

The Role of Employment and Labour Markets in the Fight against Poverty*

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- a. Employment, and the quality of employment, decent work, is crucial for poverty reduction and in achieving growth with equity and pro-poor growth. The link between economic growth, employment and poverty reduction is thus a process in which output growth induces an increase in productive and remunerative employment, which, in turn, leads to an increase in the incomes of the poor and a reduction in poverty.
- b. Ensuring that growth is pro-poor requires high employment-intensity of growth and a rise in productivity which also depend on institutions, policies, laws and practices that positively affect the functioning of labour markets. A well-functioning institutional environment can support the virtuous circle and, in the process, facilitate pro-poor growth.
- c. Informal employment remains important, persistent and is often even rising. Thus, the quality of work of poor people holding an informal job has to be improved through the rise of productivity through vocational training and education, micro and small enterprise development and access to credit. Moreover, new strategies are needed to extend social security to informal workers, and to improve their working conditions. Formal job creation has to be accelerated, exceeding labour force growth. And the transfer from informal to formal employment should be facilitated through changes in regulations and tax or incentive systems, as well as rising productivity of informal activities.

Introduction

In 2006, 195 million workers were unemployed, amounting to 6.3% of the world's labour force. However, the number of unemployed paled in comparison to the working poor. That same year, 1.37 billion workers - nearly half the world's workers - were considered as "working poor." These workers are living on less than USD 2 dollars per day, a sum that is insufficient to lift themselves and their families out of poverty. To make long-term inroads into unemployment and working poverty, it is essential that greater use be made of periods of high growth, in order to generate more decent and productive jobs. Reducing unemployment and working poverty by creating such jobs should be viewed as a precondition for sustained, pro-poor, economic growth.

In its Policy Statement on Pro-Poor Growth, the Development Assistance Committee (DAC) states that, in order for growth to be pro-poor, poor women and men must be able to participate in, contribute to and benefit from economic growth. The most effective means of participating, contributing and benefiting is through decent and productive employment. Thus policies are needed to ensure that the pace and pattern of economic growth leads to employment opportunities, and that the poor are sufficiently empowered

* The opinions expressed and arguments employed in this paper are the sole responsibility of the authors, and do not necessarily reflect those of the OECD or the governments of its member countries.

to avail themselves of these opportunities. The past work of POVNET has focused on the how the development of the private sector, infrastructure and agriculture can be used in the fight against poverty. Employment features prominently in all of these topics.

The purpose of this conceptual framework is to serve as an advocacy tool in support of making employment a focus of development assistance, as opposed to just a by-product. The document is evidence-based, drawing on the experience of countries that have successfully reduced poverty, in order to shed light on the extent and manner in which growth has led to employment, and how more and better job opportunities have been translated into a reduction in poverty. It also discusses the challenges faced in other countries still grappling with high poverty levels, and the importance of employment in these efforts.

The challenge

Economic growth is essential, but not sufficient to achieve the Millennium Development Goals (MDGs). Macroeconomic and structural policies that promote employment, economic inclusion, empowerment and social investment are crucial. Ensuring that growth is pro-poor requires changes in the institutions, law and practices that perpetuate poverty. Employment is an essential ingredient in the fight against poverty and in achieving growth with equity.

Employment is also a recognized human right. The United Nations Universal Declaration of Human Rights includes the right to work, thus recognizing that many of the other economic and social entitlements proclaimed to be human rights cannot be secured without jobs that pay. In 1964, the International Labour Conference of the ILO passed the Employment Policy Convention (No. 122), which states: “Each Member shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment.” Support for full employment - essentially that there should be work for all who are available and seeking work - is based on the recognition that the economic and social costs of unemployment are staggering, with far-reaching consequences extending beyond the single dimension of a loss of income.

Employment, and the quality of employment, is crucial for poverty reduction. The ILO’s Decent Work Agenda strives for economic growth with equity through a coherent blend of social and economic goals (See box below). The Global Employment Agenda of the ILO promotes both the quantitative objective of increasing freely chosen productive employment and the qualitative dimension of employment. In developing countries, where most people cannot afford to be out of work, many who do work live on less than USD 1 or USD 2 a day and are known as the “working poor.” Improving the quality of employment is thus a major challenge. The Global Employment Agenda seeks to place employment at the heart of economic and social policies, so that both the quantity and the quality of employment are improved.

The Decent Work Agenda and Poverty Reduction

The four elements of the Decent Work Agenda and their role in alleviating poverty:

Employment – the principal route out of poverty is productive work

Rights – without them, women and men will not be empowered to escape from poverty

Protection – social protection safeguards against poverty

Dialogue – the participation of employers’ and workers’ organizations in shaping government policy for poverty reduction is essential.

However, full-employment and “decent work for all” are far from being achieved in the developing world. In low-income countries, working poverty is a greater problem than unemployment, whereas in middle-income developing countries, unemployment is a concern, along with working poverty (See Table 2).

Table 2. Unemployment and Working Poor throughout the World

Region	Unemployment Rate, 2005	%USD 1/day working poor in total employment	%USD 2/day working poor in total employment
World	6.4	17.6	47.4
Developed Economies and European Union	6.8	--	--
Central and Eastern Europe (non-EU) and CIS	9.4	2.1	10.5
East Asia	3.5	12.1	44.2
SE Asia and the Pacific	6.6	11.1	56.9
South Asia	5.2	34.4	87.2
Latin America and the Caribbean	8.1	11.3	30.9
Middle East and N. Africa	12.3	2.8	34.7
Sub-Saharan Africa	9.7	55.4	86.3

Source : ILO, Global Employment Trends Brief, January, 2007

In developing countries, particularly low-income developing countries, unemployment is a luxury that few can afford. Most low-income countries do not have unemployment insurance and although family and kinship ties remain strong, workers cannot rely on these ties to compensate for their lost earnings. Thus, self-employment and casual labour become a refuge for job losers. The situation is slightly different in middle-income developing countries, such as Brazil, Chile, and Costa Rica. Workers with

secondary or higher education, particularly the more educated youths, prefer to queue for better jobs. Moreover, Brazil and Chile provide unemployment benefits to workers who lose formal jobs, thus giving some income relief to the unemployed as they search for a job and alleviating some of the need to turn to informality for compensatory earnings. But this does not imply that unemployment, as a cause of poverty, should be dismissed. In South Africa, a middle-income developing country, unemployment is estimated at 40% of the labour force and is a principle cause of poverty. Indeed, employment of labour market participants was found to be the largest single contributor to the avoidance of household poverty (Mwabu and Thorbecke, 2007).

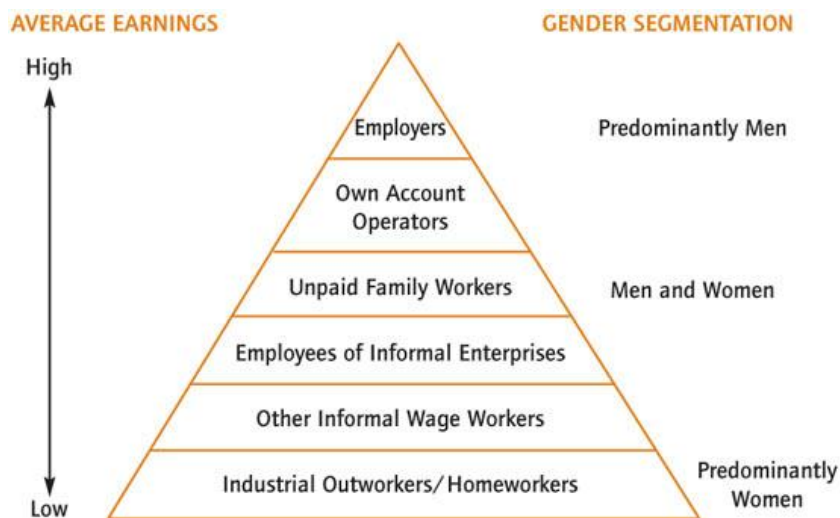
Another challenge for the labour markets of developing countries is *informal employment*. Contrary to the predictions of standard economic models that informal employment would disappear with economic development, informal employment remains important, persistent and, in some regions of the world, is even rising (Charmes, 2000). Informal employment, as defined by the 17th International Conference of Labour Statisticians in 2003, refers to the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households²⁷. It includes: (1) own-account workers and employers employed in their own informal sector enterprises; (2) family workers; (3) employees in informal jobs, whether employed in formal sector enterprises, informal sector enterprises, or households; (4) members of informal producers' cooperatives; and (5) own-account workers engaged in production of goods exclusively for own final use. Yet the paucity of labour market data in developing countries makes quantifying its extent difficult. If we limit the definition to micro enterprise workers, domestic workers, home workers and unremunerated family workers, it is estimated that during the 1990s, informal work in the non-agricultural sector constituted 43% of employment in North Africa, 75% in sub-Saharan Africa, 57% in Latin America and 63% in Asia (Beneria, 2001).

Because of the wide spectrum of work that is considered as informal, large differences exist in the composition of the workforce, in working conditions, in earnings, as well as in the appropriate policy responses. Moreover, there is no clear cut separation between formal and informal employment. Some informal workers may even opt out of formal structures, which is often just a sign of a decent work deficit at the low-end spectrum of formal employment. Nevertheless, the majority of informal workers will have difficulties reaching formal employment in the short or medium-term. As Figure 1 demonstrates, employers and own-account workers typically earn more than informal waged workers. Indeed, some studies indicate that their earnings are quite high, rivalling those of formally employed workers (Günther and A. Launov, 2006; Maloney, 1999; UNIFEM, 2005). Nevertheless, self-employed workers typically do not contribute to social security systems and thus are not protected from the risks of disability and old age. Informally employed workers do not benefit from statutory protections that regulate conditions of work or from social security. Though informal workers often benefit from social assistance programmes, they do not benefit from the labour market and social protection policies that formal workers can access. The blurred line between the formal and informal sectors raises questions about the relevance and effectiveness of existing labour market, productivity and social protection policies.

Thus, a number of challenges exist with regard to informal employment. First, ways have to be found to improve the quality of work of poor people holding an informal job. The rise of productivity through vocational training and education, micro and small enterprise development and access to credit is a key element in raising their income. In addition, new strategies are needed to extend social security to informal workers, and to

improve their working conditions. Second, formal job creation has to be accelerated, exceeding labour force growth. Major Latin-American countries, for example, have experienced a recent rise in the formal employment share of total employment. Third, the transfer from informal to formal employment should be facilitated. Changes in regulations and tax systems, incentive schemes, as well as rising productivity of informal activities, could contribute to this objective. Overall, a more holistic view of the employment and social protection agendas is needed. And it is not only the public sector, but also the private sector and trade unions, which must play a prominent role in this process.

Figure 1: Average earnings and gender segmentation across informal employment categories



Source: Chen, Vanek and Carr, 2004

Another challenge for labour markets is achieving *equality in employment opportunities for women*. Although women's participation in labour markets worldwide grew substantially in the 1980s and 1990s, women still participate less than men, are more likely to work in low productivity jobs in agriculture and services, to earn less, to be informal workers and to be unemployed. Moreover, women are estimated to constitute 60% of the working poor (ILO, 2007). *Young people* also face many challenges in the labour market. Those aged 15-24 are three times more likely to be unemployed than adults. In 2005, the global youth unemployment rate was 13.5% (ILO, 2006). Young people are also more likely than adults to work informally.

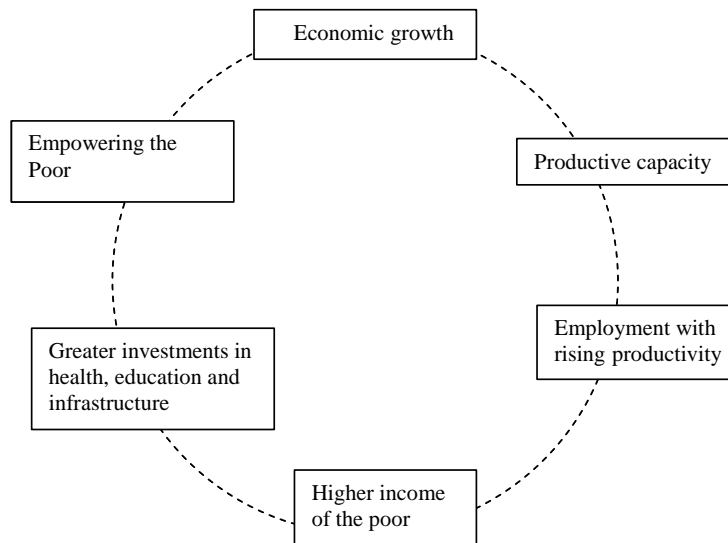
In addition, more than one third of the world's poor live in '*fragile states*' where the challenges of rebuilding the state and the economy are particularly acute. Because of the deteriorating economic situation and the unequal access to employment and productive assets, the poorest segments of society have been marginalised and exploited, with no access to productive assets and no voice in decision-making. Although it is beyond the scope of this paper to deal with all of the issues affecting employment and labour markets in fragile states, the need to create short-term employment as soon as conditions permit, and to invest in labour markets, has been highlighted as one of the more neglected issues in donor practice. The emphasis on governance issues and security dominate the donor agenda in fragile states. It is only recently that the international community has

recognised the importance of economic reconstruction and employment as a means of contributing towards stability and state-building, as well as addressing the immediate needs of poor people in countries in which the state is not fulfilling its role. The challenges of creating employment in fragile states are dealt with in a separate hot topic paper highlighting the specific characteristics of situations in which government has failed, or is still failing, to provide citizens with basic services, security, and economic opportunities.

Evidence: Understanding the growth-employment-poverty link

Although economic growth is typically thought of as the way to reduce poverty, its effectiveness in achieving this depends on the pattern of growth, essentially how particular sectors of the economy and workers benefit from growth. A high rate of economic growth, associated with a high degree of employment intensity, is a necessary condition for the reduction of poverty, but may not be sufficient. For poverty to be reduced, productivity and earnings (real wages, as well as returns from self-employment) must increase sufficiently to increase the incomes of the poor. The link between economic growth, employment and poverty reduction is thus a process in which output growth induces an increase in productive and remunerative employment, which, in turn, leads to an increase in the incomes of the poor and a reduction in poverty. The increase in incomes also finances investments in health and education that increase the productive capacity of the workforce, which improves sustainability. Success, however, will depend on the rate of economic growth, the output elasticity of demand for labour, and the ability of poor members of the labour force to respond to increasing demand for labour.

Ideally, there is a link between economic growth, employment and poverty reduction, which forms a virtuous circle, as Figure 2 illustrates. The stronger the links in the virtuous circle, the more likely it is that growth will be pro-poor. Although the circle does not have a defined beginning or end, the sequence can run from sustained rates of economic growth, which then, ideally, lead to sustained increases in productive capacity and generate employment opportunities, for waged and self-employed workers, irrespective of their sex, religion, ethnic or social group, or political opinion. Some of these opportunities may already exist, but they need to be up-graded, or new jobs involving higher technology and skill levels need to be created. Thus there is a need to integrate unemployed or underemployed workers into higher productive activities, so that they may obtain higher incomes. This income will allow families, businesses and society to invest in education and skill formation (for themselves or their children, thus for the future generation), as well as health, safety and other forms of social protection. These investments mitigate socioeconomic risks and empower the poor, thereby creating the necessary conditions for further investment, consumption, higher productivity and growth in the second round, and the completion of the virtuous circle of pro-poor growth (Islam, 2006).

Figure 2: Virtuous Circle of Links among Growth, Employment and Poverty Reduction

Source : Based on Islam (2006)

There is, therefore, both a demand side and a supply side to achieving pro-poor growth. The variables that influence the income of the poor from the demand side include the employment-intensity of growth, shifts in the employment structure towards higher productivity sectors, greater availability of technology that boosts productivity, and the creation of assets for the poor. From the supply side, growth is best served if the poor are able to integrate into the process of economic growth and access the jobs and opportunities that are created. Enhancing education and skill development is a key aspect in this regard. Briefly, it is important that development efforts also focus on unleashing the creative and productive forces of the poor, to include them in the economic process. The focus is not simply on employment creation, and hence not on fostering labour-intensive growth as a panacea for poverty reduction, but rather on employment and productivity in a manner that increases the income of the poor efficiently, and gives them access to employment and thus to economic opportunities.

Many of the recent examples of pro-poor growth are in countries that have managed to enter this virtuous circle. While their success may not be easily replicable and there is much diversity in their experiences, there do appear to be some common factors behind their success and the role of employment and labour markets in making this success possible. This conceptual framework is organized around the six components of the virtuous circle: (1) economic growth; (2) productive capacity; (3) employment with rising productivity; (4) the higher income of the poor; (5) greater investments in health, education and infrastructure; and (6) increased productive capacity. Building on the work of Islam (2006) and ILO/UNDP (2007), this conceptual framework draws on the experience of countries that have made reductions in their poverty rate in recent decades, and assesses the importance of the growth-employment-poverty link in their achievements (ILO/UNDP, 2007).

Economic growth

High rates of economic growth for an extended period of at least a decade, and sometimes more, are a feature of most countries that have successfully reduced poverty. Average annual economic growth ranged from 7-9% in Chile, China, India, Indonesia, Malaysia, Thailand and Vietnam. Malaysia sustained an average annual rate of 7.5% for nearly three decades, from 1970 until the Asian financial crisis in 1997. Indonesia and Thailand also had long-lasting expansions of more than two decades. An annual growth rate of 7.5% implies a doubling in national income in a period of ten years. It is thus not surprising that poverty was cut dramatically.

Macroeconomic policies are a key element in influencing economic growth on the demand side, and thus contribute to creating employment. Fiscal policy can mitigate economic downturns and employment losses. If anti-cyclical fiscal policy is used responsibly, through the implementation of a structural fiscal rule, as applied in Chile for example, and as recommended by the OECD and the IMF, investor confidence is improved. Important areas for fiscal spending that benefit job creation are on infrastructure investment, public works, and social transfers. Since the 1980s, the main concern of central banks has been fighting inflation, and the primary tool used has been the interest rate. While fighting inflation is imperative, it is also necessary that economic growth and employment creation regain their prominence as a central bank policy objective, as was the case in the 1950s and 1960s. Credit directed towards employment-intensive activities, developmental loans, public loan guarantees and improvement in coverage and administration of small-scale credit programmes may complement this policy (Heintz *et al.*, 2008). Another monetary variable, the exchange rate, has become the single most critical variable in determining the competitiveness of more open economies. It does not only influence the export sector, but also all tradable and even non tradable sectors. Macroeconomic policies can contribute to raise domestic productive activities and thus create new employment opportunities, but often these policies need to be sustained by structural and institutional changes to become effective.

Good institutions are also needed to ensure that economic growth is equitable. In many countries, high economic growth has often accompanied by a rise in inequality, but this need not be the case. Economic, wage, social and labour market policies that address distribution can ensure that growth is equitable. In Chile, for example, inequality was slightly reduced during the strong growth years of the 1990s because of a minimum wage policy and other social policies. Malaysia developed comprehensive positive discrimination policies to assure inclusive development. Income inequality was also reduced slightly in Brazil in the 2000s because the government increased social transfers and raised the minimum wage, thereby boosting the incomes of the poorest groups. However, in many other countries that have experienced economic growth, inequality increased, mitigating some of the benefits of economic growth for poverty reduction. For example, if inequality had not increased in Uganda between 1992 and 2002, the poverty rate would have been 8 percentage points lower (AFD, 2005). Similarly, poverty reduction in China and India has been less than expected given their high rates of sustained economic growth, because growth has not been broad-based.

Historically, economic development has been driven by a push and pull of the labour force from the primary to the secondary sectors. Higher productivity in agriculture pushes workers off this sector and leads to them being pulled into new, more productive employment in manufacturing. Output and employment growth in the service sector come later. Although this pattern still holds for many developing countries, the service sector

has gained in importance from the outset as a principal employer. Unfortunately the transition from agriculture to services has, in many cases, meant a transition from low-productivity agricultural jobs to low-productivity service jobs in the urban informal economy (ILO, 2005). In 2006, the employment share of the service sector in total world employment, reached 40%, overtaking for the first time the share of employment in agriculture, which declined to 38.7%. The share of employment in manufacturing has remained steady, at 21%, since the mid-1990s (ILO, 2007).

Agriculture

Alleviating poverty in the agriculture sector requires appropriate incentives for farmers, *i.e.* attractive prices, access to markets and effective implementation of land rights (or alternatively, the enforcement of property rights). Better income prospects and secure land rights encourage farmers to improve technology, boosting their productivity the more easily where extension and research are effective, and where farmers can access inputs and credit. Experience shows that education, health and infrastructure are further factors important for facilitating rural growth. Increased productivity will allow the agricultural sector to shed labour for more productive and better paying work in manufacturing and services. Indonesia in the last quarter of the 20th century, China in the 1980s and Vietnam and Uganda in the 1990s are all success stories illustrating such growth and, in some cases, transition out of agriculture.

Thus, at the early stages of rural development, the issue in agriculture is not increased employment; major attention should be given to increased productivity, mainly a matter of vigorous demand and growth. Incidentally, the virtuous circle in Figure 2 should therefore be interpreted flexibly within the agricultural sector.

Manufacturing

In many countries, including China, Costa Rica, Indonesia, Malaysia, Thailand and Vietnam, the development of labour-intensive export sectors has been a significant driver of economic growth. This sector was important for reducing poverty, since job creation was high, given the high output-employment elasticity of this type of manufacturing. Moreover, there were improvements in productivity as industries moved up the value chain, leading to increases in income and further reductions in poverty.

Asia's economic success since the 1970s has largely been based on a successful, export-led growth model; but this model is not easily replicated. In many Asian countries, certainly in Japan and Korea, and also in Malaysia and Singapore, the state has played an instrumental role in industrialization by protecting infant industries, as well as by providing subsidies on credit in these sectors. Many of these policies are not permitted under current World Trade Organisation (WTO) rules. Moreover, export-led growth has become "fashionable," meaning that many developing countries, not just in Asia but also in Latin America and Africa, have adopted export-led growth models. Unless the market for products is increased, countries will experience "diminishing returns to export-led growth," meaning that countries will only be able to expand their share in export markets, particularly for commodities, apparel and basic electronics, by displacing other developing countries (Blecker, 2000). And if competitiveness is driven by unit labour costs, the benefits of this model to low-waged workers will be lessened. Nevertheless, if countries are able to use their comparative advantage to diversify into more competitive goods particularly by moving up the value chain and producing export goods that are

more skill-intensive and thus quality based, then they will likely be able to sustain and enhance the benefits of export-led growth.

Service sector

Higher rates of world urbanization and a levelling of world manufacturing employment have meant that the service sector has come to dominate global employment. While, at 72.7%, the share of employment in developed countries is much higher than in the developing world, services nevertheless constitute an important employer in many parts of the developing world. In Latin America and the Caribbean, 61.4% of workers were engaged in services; in the Middle East and North Africa the figure was 47.4% and in South Asia, it was 29.5% in 2006, up from 25.3% in 1996.

In some developing countries, the service sector has become a leading driver of economic growth. In India, economic growth from 1994-2005 was driven by an unprecedented expansion in service exports. India has capitalized on its large pool of educated, English-speaking people to become an important outsourcing destination for multinational corporations. Another important contributor to economic growth for many developing countries is the tourism sector. However, the service sector also contains many less skilled occupations that are important for absorbing surplus labour, but that do not typically drive economic growth; these include petty commerce and personal services.

Productive capacity

The strengthened capacity of the poor to take advantage of opportunities is a main avenue for reducing income poverty and achieving pro-poor growth. A high degree of employability and labour market access for the poor is needed, in order to turn structural change into opportunities to escape poverty.

The presence of a well educated labour force in Costa Rica, Malaysia and India was important for attracting investment in relatively skill-intensive industries. Costa Rica and Malaysia, in particular, have based their social and economic development on inclusive policies, guaranteeing universal access to primary education and encouraging secondary education. Education is the largest item in Malaysia's federal budget. Primary education is compulsory, and both primary and secondary education is free. Malaysia's literacy rate is 93%. Costa Rica instituted public and mandatory primary education at the end of the 19th century and constantly ranks as one of the highest spenders on social policy in Latin America. For these countries, it is not simply that economic growth has led to greater incomes and thus greater investment in education, skill formation and health, but also that earlier investments in education and health facilitated economic growth, so increasing opportunities for work and incomes and subsequently facilitating poverty reduction. An additional benefit of this strategy is that their gains are more likely to be sustainable, as competition is not limited to the cost of labour.

Appropriate education may not only be able to improve agricultural productivity, but might also ease the transition of workers from agricultural jobs to work in the secondary or tertiary sectors. Industrial jobs require a higher level of education than agricultural work. Most assembly work requires a basic education and sometimes completed secondary education as well. For example, in Bangladesh, rural unskilled workers were not hired by manufacturing firms because they lacked the skills needed for industrial work (Winters, 2002). A well-functioning vocational development programme can also help the poor benefit from new growth opportunities. In many instances, education

systems do not provide adequate preparation for informal work (the case in most sub-Saharan African countries) or for formal work (the case in South Africa, where 500 000 formal jobs remain vacant). Vocational training systems are often inadequate in size and not particularly relevant to the needs of the labour market. Improving and extending vocational training can facilitate transitions to more productive work. In addition, close cooperation and exchange of information between training institutions and companies is essential to guarantee the matching of labour supply and demand.

Physical capital is also important for unleashing productive capacity. Inadequate physical infrastructure, resulting in high transport costs and inefficient systems for disseminating market information, are main causes of the poor geographical integration of the economy. This also tends to result in a concentration of growth in the main cities and centrally located areas, and to aggravate spatial inequality. Investments in physical infrastructure in rural areas can improve labour productivity in rural industries, including agriculture. In Indonesia, for example, part of the reason for the growth in agricultural output during the 1970s and 1980s was because, through the *Padat Karya* programme, a labour-intensive infrastructure development programme, the government invested in developing rural infrastructure, including schools and health clinics, as well as in the construction of roads and irrigation systems. Thus the poor were able to benefit, not only because growth was in rural areas, but also because of their enhanced ability to participate in growth through greater productivity and better access to resources and opportunities (McKinley and Khattry). Lacking access to credit for small and micro enterprises is another important barrier for poor workers. It hampers the rise in the productivity of their activities and the general development of their businesses. Briefly, a good combination of social investment - education and vocational training on the supply side - and productive investment - infrastructure and financing on the demand side - has to be found, in order to enhance the employment opportunities of poor workers and to empower them.

Employment with rising productivity

Employment with rising productivity is the critical link in the growth-employment-poverty nexus. Rising economic growth results in poverty reduction when the productivity of poor workers increases, either in their current occupation, or in new jobs or opportunities for self-employment.

Most countries that have experienced high rates of sustained economic growth benefit from both the creation of additional jobs, as well as rising productivity though overall productivity increases, are typically more important. For example, in Vietnam during the 1990s, the average annual employment growth rate for the economy as a whole was approximately 2.7% whereas labour productivity grew by 4.8% annually (Packard, 2005). Similarly, in Indonesia during the economic boom of 1987-1996, overall growth in employment was 2.2% annually whereas real wages, a proxy for labour productivity, increased by 7.2% annually (Azis, 2005). These findings are not surprising. In developing countries, most workers are employed, although the prevalent forms of employment are self-employment and casual wage employment in the non-formal segment of the labour market. Labour force surveys report these individuals as working, even if they are grossly underemployed in terms of hours worked, or income received. If economic growth leads to a rise in job opportunities in the more productive sectors of the labour market and previously underemployed workers find jobs in these more dynamic sectors, the shift in employment will not be counted as an additional job created, even though in terms of economic development and individual well-being, the transition to work in the more

productive sector is very important. Similarly, strong economic growth can increase the demand for the services provided by self-employed workers, leading to an increase in their income.

Table 3 is a comparison of the relative importance of jobs versus incomes in 10 countries that reduced poverty successfully. For most of the countries, it appears that the increase in incomes stemming from productivity growth was more important for the reduction in poverty than the additional jobs created from economic growth. In China and Vietnam, net job creation was lower than expected because of job losses stemming from the restructuring of state-owned enterprises. For this reason, China's net job creation is reported as "not important," even though job growth in labour-intensive export sectors was quite important.

Table 3. Sources of Poverty Reduction: Jobs or incomes

	Job Growth (net effect)	Increase in Incomes (productivity growth)
Brazil	0	+
Chile	+	++
China	0	++
Costa Rica	+/0	+
India	0	+
Indonesia	+	++
Malaysia	+	++
Thailand	+	++
Uganda	0	-
Vietnam	+	++

Source: Based on Islam (2006)

very important; + important; +/- mildly important; 0 not important; - not known

Nevertheless it is important to bear in mind that Table 3 is merely a general indicator of the relative importance of jobs versus incomes, suggesting broad orders of magnitude. For different periods, the relative importance of some of these indicators may be different. For example, net job creation was very important in Malaysia in the first half of the 1990s. In general, the most important conclusion is that for most developing countries, it is not so much the additional jobs created, but the transition from low-productivity to high-productivity jobs that is most important for the reduction of poverty.

In a growing economy, output-employment elasticities (OEE), which denote the rate at which employment grows when output increases by one percentage point, are not the same for all sectors, nor would they change in the same direction over any given period of time. Over time, the OEE for agriculture declines and may even become negative. As the OEE for agriculture declines, labour absorption in industries and services must be rapid enough for the overall employment growth to exceed the growth of the labour force.

Indeed, East Asia's success in poverty reduction was characterized by high rates of growth coupled with high OEEs in manufacturing and modern services (Khan, 2007). Although recent economic growth rates in China and India have exceeded East Asia at its peak, they have not had as much success in reducing poverty mainly because of lower OEE in the growth sectors (for example, between 1991-2003, China had an OEE in industry of 0.07 due mainly to the restructuring of state-run manufacturing enterprises). In India, the high growth sector has been IT, which is a relatively low labour-intensity industry. Similarly, Ghanaian workers have not benefited from the relatively high and steady economic growth rates experienced in the country since the mid-1980s. Growth in Ghana has been based largely on exports of low value-added cocoa and gold, which have a low employment intensity, whereas high labour absorption sectors, such as manufacturing, tourism and food crop activities, have experienced slow growth (Aryeetey and Baah-Boateng, 2007).

Although labour intensity is important for reducing poverty, it matters where the intensity takes place. A recent cross-country empirical study on the role of employment intensity and productivity in reducing poverty found that increased labour intensity in manufacturing is highly correlated with poverty reduction (Gutierrez *et al.*, 2007). Yet the opposite was true for the agricultural sector. In fact, increased labour intensity in agriculture was associated with an increase in poverty. Rather than attracting workers to new opportunities, the agricultural sector acts as a refuge for displaced workers. Therefore, policy interventions should be targeted at: (1) increasing employment in the secondary sector; (2) increasing productivity in informal activities, in particular in agriculture; (3) increasing access to secondary sector jobs.

Higher income of the poor

New opportunities in the labour market and in self-employment can raise the earnings of the poor, so allowing the virtuous circle to continue. Greater income leads to greater purchasing power of the poor, which stimulates the demand for goods and services, leading to additional opportunities for self-employment and waged work. With greater disposable income, poor households can make productive investments that can improve the viability of their businesses, or allow them to engage in new entrepreneurial activities.

A common characteristic of the poor is that they perform multiple jobs, often combining waged work with entrepreneurial activities, or sometimes undertaking several entrepreneurial activities. In Peru, 69% of households living under USD 2 a day in urban areas operate a non-agricultural business. In Indonesia, Pakistan and Nicaragua approximately 50% do. A large proportion of the rural poor run farms and many of the rural poor also run a non-agricultural business. And yet these workers generally perform several activities in addition to running their business, possibly because they cannot raise enough capital to run a business that would occupy them full-time. For example, a poor farmer may only be able to work the land she owns for part of the year because she lacks access to funds that would otherwise allow her to irrigate the land and make it useable for a larger part of the year (Banerjee and Duflo, 2007).

The businesses of the poor operate on a remarkably small scale, usually with no paid staff and minimal assets. The smallness of scale hampers efficiency. When the incomes of the poor increase, they are able to make investments in their businesses that can improve their long-term viability and revenue potential. Moreover, these investments, if based on local inputs, can further stimulate the local economy. Similarly, when the incomes of

waged workers improve, there are multiplier effects on the local economy, through additional household purchases.

Greater investments in health, education and infrastructure

With the increase in income that accompanies economic growth, governments and individuals acquire the means to finance further investments in health, education and skills development, as well as in the physical infrastructure. The additional income also allows governments to finance increased transfer payments, which reduce income poverty, as well as its other dimensions.

Economic growth enables countries to increase spending on education and health, which, in turn, helps economic growth. In Mozambique, total public spending doubled between 1992 and 2004, aided as well by an increase in external financial support. The investments increased the educational attainment of the labour force and were estimated to have contributed to close to 14% of economic growth from 1999-2004 (Virtanen and Ehrenpreis, 2007). Similarly, social spending in India was found to promote economic growth, as well as reduce poverty. A study of the effects of socio-economic security expenditure policies (sickness, maternity benefits, employment injury, invalidity and death compensations, medical care and subsidies for families with children) on Indian's economic performance between 1973 and 1999 for a panel of 14 Indian states found that policies that strengthened the social and economic security of the Indian population were an important endogenous variable to both the reduction of poverty and economic growth (Justino, 2007).

In Brazil, social policies have played an important role in reducing poverty in the 2000s. Brazil is a relatively rich country, but has a highly inequitable distribution of income. To decrease poverty, the government has enacted a number of social transfer programmes, most significantly the *Bolsa Familia* programme, a conditional cash-transfer programme targeted at poor and extremely poor households, and also an old-age pension. The pension is tied to the level of the minimum wage, so by raising the minimum wage, which the government did, the incomes of pensioners rose, as did the incomes of low-wage workers. Several studies have shown its positive impact on poverty and inequality reduction. Moreover, it enhanced economic growth, especially in the north-east of Brazil, where a large proportion of the poor workers live.

Critics of conditional cash transfer programmes allege that the programmes exert a negative effect on labour market participation. However, studies of these programmes in Brazil and South Africa show that the programmes increase the participation of adult workers in the labour market, while at the same time reducing child labour and increasing school enrolment. In Brazil, the participation rate of adults in the *Bolsa Familia* programme was 2.6 percentage points higher than similar non-participants, and 4.3 percentage points higher for women (Veras Soares *et al.*, 2007). Similarly, research for South Africa shows that for the lowest-income households, social grants had a positive and significant impact on labour market participation and the probability of finding employment (Samson, 2007).

Another important social and labour market policy that has benefited incomes, employment and infrastructure are public works programmes. India has a long history of using employment guarantee schemes to provide income relief to the poor and to build needed infrastructure. The employment guarantee scheme of the Indian state of Maharashtra was introduced in the 1970s and is one of the largest public work programmes

in the developing world. It guarantees employment to all adults older than 18 years of age, who are willing to do unskilled manual work on piece rates. The scheme has been successful in targeting the deserving segment of the population and in building rural infrastructure (Dev, 1995). In 2004, the Indian government announced the creation of a National Rural Employment guarantee programme (NREGA) guaranteeing 100 days of employment in public works. This programme is projected to cost 1-2% of GDP.

Many of these social policies have important multiplier effects on the local economy. For example, a December 2004 evaluation of a cash transfer programme in Zambia covering the poorest 10% of households in 143 villages and five townships found that the local economy was stimulated through the purchase of food, soap and blankets, as well as agricultural inputs (Farrington *et al.*, 2005).

Empowering the poor

In countries where the majority of people are poor, national economic growth will remain sub-optimal unless the potential of the poor majority can be unlocked through inclusive policies and social protection mechanisms. These policies are needed to help the poor manage the unexpected hardships that life brings them. Few self-employed and informal waged workers benefit from social protection policies designed to protect workers from the risk of accidents, unemployment, poor health and old age. These are just some of the most pressing risks that the poor face, but which can be mitigated through social protection. Surveys of the poor in developing countries reveal a remarkably high level of morbidity. Among the rural poor living under USD 1 a day in Peru, South Africa, East Timor, Panama, and Tanzania, between 11 and 15% of households report having a member either being bedridden for at least a day or requiring a doctor. In Pakistan, Indonesia and Ivory Coast, the number is between 21 and 28% and in Nicaragua, Udaipur, India and Mexico (Banerjee and Duflo, 2007), between 35 and 46%.

When the poor come under economic stress, they often respond by eating less, or taking their children out of school. According to a household survey in Udaipur, India, in 45% of the extremely poor households (living on less than USD 1 a day) and in 35% of households (living on less than USD 2 a day), the adults had had to reduce the size of their meal at some point during the preceding year and in 12% of them, children had had to reduce the size of their meal (Banerjee and Duflo, 2007). Moreover, large expenditures on health are typically financed through borrowing, usually at very high interest rates.

Selling assets, depriving children of schooling and health services, or taking out high-interest loans negatively affects the future well-being of the household and can lead to permanent and debilitating levels of poverty. Studies focusing on the decision-making of poor families and individuals have shown that, in order to reduce their vulnerability to unmanageable risks, poor households often engage in low productivity and low profitability business and livelihoods. A reduction in risks faced by the poor and the availability of reliable social protection instruments can help to stimulate growth by encouraging people to engage in higher risk, higher profit activities (Voipio, 2007).

And so, besides providing much needed services, social protection reduces vulnerability to risk, thus facilitating the engagement of the poor in the labour market. Producing new crops, undertaking entrepreneurial activities, investing in a business and taking advantage of opportunities in new areas all involves taking risks, which the poor are more likely to accept if the risks of accident, sickness and death are mitigated.

Promoting women’s engagement in the labour market. Inequality of assets and opportunities hinders the ability of poor people to participate in, and contribute to, growth. Gender is an important dimension of inequality, as women face barriers concerning assets, access and participation in the growth process, all of which impede the progress of pro-poor growth.

The labour market for poor women tends to be gender-segregated, which precipitates a number of efficiency losses that can mitigate growth and compound income inequality. Competent female workers are excluded from some of the more productive activities, resulting in welfare losses for society. Gender-segregated labour markets are also associated with higher gender wage inequality, which distorts investment in human capital, prioritizing male income earners and under-capitalizing women earners. Substantial evidence suggests that occupational segregation is associated with less security in employment for women and fewer prospects for promotion. These outcomes are likely to compound the inter-generational transmission of poverty, particularly for women and girls. In order to gain a better understanding of how women and girls fare in the labour market, a gender analysis is needed, thus data must be disaggregated by sex. Labour laws against discrimination (employment, work, wage-setting) and policies to promote women’s employment (*e.g.* affirmative action, work & family support) in general, as well as in underrepresented sectors, can aid in dismantling this unwelcome feature of labour markets.

Supporting the virtuous circle through labour market institutions and policies

Ensuring that growth is pro-poor requires that the growth-employment elasticity is high, as employment is an essential ingredient in the fight against poverty. For achieving such a high elasticity, not only must growth come from the right mix of sectors, but it requires also institutions, policies, laws and practices that positively affect the functioning of labour markets. A well-functioning institutional environment can support the virtuous circle and, in the process, facilitate pro-poor growth. Indeed, as the previous discussion on the components of the virtuous circle illustrates, institutions feature prominently in the virtuous circle, including state-provided health and educational institutions, poverty alleviation programmes, labour market policies, and social security.

Labour market institutions affect the workings of the labour market, which, in turn, influence patterns of job creation, as well as working conditions. Labour market institutions exist in both developed and developing countries, and include not just labour laws but also informal rules and practices, as well as government policies, particularly labour market policies. The distinction between developed and developing countries lies in the degree to which labour market institutions are embedded in law, whether the law is applied in practice and the extent that labour market policies are used as a tool to pursue certain objectives. National labour laws are sometimes a ‘formalization’ of what already occurs informally, but they are also a remedy to correct the bargaining power disadvantage that workers have *vis-à-vis* employers. Legal statutes (on, for example, maximum hours, vacations, minimum wages, health and safety regulations), as well laws protecting freedom of association and collective bargaining, which are considered process rights, serve to strengthen the bargaining power of workers.

Labour Market Flexibility. Labour market institutions are instrumental in improving social justice and, as such, can be an effective tool in promoting pro-poor growth. Yet despite this instrumental role, an important debate has arisen on the effects of labour

institutions on economic performance, and whether greater ‘labour market flexibility’ is needed. Many aspects of labour market flexibility, such as labour mobility and functional flexibility,¹ are desirable and worth promoting. In practical terms, however, the debates on labour market flexibility have focused on a very specific set of institutions: employment protection legislation, unemployment insurance, the regulation of working time and working arrangements, minimum wages, as well as the role of unions and collective bargaining. Many of the world’s poor, particularly those living in rural areas and engaged in agriculture, are informal workers who fall outside the scope of these institutions.

It has been argued that protective labour institutions impede the workings of the labour market, creating market inefficiencies that lead either to unemployment, or in developing countries, to informality. This reasoning is based on an abstractly conceived theoretical labour market, defined by an upward sloping supply curve and a downward sloping demand curve for labour. Under conventional supply and demand analysis, jobs are allocated in a fair exchange between two equal parties that, unrestricted, will result in full employment. But this framework does not incorporate the recognized inequality in bargaining that prompted the creation of labour law, or the effect of social norms on the workings on the labour market or, at the macro level, the possibility that there is insufficient demand in the economy.

The importance of labour market institutions for facilitating employment, income growth and poverty reduction has been varied. China, for example, dismantled employment protections by introducing new labour laws facilitating hiring and firing, by eliminating the bureaucratic labour allocation system and by wage reform. These policies were important in spurring industrial growth, particularly in private town and village enterprises. In Chile, on the other hand, the strengthening of labour market institutions following the return to democracy in 1990 contributed to the rise in incomes of low-waged workers that not only improved their standard of living, but also increased aggregate demand in the economy. During the 1990s the government raised the minimum wage at an annual average rate of 8%, contributing to a reduction in poverty among low-earning workers. Moreover, unemployment continued to decline throughout the decade. Nevertheless, income inequality has fallen little in recent decades and remains one of the highest in the region.

The Importance of Social Dialogue in Designing Policies. The participation of employers’ and workers’ organizations in designing institutions and policies to improve the smooth running of the labour market and poverty reduction is instrumental. Indeed, a working social dialogue is not only an end for democratic governance of the labour market, but also for society in general, as it improves the participation of various groups of society in decision-making. Social dialogue can contribute to the effective formulation of regulations and policies for achieving employment intensive and pro-poor growth.

Social dialogue requires strong independent trade unions and employers’ organizations, with technical capacity and access to relevant information. It also requires political will and commitment and a respect for the fundamental rights of freedom of association and collective bargaining. The state has an important role in creating stable policies and a climate conducive for social partners to operate freely, without fear or reprisal.

There are many examples, in both developed and developing countries, of how social dialogue has been effectively used to improve the performance of the economy and the labour market and facilitate quality job creation. Having an effective mechanism in place

for social dialogue at the national level can be a competitive advantage for countries, particularly during times of economic restructuring or downturn. Singapore's relatively rapid adjustment to the Asian financial crisis with minimal job loss is a case in point. Rather than lay-offs or wage cuts, the solution of choice was to relieve employers of a share of their non-wage labour costs. Enterprises thereby received some relief in their labour costs, while the retention of jobs and earnings propped up aggregate demand in the economy. Similarly, national social dialogue in Barbados in the 1990s focused on surmounting economic crises while minimizing lay-offs and social hardship. The social partners and government agreed to focus on competitiveness and productivity, to accept wage freezes until corresponding productivity gains were achieved, and to retain jobs. At the macroeconomic level, tripartite social dialogue is often used for setting national wage policies, including the minimum wage, to ensure that wage increases match productivity growth in order to establish macroeconomic conditions that facilitate job growth. Also, during times of economic change or uncertainty, social dialogue can be instrumental in making job retention and job creation a priority for governments and social partners. In addition, social dialogue can also be very helpful in the implementation of labour market policies, such as vocational training.²

In many developing countries, however, traditional labour market institutions and social dialogue are relevant for only a limited number of workers employed in formal activities. The employment structure is different from developed countries with a dominant share of casual and self-employed workers, who are in general not reached by these traditional institutions. However, there are exceptions. Non-traditional institutions such as SEWA, the Self-Employed Women's Association in India, have emerged to respond and address the labour market concerns of self-employed women workers. Similarly, the ASA, in the semi-dry region of north-eastern Brazil, is an NGO network that supports small farmers. Another prominent example comes from Kerala, India, where the issue of social security has been a core concern of informal workers and has given rise to the institution of welfare funds as a result of social dialogue between labour unions, representing informal workers, and employers mediated by the State. The State plays a leading role in the initiation and management of welfare funds and contributions are either bipartite (workers and employers) or tripartite, also including the State. The welfare fund is modelled on the social security system and insurance coverage available to formal workers and each fund is managed by a tripartite body.

Labour Market Policies. Labour market policies (LMPs) provide income replacement and labour market integration measures to those looking for jobs, usually the unemployed, but also the underemployed and those in employment who are looking for a better job. So-called "passive" policies provide replacement income during periods of unemployment or during the job search. They correspond to social transfers that are not conditional upon joining a training or work programme, although they usually include job search provisions that are increasingly enforced and correspond to an active element in passive policies. Typical passive programmes are unemployment insurance, unemployment assistance and early retirement, which should be the ambition of all countries in the long run. Nevertheless, a broader approach to social protection, which is targeted specifically at poor workers in the informal sector, is needed in the medium-term, particularly in developing countries. It could include targeted cash benefits, free access to basic health and child care (*e.g.* SEWA in India), universal basic old age and disability pension, livelihood promotion, assistance in forming cooperatives, as well as improved access to assets or micro insurance schemes. The goal is to stabilize income and thus improve the income security of the working poor.

“Active” policies refer to labour market integration through demand or supply side measures. Hence the main thrust of active labour market policies (ALMPs) is active support for labour market integration. They are explicitly contingent upon participation in programmes that enhance labour market (re)integration. ALMPs support employment creation in two basic ways: directly by job creation measures (*e.g.* public works and enterprise creation, as well as hiring subsidies); and indirectly by improving employability through training, and by ensuring efficient labour exchanges that provide better labour market information and enhanced job matching. Active policies are usually targeted at specific groups facing particular labour market integration difficulties, such as younger and older people, women and those particularly hard to place, such as the disabled. In part, ALMPs are also an answer to the growing critique that pure income replacement policies might entail disincentives to work once unemployment becomes more long-term.

Active as well as passive LMPs intermediate between supply and demand in the labour market. Indeed, the primary economic function assigned to LMPs is the matching of labour demand and supply. The impact of LMP intervention on labour supply and demand can vary. Such policies either contribute directly to matching (public and private employment services, job search assistance, prospecting and registering vacancies, profiling, providing labour market information), or enhancing supply (*e.g.* training and retraining), reducing supply (*e.g.* early retirement), creating demand (public works, enterprise creation and self-employment) or changing the structure of demand (*e.g.* employment subsidies), for example in favour of disadvantaged groups.

LMPs also have indirect positive macroeconomic effects by propping up or stabilizing aggregate demand, thereby smoothing consumption during economic downturns. There are also positive spill-over effects of infrastructure creation, for example, from public work schemes.

Developing policies and institutions to benefit from migration. Roughly 3% of the world’s population live outside their country of birth. Referring back to the virtuous circle of Figure 2, migrants look for higher productivity and thus higher wage or income employment abroad, as they have serious difficulties in finding it in the domestic labour market. Migrants from developing countries working abroad affect their home country labour markets through several channels: (1) by potentially having an impact on local wages by lowering labour supply in their home country; (2) by migration of skilled workers which can result in “brain drain;” (3) through the remittances³ they send; (4) through the formation of diaspora networks; and (5) from the effects of return migration. International migration can be beneficial for poverty reduction, depending on the characteristics of these channels, as well as the policy and institutional environment that is created to support its beneficial aspects. Employment policies should take into account potential migration. To be effective, migration policies ought to be holistic and integrate the views and interests of sending and receiving countries.⁴

Policies to address the challenge of fragile states

Fragile states, many of which have emerged from conflict situations and are in danger of renewed conflict, require special efforts to compensate for the absence of a functional government, the need to redefine the ‘rules of the game’ and the physical and social aftermath of violent conflict or neglect of specific groups or regions in the country.

Employment creation should be a cornerstone of donor assistance in fragile states and should not be relegated to the backburner as an issue that can only be addressed as humanitarian assistance is being phased out and democratic governance reinstated. One of the major characteristics of fragile states is the absence of equal opportunity for gainful employment, often leading to increased fragility. Inequality is also one of the major factors leading to instability, while the effects of economic decline draw more and more people into poverty. The long-term vision for international engagement in fragile states is to help national reformers build effective, legitimate and resilient state institutions that promote sustained development. The three main and intertwined areas of intervention identified by POVNET are: (1) restoring the legitimacy of government; (2) creating employment and improving welfare; and (3) improving equity. However, short-term measures are also needed to fill the gap. Rebuilding the state, especially after a period of economic decline and instability, is a long-term effort. In the meantime, basic needs must be met and people, especially the poor but also returnees and ex-combatants, need to be reintegrated into economic activity and social reconstruction efforts.

Labour-intensive public works programmes, micro-credit programmes and public private partnerships to provide basic services are examples of initiatives that can be undertaken in the short-term. Nevertheless, these measures need to be complemented with longer-term initiatives aimed at rebuilding institutions to sustain economic growth and recovery. It is now also recognized that there is a huge, and largely untapped, potential to engage the domestic and international private sector in efforts aimed at economic recovery, even while more substantive efforts are being made to create an enabling environment for sustainable and equitable economic growth.

A consensus is emerging to direct investments in the following areas:

- Engaging governments in a political dialogue on issues of: (i) putting in place a legal and regulatory framework, in which equity of access to productive resources and employment opportunities are prioritised; (ii) ensuring that smart investments are made to assist marginalised groups and regions in gaining access to productive resources, remunerative economic activities and markets; (iii) contributing towards capacity-building of governmental and non-governmental institutions to further promote employment and labour market policies.
- Collaborating with the private sector, at both the local and the international level, to create new employment opportunities with a particular focus on marginalised groups and regions.
- Supporting trade unions and employers’ organisations to put the interests of the poor on the agenda and lobby government to adopt policies and programmes that will create employment opportunities for marginalised groups and regions.
- Pro-active involvement of the donor community in promoting the decent work agenda and fair trade.

There are no simple recipes to deal with fragile states; in a country like Afghanistan there is sufficient scope for multinational companies to operate, whereas in a small country such as Burundi, with few resources, a more bottom-up approach involving employment opportunities within the communities has more impact. In most cases, a tailor-made solution needs to be found; this must be based on simple and rapid diagnostics and a willingness on the part of government and the international community

to engage. With the increased involvement of multilateral institutions, international NGOs and some bilateral donors in fragile states, there is a growing awareness that millions of poor people are the real victims of unwilling and repressive governments, as well as neglect on the part of the international community. Recent studies have shown that gainful employment can reduce vulnerability, whereas humanitarian assistance alone not only creates dependency, but is also in itself a recipe for disaster if no action is taken to provide gainful employment and equitable access to productive resources while the ‘new’ government, or governing bodies, are investing in longer-term economic recovery.⁵

Employment as the route out of poverty: Developing new policy approaches

The development community recognizes that creating more productive jobs is central to achieving the MDGs, particularly the target of halving income poverty. Achieving full and productive employment and decent work for all, including women and young people, has now been included as an additional MDG. However, increasing employment and improving the quality of work for the poor is a challenge that can only be tackled through a package of policy interventions that address both demand and supply constraints in the labour market, and the interaction process of both sides. A range of policy interventions is needed, but for these interventions to have the greatest policy impact, it is important that they be well integrated, coordinated and monitored.

International donor efforts in the area of employment need to be coordinated in line with the Paris Declaration. Country involvement is critical. Indeed, a core principle of the Paris Declaration is that donor activities must be aligned with national development strategies, among them the PRSPs. Thus, integrated approaches for employment promotion need to be framed by national employment strategies, or be part of the national development strategy, and these need to be based on reliable labour market information. The design of employment promotion measures necessitates multi-stakeholder involvement, including the active involvement of the government, workers’ and employers’ organizations and civil society. Particular efforts may be required to ensure that the voices of informal workers and entrepreneurs, as well as those of women and ethnic minorities, are heard. To ensure the active involvement of these groups, new platforms for debate could be developed and innovative forms of involving informal workers in already existing workers’ and employers’ organizations promoted. Alternatively, the latter could provide technical assistance to create similar organizations in the informal sector. The Self-Employed Women’s Association (SEWA) in India is a good example of a trade union coming from the informal sector. Groups such as these help to ensure that policy design reflects the concerns and desires of the country, which will support the institutionalization of policies and improve their chances of success. Improved donor cooperation will mitigate the duplication of efforts and ensure complementary approaches.

But recognising the importance of integrated efforts does not mean that donor agencies cannot concentrate on specific interventions within the virtuous circle, based on their specialization. Given the recognized need to increase productivity of workers in developing countries, some donors emphasise the importance of skills development to enhance the employability of the poor and improve their chances of finding wage employment and thus escape from income poverty. To the same extent, easing access to productive assets, such as land or capital, is pursued as a way of generating more productive self-employment opportunities. Recent research conducted by the French Development Agency (Delponte, 2009) showed that these interventions have more

sustainable employment outcomes when they are implemented together. Also, many agencies support business development programmes via policies to expand existing businesses or foster self-employment and entrepreneurship. Policies that support social protection, as well as empowerment, are complementary to these approaches as they can improve the employability of those women and men living in poverty, and help them to undertake more proactive and rewarding livelihood strategies.

Notes

- 1 Labour market flexibility can be defined as the degree to which employment or working time (quantitative adjustment) or wages (price adjustment) adjust to economic changes. The literature on flexibility usually looks at the different definitions of labour market flexibility; external versus internal flexibility, the former referring to job changes involving new employment with a different employer and to labour turnover and geographic mobility, and the latter referring to job changes within the same enterprise; and numerical versus functional flexibility, the former relating to changes in the number of workers, and the latter meaning occupational changes and mobility within the enterprise.
- 2 See, for example, the interesting case of dual apprenticeship experience in Mali: Hot topic paper on Vocational Training and the Informal Sector.
- 3 Remittances have become an important means of empowering the poor in some less developed countries. They are an important source of income for the poor (referring back to the virtuous circle of figure 2), who are not able to opt for international migration.
- 4 The German Development Cooperation and the OECD Development Centre are jointly working on a paper which explores these channels in more detail.
- 5 For example, it is a well known that after the genocide in Rwanda, the refugee camps in Eastern Congo were dominated by the Interahamwe and militias, who controlled the flow of assistance while recruiting for a new offensive against Rwanda.

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