most constraining, including access to finance, tax rates, infrastructure, an inadequately educated work-force and practices of the informal sector. In most countries, labour market regulations do not appear as one of the top constraints.¹⁹

4.4. Innovative policies that take into account the specificity of each of the BRICS economies as well as their shared vision and common goals about the *quantity*, *quality* and *inclusiveness* of growth and jobs rather could provide better options. BRICS have a well-known leadership and experience in policy innovations. Through such policies, greater attention should be given to extract higher social dividends – as reflected in improved social and labour market indicators - for any given rate of growth and at any given income level. This means the mobilization of sustainable fiscal resources to support efficient investments in infrastructure, health, education, social protection and active labour market policies. This would also improve the redistributive capacity of the fiscal system and address the issue of inequality.²⁰

4.5 A continuing commitment to enhancing financial inclusion can also boost the productivity of the poor and create new employment opportunities especially among micro and small and medium-sized enterprises. This is certainly the case in the BRICS as announcements of recent initiatives in India testify. Furthermore, in specific cases, legislative and regulatory initiatives might be required to enhance productivity of those in the informal economy and to encourage transition to formality. The Brazilian experience suggests that it is possible to

¹⁸ IMF (2016) *World Economic Outlook*, April; see also ILO, OECD and World Bank “G20 Labour markets in 2015”.

¹⁹ See country data presented in www.enterprisesurveys.org which is maintained and updated by the World Bank.

²⁰ The role of the recently launched ‘BRICS Bank’ or ‘New Development Bank’ is likely to be important in fostering regional cooperation initiatives to support national policy actions in these areas, most notably in terms of financing of investment in infrastructure, see <http://ndbbrics.org/>

implement appropriate policy actions to reduce the incidence of informality quite substantially over a reasonable period of time.

4.6 Improving the situation of all those who work informally is an important concern in all the BRICS. One way of attaining this objective is to create an enabling environment for sustainable formal SMEs which would help transform the structure of the economy and promote formal wage employment. The BRICS' experience so far also suggests that coordinated measures and institutions are key. Success occurs where compliance mechanisms turn into more balanced approaches that pay attention to prevention, capacity building and, where appropriate, well-designed incentives to transit to formality. The positive effect of the transition to formality on government revenues (contributions and taxes) should also be kept in mind. Some of the BRICS, notably Brazil - introducing simplified tax and contributions assessment and payment regimes - and China - through the successful extension of social security partially financed through contributions and sustained economic growth - made progress in this respect over the last decade.

4.7 The issue of structural transformation is another an integral part of an innovative policy agenda. Skills development is a relevant and already recognised measure in BRICS, including TVET development through quality training provision, improved access, better coordination and private sector involvement, and modern forward looking approaches to identifying skills needs in - current and future - demand in the labour market.²¹ As noted above, there are alternative pathways to structural transformation that would entail policy actions to enhance productivity and employment opportunities both within and between all key sectors, not just manufacturing. A holistic view can thus accommodate alternative strategies, such as the 'rebalancing' effort that is underway in China, natural resource management in Russia and the combination of services-led growth and promotion of the manufacturing sector through the "Make in India" initiative in India.

4.7 Wage policy also deserves greater attention from policy-makers. As discussed above, appropriately set minimum wages can help to increase living standards of low paid workers and their families. Minimum wages should best be seen as complements to other wage policies and in particular to collective bargaining which offers a mechanism for coordinated wage setting. Collective agreements on wages can be used to set minimum standards and to set wages above an existing floor, helping to increase wages in line with productivity.

4.8 Social protection policies can also play a role in supporting structural transformation and strategies towards reaching higher levels of productivity while ensuring economic growth is more inclusive. Investments in social protection help in stabilizing and strengthening aggregate demand, enabling workers to accept more risks and to engage in more productive activities, and facilitating the transition from the informal to the formal economy.

4.9 Finally, one area that deserves considerable attention is the financing and implementation of active labour market policies (ALMPs) ranging across support to public employment services, funding to support self-employment and entrepreneurship, training programmes, public works and/or employment guarantee schemes, wage subsidies and so forth.

²¹ BRICS synthesis note, "Skills Development for Quality and Inclusive Employment", ILO, prepared for the Meeting of the Ministers of Labour and Employment of BRICS Countries, Ufa, Russian Federation, 25-26 January 2016.

They are designed to respond to specific employment challenges, such as skills mismatches, insufficient labour demand and facilitating transition of young women and men to work.

4.10 Allocating adequate budgetary resources to active labour market policies (ALMPS) is desirable as there is ample evidence that this can improve employment outcomes. In the BRICS as well as in most other emerging economies, a relatively modest amount of public expenditure is allocated to ALMPs. In line with the 2030 SDG agenda which includes a proposal for new target on this expenditure, there is room for both increased allocation and better delivery mechanisms of ALMPs in BRICS countries, based on a rigorous evidence-based approach to policy design.

4.11 In sum, this issue note suggests that the quintet of BRICS could use their collective vision and status to foster an innovative policy agenda for inclusive growth and decent job creation, including in facing up to the present context of slow growth. Such a vision in turn would make a substantive contribution to attaining the ambitious goals of the Sustainable Development Agenda 2030.

4.12 The note also suggests that much could be accomplished by means of building on the major common accomplishments of the BRICS in the past decades – such as the extension of social protection coverage through social insurance, conditional cash transfer schemes and public works programmes. Innovative and pragmatic policy options for the BRICS, grounded on social dialogue, could include fiscally sustainable and efficient investments in education, health, infrastructure, social protection and active labour market policies. These investments are likely to support aggregate demand and reinforce the redistributive capacity of the fiscal system. In line with the needs and circumstances of each country, they could be complemented by measures to promote financial inclusion; close the gender gap, a renewed commitment to minimum wages, wage policy and collective bargaining; greater access to quality education and training especially for youth; support to productive development, innovation and upgrading in new economic sectors; and comprehensive and integrated strategies to facilitate transition to the formal economy.

Statistical Annex²²

Brazil²³

Indicator	Year	Value
Share of adult population with advanced education (%)	2014	13.1
Labour force participation rate, women (%)	2014	51.6
Labour force participation rate, men (%)	2014	71.0
Labour force participation rate (%)	2014	61.0
Share of agriculture in total employment (%)	2014	14.6
Share of industry in total employment (%)	2014	22.3
Share of services in total employment (%)	2014	63.1
Employment-population ratio (%)	2014	56.8
Time-related underemployment rate (%)	2013	1.8
Share of paid employment in non-agricultural employment (%)	2014	79.0
Unemployment rate, women (%)	2014	8.9
Unemployment rate, men (%)	2014	5.4
Unemployment rate (%)	2014	6.9
Youth labour force participation rate (%)	2014	59.0
Youth unemployment rate (%)	2014	17.0
Share of youth not in employment, education or training (%)	2014	19.3
Average monthly earnings of employees (local currency)	2014	1600
Statutory nominal gross monthly minimum wage effective December 31st	2013	678
Gini coefficient	2012	46.1
Gender wage gap (%)	2014	21.5
Rate of non-fatal occupational injuries (per 100'000 work attachments ²⁴)	2011	1609.3
Rate of fatal occupational injuries (per 100'000 work attachments ²⁵)	2011	7.4
Labour inspection rate (inspectors per 10,000 employed persons)	2013	0.29
Trade union density rate (%)	2014	16.6
Rate of days not worked due to strikes and lockouts (per 1000 workers)	2012	6.1
Share of unemployed receiving regular periodic social security unemployment benefits	2008	8.0
Percentage of health care expenditure not financed by private households' out of pocket payments	2011	69
Public social protection expenditure [all functions] as a percent of GDP	2010	21.3
Public social protection expenditure [excluding health care] as a percent of GDP	2009	16.0
Share of population above statutory pensionable age receiving an old age pension	2009	86.3
Active contributors to an old age contributory scheme as a percent of the working-age population	2010	31.4

²² ILOSTAT (www.ilo.org/ilostat).

²³ Working-age population is persons aged 10 and above.

²⁴ One worker could be attached to several employers or workplaces.

²⁵ One worker could be attached to several employers or workplaces.

Russian Federation²⁶

Indicator	Year	Value
Share of adult population with advanced education (%)	2015	49.5
Labour force participation rate, women (%)	2015	63.4
Labour force participation rate, men (%)	2015	75.5
Labour force participation rate (%)	2015	69.1
Share of agriculture in total employment (%)	2015	6.7
Share of industry in total employment (%)	2015	27.2
Share of services in total employment (%)	2015	66.1
Employment-population ratio (%)	2015	65.3
Time-related underemployment rate (%)	2015	0.7
Share of employees working more than 48 hours per week (%)	2015	2.5
Share of paid employment in non-agricultural employment (%)	2015	95.2
Unemployment rate, women (%)	2015	5.3
Unemployment rate, men (%)	2015	5.8
Unemployment rate (%)	2015	5.6
Share of long term unemployment in total unemployment (%)	2015	27.3
Youth labour force participation rate (%)	2015	37.9
Youth unemployment rate (%)	2015	16.0
Share of youth not in employment, education or training (%)	2015	12.0
Mean weekly hours actually worked per employed person	2015	38.0
Average monthly earnings of employees (local currency)	2015	32911
Statutory nominal gross monthly minimum wage effective December 31st	2015	5965
Gini coefficient	2011	41.6
Gender wage gap (%)	2013	25.8
Labour cost per employee (local currency)	2013	45870
Labour cost per employee, manufacturing (local currency)	2013	76526
Rate of non-fatal occupational injuries (per 1'000 employees)	2015	1.3
Rate of fatal occupational injuries (per 1'000 employees)	2015	0.1
Rate of days not worked due to strikes (average per worker involved in the strike)	2015	12.2
Share of unemployed receiving regular periodic social security unemployment benefits	2012	20.6
Percentage of health care expenditure not financed by private households' out of pocket payments	2011	65
Public social protection expenditure [all functions] as a percent of GDP	2011	16.0
Public social protection expenditure [excluding health care] as a percent of GDP	2011	12.0
Active contributors to an old age contributory scheme as a percent of the working-age population	2009	48.7

²⁶ Working-age population is persons aged 15 to 72.

India²⁷

Indicator	Year	Value
Labour force participation rate, women (%)	2014	31.1
Labour force participation rate, men (%)	2014	75.7
Labour force participation rate (%)	2014	55.6
Share of agriculture in total employment (%)	2014	48.3
Share of industry in total employment (%)	2014	22.4
Share of services in total employment (%)	2014	29.3
Employment-population ratio (%)	2014	53.7
Share of paid employment in total employment (%)	2014	49.5
Unemployment rate, women (%)	2014	4.9
Unemployment rate, men (%)	2014	2.9
Unemployment rate (%)	2014	3.4
Share of youth not in employment, education or training (%)	2012	24.9
Average monthly earnings of employees (local currency)	2012	7479
Statutory nominal gross monthly minimum wage effective December 31st	2013	2990
Gender wage gap (%)	2012	32.6
Trade union density rate (%)	2012	9.8
Share of unemployed receiving regular periodic social security unemployment benefits	2009	0.0
Percentage of health care expenditure not financed by private households' out of pocket payments	2011	41
Public social protection expenditure [all functions] as a percent of GDP	2010	2.6
Public social protection expenditure [excluding health care] as a percent of GDP	2010	1.5
Share of population above statutory pensionable age receiving an old age pension	2011	24.1
Active contributors to an old age contributory scheme as a percent of the working-age population	2010	7.4

Note: For persons aged 15 years and above, Usual status (Principal plus subsidiary status) approach

²⁷ Data for 2014 is from Labour Bureau's Annual Employment Survey; data for 2012 is from the National Sample Survey Office's Employment and Unemployment Survey, 2011-12, 68th Round.

China

Indicator	Year	Value
Labour force participation rate (%)	2014	70.6
Share of agriculture in total employment (%)	2014	29.5
Share of industry in total employment (%)	2014	29.9
Share of services in total employment (%)	2014	40.6
Employment-population ratio (%)	2014	68.5
Unemployment rate (%)	2014	4.1
Mean weekly hours actually worked per employed person	2013	46.7
Average monthly earnings of employees (local currency)	2014	4697
Statutory nominal gross monthly minimum wage effective December 31st	2013	1400
Share of unemployed receiving regular periodic social security unemployment benefits	2009	14.0
Percentage of health care expenditure not financed by private households' out of pocket payments	2011	65
Public social protection expenditure [all functions] as a percent of GDP	2010	6.8
Public social protection expenditure [excluding health care] as a percent of GDP	2009	5.6
Share of population above statutory pensionable age receiving an old age pension	2011	74.4
Active contributors to an old age contributory scheme as a percent of the working-age population	2011	46.4

South Africa

Indicator	Year	Value
Share of adult population with advanced education (%)	2015	5.3
Labour force participation rate, women (%)	2015	47.6
Labour force participation rate, men (%)	2015	62.0
Labour force participation rate (%)	2015	54.6
Share of agriculture in total employment (%)	2015	5.6
Share of industry in total employment (%)	2015	23.9
Share of services in total employment (%)	2015	70.6
Employment-population ratio (%)	2015	40.9
Time-related underemployment rate (%)	2015	4.5
Share of employees working more than 48 hours per week (%)	2015	18.7
Share of paid employment in non-agricultural employment (%)	2015	91
Unemployment rate, women (%)	2015	27.5
Unemployment rate, men (%)	2015	23.2
Unemployment rate (%)	2015	25.1
Share of long term unemployment in total unemployment (%)	2015	42.3
Youth labour force participation rate (%)	2015	26.6
Youth unemployment rate (%)	2015	50.1
Share of youth not in employment, education or training (%)	2015	30.5
Mean weekly hours actually worked per employed person	2015	40.0
Median monthly earnings of employees (local currency)	2015	3100
Median monthly earnings of employees, manufacturing (local currency)	2015	3900
Statutory nominal gross monthly minimum wage effective December 31st	2013	2474
Gender wage gap (%)	2013	20.9
Labour cost per employee (local currency)	2010	1198951
Labour cost per employee, manufacturing (local currency)	2010	82856
Time lost per occupational injury (total number of working days)	2013	9375
Labour inspection rate (inspectors per 10,000 employed persons)	2014	0.82
Trade union density rate (%)	2014	28.9
Collective bargaining coverage rate (%)	2014	30.7
Rate of days not worked due to strikes and lockouts (per 1'000 employees)	2014	28.5
Share of unemployed receiving regular periodic social security unemployment benefits	2012	13.5
Percentage of health care expenditure not financed by private households' out of pocket payments	2011	93
Public social protection expenditure [all functions] as a percent of GDP	2010	9.8
Public social protection expenditure [excluding health care] as a percent of GDP	2010	5.1
Active contributors to an old age contributory scheme as a percent of the working-age population	2010	3.5