

**Guidance Note for World Bank Group Staff on the Use of the Doing Business
Employing Workers Indicator for Policy Advice**

This note provides further guidance following the memo “Revisions to the Doing Business Employing Workers Indicator” sent by Jeffrey Gutman and Michael Klein to Country and Sector Directors on April 27, 2009 (the Gutman-Klein memo). That memo states that the Doing Business Employing Workers Indicator (EWI) “does not represent World Bank policy and should not be used as a basis for policy advice or in any country program documents that outline or evaluate the development strategy or assistance program for a recipient country”.

The Gutman-Klein memo further highlights “the importance of regulatory approaches that facilitate the creation of more formal sector jobs with adequate safeguards for employees’ rights and that guard against the shifting of risk from firms to workers and low-income families.” This is particularly relevant in times of crisis. As indicated in the concluding remarks of a recent note prepared by the HD and PREM labor teams, “When selecting labor market programs to be applied in [the] current global financial crisis, the assessment of these programs –typically obtained from non-crisis experience- needs to be ‘reexamined.’ What works in normal times might not be the best option in the current climate. In addition to using best practice criteria, other aspects should be considered, above all (i) the speed and ease of program implementation, taking into account existing infrastructure and institutional capacity; and (ii) the ability to support groups most affected by the crisis.”¹

Particularly in current times, a comprehensive approach in advice on labor market policies is needed. The Employing Workers Indicator presents a measure of flexibility in employment regulations but does not capture other key dimensions of employment policies, such as worker protection measures. A Consultative Group has been formed to serve as an important source of advice on the potential establishment of a new worker protection indicator and possible future revisions of the Employing Workers Indicator. While this process is ongoing, the Employing Workers Indicators were removed as a guidepost to the World Bank Country Policy and Institutional Assessment questionnaire (CPIA) and are not to be used as a basis for policy advice.

At the same time, finding the right balance between regulation and flexibility continues to be a major issue for clients particularly during times of crisis. A growing body of applied economic research is looking to provide insights that can help inform policy decisions. The Employing Workers Indicators provide a useful input for research in this area and researchers are encouraged to continue this important work.

A. Guidance to World Bank Staff

As per the Gutman-Klein memo, staff should suspend the use of the EWI for policy advice. More specifically:

- *Country Assistance Strategies and Economic and Sector Work*: staff should not include recommendations based on the EWI in Country Assistance Strategies / Country Partnership Strategies, Economic and Sector Work, Doing Business Reform memoranda, policy notes and other strategy or analytical work.

¹ See World Bank, 2009. HD and PREM Labor Market Teams. “How Should Labor Market Policy Respond to the Financial Crisis?”

- *Technical Assistance (TA)*: staff should decline new requests for TA on labor market reforms focusing on the EWI, as well as suspend ongoing policy discussions with client governments on labor reforms based on the EWI. (The Doing Business Reform Unit discontinued provision of TA based on the EWI in April 2009.)
- *Project preparation and supervision*: staff should not use the EWI as a target or performance monitoring indicator when designing development policy, investment and technical assistance loans, even where the relevant project documents refer to the EWI. Staff should consult with their manager and the Legal department, as appropriate, on the need to amend documents related to projects already approved that may include the EWI as a target or performance monitoring indicator.

Staff should discuss this policy with client governments when relevant in the context of labor reform policy work, citing ongoing changes in the EWI methodology and referring clients to the relevant web pages of the Doing Business project.²

B. The Doing Business Report

The *Doing Business* report investigates regulations that enhance or constrain business activity. It presents quantitative indicators on business regulation and the protection of property rights that can be compared across 183 economies over time. Regulations affecting 10 stages of the life of a business are measured: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The *Doing Business* report has been published annually by the World Bank Group since 2004.

A fundamental premise of the *Doing Business* report and its indicators is that economic activity requires good rules. Thus, the objective of the report and of related policy advice is to help governments design regulations that are efficient, accessible to all who need to use them, and simple in their implementation. In the context of the EWI, the emphasis is on regulatory approaches that facilitate the creation of more formal sector jobs with adequate safeguards for employees' rights.

C. The Doing Business Employing Workers Indicator

The EWI is one of the 10 DB indicators. Four sub-indicators are weighted equally to calculate a country's aggregate score on the EWI: (1) the difficulty of hiring index, (2) the difficulty of redundancy index, (3) the redundancy cost and (4) the rigidity of hours index. The EWI ranges from 0 to 100, with higher scores indicating more rigid labor regulations. Following a methodology improvement in 2007, the EWI scores these sub-indicators in a manner consistent with the relevant conventions of the International Labor Organization (ILO); it is not possible to achieve a higher score on the EWI by disregarding these conventions.

Further changes to the methodology for calculating the EWI indicator were made in the *Doing Business 2010* report to address fixed-term worker provisions and standards for severance payments, mandatory days of rest, night work and holidays, and minimum wage levels.³ It was agreed that an evaluation of the first round of revisions to the EWI and discussion of further revisions, as well as the development of a

² Homepage: <http://www.doingbusiness.org/> (under "What's New" on right-hand side)

Explanatory note: <http://www.doingbusiness.org/MethodologySurveys/EmployingWorkers.aspx>

³ For more information on the methodology and recent changes, see:

<http://www.doingbusiness.org/MethodologySurveys/EmployingWorkers.aspx>

worker protection indicator, would be taken up by the DB project team with advice from a Consultative Group (CG) comprising experts on the subject. This CG has now been constituted.⁴ The CG will also offer ideas on labor market and employment protection issues, with a view to creating regulations that help build jobs in the formal sector with adequate protection to withstand future crisis.

Contact information

For questions on the Doing Business methodology and indicators, please contact Sylvia Solf (GIADB).

For questions on Doing Business Reform Advisory, please contact Marialisa Motta (CICRA).

For questions on labor market reforms, please contact David Robalino (HDNSP).

⁴ The Consultative Group includes representatives from the ILO, as the international standard setting body, trade unions, businesses, academics and legal experts. For more information on the consultative group and an update on its activities, see its terms of reference:

<http://www.doingbusiness.org/MethodologySurveys/EWIConsultativeGroup.aspx>