

Engendering Development

BEYOND 'ONE-SIZE FITS ALL': EQUITABLE DOWNSIZING IN VIETNAM

Why this is a promising approach

- Recognizing that public sector downsizing may have more negative effects on some groups of workers than on others is an important first step to creating a more equitable severance system for laid off workers.
- The “DOSE” tool—an Excel spreadsheet program that estimates severance impacts on different groups of workers—can be used to minimize losses to laid off workers in many economies that are undergoing public sector downsizing.
- Conditioning the release of later tranches of PRSCs or other adjustment loans on creating more equitable benefits to laid off workers can enhance the positive economic and social effects of public sector downsizing programs.

Downsizing programs are an important part of many public sector reforms supported by the World Bank. Although these programs can reduce inefficiencies, many observers are concerned about the political and social consequences of mass layoffs as well as the disproportionate share of the losses that some groups of workers may bear.

Fortunately, as demonstrated by recent experience in Vietnam, inequitable losses associated with public sector downsizing can be reduced by tailoring severance packages to minimize the negative impacts of downsizing on particular groups of workers. This note describes how this was done in Vietnam—and provides links to a general utility, DOSE,¹ that can be used to design equitable severance packages in any country.

Downsizing impacts are gender differentiated

Downsizing can have differing effects on male and female employees for two reasons. First, because women and men typically occupy different positions, layoffs are rarely distributed evenly among male and female employees. Second, there tend to be systematic differences in the welfare loss experienced by laid-off men compared to laid-off women. Experience in a range of countries shows that, in most cases, women suffer greater losses than men in both income and non-monetary benefits.

Women who are laid off from public sector jobs often have more difficulty than their male colleagues finding a new job. In Vietnam, a year after layoffs, only 14% of women had found new jobs, compared to 22% of men. The same lack of satisfactory employment opportunities also contributed to individuals dropping out of the labor force: 42% of laid-off women left the labor force compared to 36% of men (Rama, 2002).

¹ A link to the Excel-based DOSE (Downsizing Options Simulation Exercise) tool is on the World Bank intranet, in the list at <http://gender/economics/admin.htm>.

Those men and women who do find new jobs generally suffer a loss in earnings as they move into the private sector. Because the public sector wage premium is generally larger for women than for men, the loss in earnings also tends to be larger for women.

Minimizing the cost to all laid-off workers

The government of Vietnam was eager to minimize the political and social consequences of mass layoffs and wanted to avoid having certain groups of workers—particularly women—bear a disproportionate share of losses. In response to this concern, the Vietnamese government established a special fund to pay for severance packages. These packages used a combination of salary and seniority as the basis for compensation.

As part of a downsizing program supported by Vietnam's first PRSC, simulations using the DOSE tool developed by the World Bank suggested that, in comparison to packages based only on earnings and seniority, a severance package involving a large lump-sum element was less likely to penalize women.

Based on this finding, the Vietnamese government modified its severance compensation packages to include a lump-sum component of between five and ten million dong.² The release of the second tranche of Vietnam's first PRSC was also tied to the inclusion of sex-differentiated packages in the Government's program. A study of workers who received the PRSC-supported sex-differentiated severance packages will be completed in spring 2004. The results will be used to inform future PRSC-supported downsizing programs.

Methods can help prevent implicit discrimination in many contexts

Downsizing programs are an important part of economic reforms in many countries. The

² In Dec 2003, 1 USD equated to approx. 15,600 dong.

Vietnamese experience can be replicated elsewhere to improve understanding of the distributional consequences of public sector reforms, and to minimize negative impacts on displaced workers.

The data used to inform the Vietnamese government of the gender-differentiated impacts of particular severance packages are available in many countries. The DOSE tool can be used to assess the suitability of compensation packages for any group of workers—for example ethnic minorities—who may face implicit discrimination through a “one-size-fits-all” approach to safety net design.

Further reading

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Who to contact for more information:

- Martin Rama, Lead Economist, Vietnam
- Kazi Matin, Lead Economist and Task Manager of the first Vietnam PRSC
- Steve Price-Thomas, Gender Specialist, PRMGE