



USAID
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THE LABOR SECTOR AND U.S. FOREIGN ASSISTANCE GOALS

TECHNICAL PAPER EXECUTIVE SUMMARY



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EXECUTIVE SUMMARY

This Technical Paper represents the first in a series of publications based on conceptual and analytic work undertaken by USAID’s Democracy, Conflict, and Humanitarian Assistance Bureau and the State Department’s Bureau of Democracy, Human Rights, and Labor from 2007 to 2010. Its goal is to present a conceptual framework for analyzing how addressing issues in the labor sector can help achieve U.S. government (USG) strategic goals in international development and foreign policy.

Section One: Defining the Labor Sector and its Role in USG Development and Diplomacy Programs

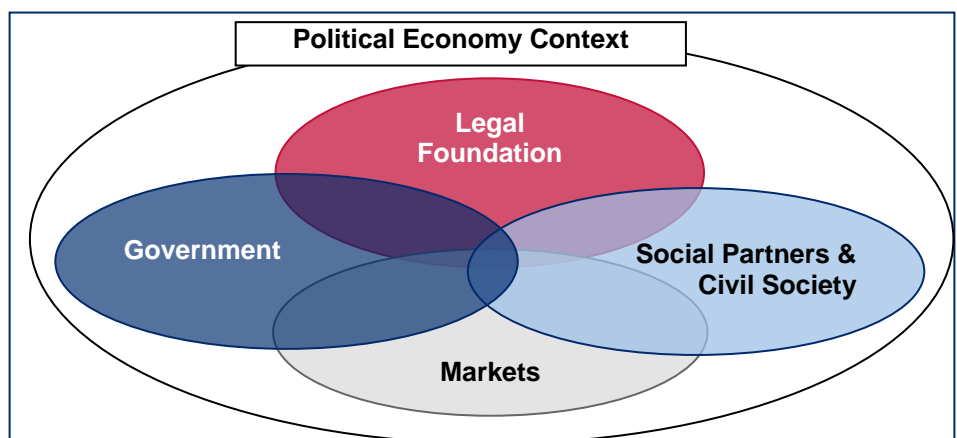
For over fifty years, the U.S. Agency for International Development (USAID) and the Department of State have supported international labor programs designed to contribute to development and diplomacy objectives. Because the thinking and paradigms of the development and diplomacy processes have continued to evolve, it is important to take a fresh look at how labor programs can best contribute to the prevailing objectives of foreign assistance.

The term “labor” means different things to different observers, i.e. people who work, the work itself, organized groups of workers, or industrial relationships. In the world of human rights, labor rights are one component of a broader rights mandate. Thus, depending on one’s vantage, the term may refer to specific industrial relationships between employers and unions or it may be interpreted more broadly to refer to all those who strive to earn a living, whether formally or informally employed, self-employed, unemployed, or out of the workforce. At the broadest level, the term can simply mean all workers.

This paper, and the larger project it introduces, deals with all of these definitions and issues through a focus on the “labor sector” and the role it plays in development. For the purposes of this analytical undertaking, the labor sector is defined as the aggregate of labor rights, regulations, actors, and institutions that shape labor relations and the functioning of labor markets, both formal and informal. *A focus on the labor sector matters because of its impact on people’s abilities to find decent work, realize sustainable livelihoods, and raise themselves and their families out of poverty.*

The central premise of the conceptual framework presented here is that a well-functioning labor sector can contribute to and promote key development objectives, and indeed can even be necessary to the achievement of these goals in some cases. For the purposes of this analysis a well-functioning labor sector requires:

- An established **legal foundation** that promotes the rule of law and respect for human rights, including labor rights;
- Labor sector **organizations**, especially the “social partners”, i.e. the trade unions that bargain collectively on wages and working conditions at the firm or industry level and advocate for workers’ interests in social and political arenas, and employers’ associations that do the same for business and



the private sector. Labor sector organizations also include many types of non-governmental and civil society organizations that provide services and engage in advocacy efforts in the labor sector.

- A competitive and well-regulated **labor market** that allows for the smooth allocation of appropriately educated and skilled labor in response to both private and public sector needs in agriculture, industry, and service sectors of an economy; and
- Support from **government** for a progressively improving set of labor laws and policies, their implementation and continuous improvement, and effective systems of adjudication and dispute avoidance and resolution.
- Understanding of the **political economy context** of the challenges facing the labor sector.

Viewing the labor sector as an integrated system may bring several additional benefits. A systems analysis underscores how a properly functioning labor sector is important to the development of democracy and favorable to market-driven economic growth, consistent with human rights and labor rights. Such an approach may also provide a method for examining the functions performed by the four components of the labor sector to identify strengths and gaps and the connections among them, which in turn may facilitate a more strategic approach to program choice.

Section Two: Components of the Labor Sector

The universe of programmatic possibilities in the labor sector offers a wide array of approaches that directly contribute to development and diplomacy objectives. For the purposes of this paper, the labor sector encompasses four main components: the legal foundation for labor rights and employment, trade unions and other labor sector organizations, government institutions, and labor markets.

Legal Foundation for Labor Rights

A well-functioning labor sector operates within an established legal framework that promotes the rule of law, which requires both respect for substantive human rights, including labor rights, and respect for procedural justice with established rules and procedures that are fairly, transparently, and consistently applied. The term “labor rights” has been defined in international instruments, multilateral agreements, trade law, and domestic law to cover international labor standards. They include the following labor rights:

1. Freedom of association and the right to organize;
2. Effective recognition of the right to collective bargaining;
3. Elimination of all forms of forced and compulsory labor;
4. Effective abolition of child labor and the prohibition of the “worst forms” of child labor;
5. Elimination of employment discrimination; and
6. Promotion of “acceptable conditions of work” with respect to minimum wages, hours of work, and occupational safety and health.

Among these, the first five of are contained in the International Labor Organization’s “fundamental rights” as defined in its 1998 Declaration on Fundamental Principles and Rights at Work, and further defined in eight related ILO conventions on these subjects. The sixth standard is part of the definition of “internationally recognized worker rights” in U.S. trade laws and trade agreements, which includes 1-4, but not standard 5. The use of the term “core labor standards” (CLS) in this technical paper reflects all six of these standards.

Trade Unions and Other Labor Sector Organizations

Labor sector organizations include “social partners,” i.e., workers’ organizations, especially trade unions, and employer organizations, as well as labor rights advocacy organizations. The key difference between

worker organizations and most rights and development advocacy groups is that the former, by definition and ideally in practice, are governed by and for their members. Because workers' organizations are representative organizations, they are accorded special recognition (in international organizations such as the ILO and the OECD, as well as in national labor contexts) as authoritative voices for workers' interests and concerns. This recognition brings with it special responsibilities and duties to union members both in terms of process and outcomes.

The role of labor sector organizations is relevant in achieving goals in three areas:

1. Promoting democratic change as important partners in civil society;
2. Improving labor law, relations, policies and practices and expanding social dialogue to protect labor rights as a foundation for democracy, improve government policy, broadly promote the interest of workers, and encourage sustainable economic growth and employment; and
3. Promoting good governance and combating corruption.

The principle of tripartism is the foundational structure for international labor sector governance on which the ILO and most national-level labor sectors are built. Tripartism represents balanced relations and cooperation among governments, employers' organizations, and workers' organizations. "Social dialogue" among these three parties seeks to promote cooperative and stable economic and political relations. However, the allocation of education, assets, and power among these three may not be equal or static. While collaborative and respectful tripartite relations represent the international ideal for government-worker-employer relations, the gap between realities on the ground and that ideal may remain wide in many countries.

Government Labor Sector Institutions

Labor sector government institutions include labor ministries and departments, labor courts, and administrative tribunals and boards. Labor ministries and departments generally educate on labor law, enforce the law, and regulate, investigate, conciliate and prosecute either directly or through another government body, such as a ministry of justice. Labor ministries and departments also commonly promote labor peace.

Legal systems usually have a role for the judiciary either for hearing labor disputes or reviewing administrative decisions on appeal. A well-functioning legal foundation also requires a judicial process that results in binding decisions. The judiciary may process labor cases through common courts or through specialized industrial or labor courts. Administrative tribunals and boards commonly adjudicate disputes and/or promote the resolution of disputes through alternative dispute resolution (ADR) processes.

Labor Markets

Labor markets allocate the work of men and women according to the forces of supply and demand. Well-functioning labor markets are critical to achieving economic growth, job creation, and poverty reduction. The ideal of a well-functioning labor market approximates the classic definition of a competitive market. Yet other labor market structures may exist in which either the numbers of employers or the number of workers are more limited, access to information is not equitably distributed, transition and transaction costs are high, risks abound, etc. In recognition of the *imperfect* market conditions under which buyers and sellers of labor frequently interact, society has developed institutions and regulations to guide labor markets, manage risks, and defend social goals, including:

- Provision of institutions that allow stakeholders' voices to be heard in the workforce system;
- Regulation of conditions of work according to agreed-upon core and substantive labor standards;
- Establishment of social protections; and
- Respect for dispute resolution and contract enforcement mechanisms by all stakeholders.

Interplay Among Labor Sector Components

In addition to defining the areas that perform key functions in the labor sector, it is also important to consider how the various labor sector components are mutually reinforcing and interdependent. For example, the effective functioning of the legal enabling environment requires strong and transparent government institutions, labor sector organizations need to have enough capacity to feed evidence-based analysis and demands into the system, and markets have to function well enough that most people have work of one sort or another which the legal framework can regulate and adjudicate. ***One of the key findings to emerge from this paper is that advantages are to be gained through the use of a more holistic and systemic way of strategizing interventions in this system.***

Section Three: Overarching Development and Diplomacy Themes and the Labor Sector

Labor sector issues are integral to central themes in both international development and diplomacy, as outlined below. Assessing the components of a well-functioning labor sector in a given country can help inform USG development and diplomacy objectives, and contribute to the prioritization of specific interventions to develop and support well-functioning labor sectors.

Development & Diplomacy Theme	Relation to Labor Sector
Human Rights	A broad international consensus acknowledges that labor rights are fundamental human rights worthy of universal protection and promotion. Governments are not simply obliged to recognize fundamental labor rights as an abstraction; rather, consistent with the rule of law, they are obliged to actively promote and protect them in law and in practice.
Rule of Law	Promoting the rule of law in the labor sector is both a goal in itself and a means of providing broader support for the rule of law. Labor sector organizations play essential roles, unions with regard to labor rights and employers who seek predictable, rules-based environments that adhere to rule of law.
Political Processes	Trade unions and other labor sector organizations often give voice to important segments of society, while employers often push for the implementation of political policy that supports business growth. Labor rights organizations often advocate for policy change that protects the rights of disadvantaged groups and for working people in general.
Civil Society	Natural tension between business and labor form one of the most important and enduring socio-political divisions within many societies; hence the labor sector is important to democratic reform. Trade unions are a special subset of civil society organizations because they are both representative membership organizations and interest groups with a unique set of interests, opportunities, and abilities.
Governance	All labor sector organizations and institutions have important roles to play in improving governance and fighting corruption in matters pertaining both to the labor sector and governance in general. Worker organizations, employer organizations, and NGOs may find common ground in promoting democracy, the rule of law, and good governance.
Economic Growth	Economic growth strategies that are truly broad-based should incorporate labor considerations in order to ensure that workers can access the education and skills, assets, rights, mobility, and livelihood and employment opportunities they need in order to benefit from the new opportunities that economic growth should stimulate. Moreover, promoting core labor standards improves competitiveness.
International Trade	Many trade agreements now include rules-based systems to enforce labor standards. In turn, promotion of international trade affects labor market forces, leading to shifts in demand for workers across skills categories.
Informal Sector	A truly broad-based labor sector strategy should address labor issues in the informal, as well as formal, sector of the economy.

Development & Diplomacy Theme	Relation to Labor Sector
HIV/AIDS	The fight against HIV/AIDS is a common concern for employers, workers, and government, and thus presents an opportunity for promoting and building tripartite cooperation. When competing stakeholders join together to advance a common interest, they build a relationship of trust that makes it possible for them to address more contentious matters.
Vulnerable Populations	Labor sector issues are often of paramount importance to persons in vulnerable populations – women, youth, children, the disabled, war veterans – because obtaining income and evading discrimination may be a matter of survival. Attempts to engage vulnerable populations in sustainable development activities will necessarily involve integrating them more effectively into the labor force.
Migration, Smuggling, Human Trafficking	The concepts related to human migration, trafficking, and smuggling are quite distinct though they all involve the movement of persons within and between countries and, in practice, have some labor sector aspects that overlap.
Conflict and Crises/Post-Crisis Transitions	Labor dimensions of conflict may include 1) industrial conflict, affecting relations between and among specific groups of workers, government, and often business, or 2) broader manifestations of political unrest by workers, as wages and public safety needs are squeezed.

Section Four: Tensions and Synergies in Foreign Assistance Goals

Both perceived and real tensions exist between foreign assistance objectives, particularly competitiveness and the rule of law, and between approaches to the labor sector. There are also considerable synergies. Where synergistic compromise solutions cannot be found, clear identification of the trade-offs may allow local parties to work toward the optimal solution for their society. Four examples illustrate key tensions and synergies.

Advocacy for Core Labor Standards: Promoting Labor Rights and Employer Competitiveness

The “appropriate” degree of labor laws’ regulation and enforcement and effects on employment are a key area of concern. The promotion of sound labor practices rooted in core labor standards can improve the competitiveness of enterprises and economies where properly implemented. However, increased “cash” labor standards, such as minimum wage increases, and strong unions bargaining for wage and benefit gains, can reduce corporate profits where not linked to productivity gains. Increased wages and benefits may have both positive effects, e.g., boosting demand in the local economy, and negative effects, reducing enterprise competitiveness. The optimal strategy might lie in the promotion of both labor rights and employer competitiveness. Doing so requires identifying the differing problems and interests, understanding the context, finding new linkages between issues, and considering a range of approaches and organizations that may be engaged to achieve the goals.

Fragility of Democracies and Development of Labor Unions as Political Interest Groups

Development of the internal capacity of labor unions to organize workers effectively, promote free and democratic leadership, educate workers about their rights, and represent their membership in collective bargaining with employers and policy debates with government is a crucial development goal. In some countries, labor leaders’ outreach may extend into domestic political arenas, participating directly in political activity, law-making, or be identified with political parties. Such participation is, perhaps, the logical outcome of capacity-building efforts that educate workers about how to interact with power structures around them. However, democracies may be rather fragile in some countries. Labor sector programs that seek to strengthen the political voice of labor organizations may inadvertently introduce unknown risks, with nascent democratic institutions barely able to sustain new tensions. While political parties and coalitions may not be strong enough to incorporate a new set of stakeholder interests, building the tools to understand the political process and advocate on behalf of labor sector issues may be an important first step.

Unions and Employment

Just as the USG supports private sector development initiatives by working with business associations and employer organizations, so, too, it supports labor sector development initiatives by helping to strengthen the capacity of labor unions to represent effectively and democratically their membership. Yet the decision to engage with labor unions is not without controversy, owing to concerns regarding campaigns for higher wages, the effect of work stoppages on workplace stability, and their potentially negative effects on competitiveness. Where unions are strong and have been successful in fighting for higher wages, considerable traction can be gained by engaging them in the process of promoting concomitant productivity and quality gains. Where unions are weak and have been restrained or repressed, support to unions serves both human rights goals as well as development objectives. In other situations, supporting union organizing and increased capacity is warranted by the key role they can play in democracy building. In all cases, it is necessary to consider both context and variation in union types and internal organization, when engaging this sector.

Globalization

Encouraging open markets and trade liberalization affects the labor sector in a number of ways. For example, increased integration with global markets may have differential impacts by worker gender, age, region, and education or skill level and dynamic effects that need to be more carefully understood and planned for. Sometimes promotion of export-led growth may be accompanied by relaxing or ignoring national labor laws.

The political economy of labor has undergone dramatic changes over the last twenty years. Vast pools of agrarian labor have fueled rural-urban migration, allowing countries to enter the world marketplace on the basis of cheap labor costs. As many countries' economies have failed, however, to provide adequate domestic demand for labor, international labor migration has grown, taking place largely outside of the formal labor enabling environment established at the national level. In the past state policies buffered workers' welfare and maintained political stability, but insufficient economic integration with global markets led to stagnation. Today, many states have opted instead for fiscal reform, reduced safety net expenditures, and greater integration with world markets in order to improve competitiveness, stimulate economic growth, and thereby expand employment opportunities for workers. But as the pressures of the global marketplace increasingly affect wages and standards of living, the interests of all workers, both formal and informal, will need to be represented and preserved in order to maintain equilibrium and stability within a nation state structure.

Section Five: Contribution of the Labor Sector to U.S. Foreign Assistance Objectives

The U.S. State Department and USAID seek to promote the efficient and effective use of USG resources in five priority foreign assistance areas: peace and security, democracy and governance, human capital investments, economic growth, and humanitarian assistance.

To determine whether the labor sector is relevant to objectives in the five priority program areas, it is useful to pose the following questions when reviewing each of them. Does the program area, element or sub-element set forth an objective that:

- Explicitly promotes a labor right or standard?
- Includes, integrates or incorporates a labor right or standard?
- May be achieved by addressing the labor sector?
- May be achieved by engaging labor sector institutions and organizations?

Achieving Peace and Security

Trafficking in persons is a key issue addressed by diplomacy and development activities under “Achieving Peace and Security.” Labor sector organizations assist in prevention, victim support, and prosecution of traffickers. Another area of intersection between “Achieving Peace and Security” and the labor sector is through activities carried out by worker organizations in the name of peace and security, through unions that may represent police, customs and border agents, prison guards, and other law enforcement officials. Civil unrest is sometimes related to another labor sector issue, namely access to basic goods and services, which is closely linked to the level of compensation for both informal and formal labor.

Governing Justly and Democratically

Labor sector organizations, particularly unions, play an important role in promoting political competition and consensus building. Development activities in the civil society strengthening area also develop and strengthen trade unions and their federations to promote labor rights through organizing and advocacy for workforce development and health initiatives. They also may help to improve their capacities to engage in collective bargaining and tripartite processes, and to act as incubators for democracy. Program priorities in this area also call for promoting a free media, which journalist organizations and unions have done under difficult and often dangerous circumstances. Because it is in their members’ interests to do so, they can serve as excellent watchdogs to ensure that public funding is spent for government purposes rather than stolen or squandered.

Investing in People

Labor sector dimensions in this program area include protecting the rights, including labor rights, of people in vulnerable groups, promoting their employment and ability to earn income, and ensuring that they have safety nets. To reform the laws and policies, tripartite partners could be engaged; to implement them, the capacities of labor ministries/departments and other government offices should be improved.

Promoting Economic Growth and Prosperity

Employers, labor organizations, and labor sector government institutions and their stakeholders all have stakes in promoting economic growth and prosperity. Promotion of economic growth is a crucial first step in beginning to ensure growth in demand for labor. Wages rising in line with productivity also increase domestic demand and contribute to growth. At the firm-level, there are many promising methods of employee involvement, including workforce councils at the enterprise-level and joint committees at a sectoral or national level, for employers and worker organizations to promote their common interests. Labor is already a crucial, if often hidden, dimension in many economic growth programs.

Providing Humanitarian Assistance

With efforts focused on achieving specific results in the short term, engaging labor sector organizations may be instrumental in providing humanitarian assistance regarding income generation, employment opportunities, basic social services, and livelihood support.

Section Six: Toward a New Synthesis in Labor Sector Foreign Assistance Programming

Labor sector foreign assistance programming has the potential to have a much broader impact than has been identified in past conceptualizations of programming in this area. Four key findings of this paper suggest how a re-conceptualization of labor sector programming could improve the likelihood of such interventions contributing directly to the USG priority areas for foreign assistance.

- First, conceptualizing the labor sector using a *systemic approach* offers new advantages that can render labor sector programming more nuanced and better able to contribute to a broad set of objectives.
- This leads into the second key finding regarding the *multiple utility of programming* in the labor sector. Labor sector programming should be conceived not only as a means to promote labor rights and organizations for their own sake, but the labor sector itself can be used as a platform for programming that can directly help to achieve a more diverse set of priority USG foreign policy objectives.
- Third, the labor sector is of *integral importance* to priority USG foreign policy objectives. That is, incorporating labor elements into strategic plans may be instrumental to achieving the five FAF objectives. And the converse is also suggested, i.e. that failure to take the labor sector into account in broader foreign assistance programming may risk undermining progress that might otherwise be achieved.
- Finally, by broadening the systemic approach to include *political economy considerations*, the paper has underscored the urgent need to balance trends towards competitiveness that threaten to undermine popular access to rights, basic goods, and services with mechanisms that will continue to assure access. Failure to address such growing equity and social protection concerns may mean that greater threats to political stability will continue to emerge.

The challenge is to consider how to work within the labor sector to both effect meaningful gains for all workers in developing countries as well as to contribute to broader foreign policy objectives. As countries become increasingly globally interconnected, getting the labor equation right will also involve addressing challenges in each of the four components of the labor sector. Fruitful dialogue is needed with policy makers about the pace, sequencing, and intersectoral incidence of such liberalization. These and other questions will be examined in upcoming country-level labor assessments and other future, labor sector work to be undertaken by USAID and the U.S. Department of State.

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