

Review of Donors' Policies and Practices Related to Employment and Labour Markets^{*}

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- Donors are pursuing different approaches and using a wide range of instruments to address employment and labour markets
- Rather little evaluative material is available on the employment impact of past interventions, showing the relatively short history of this development area.
- The lack of quality data on informal employment limits the ability to develop diagnoses of the labour market adapted to the situation in developing countries.

Introduction

Creating more, better and more productive jobs is a daunting task in developing countries because labour markets have to absorb a large number of people within a short time period. In addition, a shortage of jobs can increase migration pressures, which can drain societies in developing countries of both well-educated and unskilled people. Persistently high poverty rates and the desire to achieve the Millennium Development Goals (MDGs) has created a sense of urgency resulting in developing countries and their donor partners giving more prominence to employment and labour market issues, in poverty reduction strategies and development co-operation programmes.

This stocktaking exercise aims to collect more evidence about the instruments that donors use to create more and better jobs and to improve employment outcomes. In summary, donors are pursuing different approaches and using a wide range of instruments. Little or no evaluative material is available on the employment impact of past interventions, although donors agree that this is an area where progress needs to be made. Furthermore, the lack of quality data on informal employment limits the ability to develop diagnoses of the labour market adapted to the situation in developing countries. This is a serious obstacle for policy formulation as the use of OECD country economic categories and concepts tends to bias the analysis towards formal and waged employment.

Strategic framework

Although few donors have policy statements on employment, most donors recognise that creating more productive jobs is central to achieving the MDGs, in particular the

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target of halving income poverty. Case studies conducted jointly by the International Labour Organisation (ILO) and the Swedish International Development Co-operation Agency (Sida) in 2005 showed that poor performance in poverty reduction in fast growing economies is often associated with low employment dynamics. Strategy documents, white papers and speeches by senior aid agency staff clearly indicate that promoting better employment outcomes is key to poverty reduction. For instance, Germany's "Poverty Reduction – A Global Responsibility: Programme of Action 2015" underlines that a central element for halving poverty is the establishment of strong economic structures which foster pro-poor growth, create scope for poverty reduction, increase employment and foster the development of the productive potential of the poor.

For many donors, job creation is an outcome of various sector programmes, such as education, agriculture or private sector development, rather than an objective in itself. The "informal international division of labour" - whereby the International Monetary Fund (IMF) and the World Bank focused on improving the macroeconomic environment, the ILO promoted job creation and the upgrading of working conditions through international labour standards and bilateral donors addressed supply and demand-side constraints to employment creation - has contributed to fragmenting the way donors tackle labour market issues and held back the formulation of holistic approaches. Moreover, experience with past policies promoting labour-intensive growth, especially public works programmes, has highlighted that instruments that create jobs in the short term might not bring about sustainable employment outcomes. In response, some donors are formulating conceptual and analytic frameworks to integrate employment issues better into growth diagnostics and sector programmes. For example, Sida has designed an Integrated Economic Analysis tool that brings together employment, macroeconomic and business environment analysis. In 2007 the European Commission released a Staff Working Document to promote employment through the European Union's development co-operation.

Instruments used and institutional arrangements

Since underemployment is a key issue in improving employment outcomes in developing countries, donors are increasingly concerned about productivity gains, *i.e.* job improvement, rather than job creation. Therefore, some donors emphasise the importance of skills development, to enhance the employability of the poor and to improve their chances of finding wage employment. Facilitating access to productive assets, such as land or capital, is pursued as another way of generating more productive self-employment opportunities. Recent research conducted by the French Development Agency (Afd) shows that these interventions have more sustainable employment outcomes when they are implemented together.

To promote employment, most donors support private sector development through a wide range of instruments, as the private sector is the major contributor to employment creation. Therefore, the ultimate objective of most business support programmes is creating more jobs through expanding existing businesses or fostering self-employment and entrepreneurship. For example, one of the objectives of Norwegian development assistance for private sector development is to create jobs that give people dignity and sustainable livelihoods.

Agriculture accounts for a large share of employment in developing countries and provides labour-intensive employment for the poor. Donors support a variety of

interventions to increase employment in agriculture and livelihood diversification opportunities in rural areas. For instance, they encourage core agricultural activities that are based on labour-intensive operations, promote the expansion of agribusinesses, to encourage forward and backward linkages with the global agricultural value chain, and help improve access to local and international markets. Also, good agricultural research and extension could inspire sector-wide or large-scale vocational training schemes to enhance productivity and employment quality.

Few donors have an organisational unit or department responsible for employment and labour market issues. In addition, there is little easily accessible information about donor activities in this area available on the Internet. Consequently, expertise and specific information about these topics is spread across various units within development agencies and more can be done to improve the management of available knowledge. Within the Swiss Agency for Development and Cooperation for example, knowledge sharing, the capitalisation of experience and networking with specialised institutions are ensured through the network “economy and employment”. This network is co-ordinated by one senior collaborator and include staff from different operational units at headquarters and in field offices. The European Commission and Germany’s GTZ (Development Agency) also has an “Economic Development and Employment” section.

Ways to improve employment outcomes

- (a) An area clearly requiring improvement is the measuring of employment outcomes through indicators of the quantity and quality of jobs created. The latest generation of poverty reduction strategies pays more attention to setting employment targets but little has been done to follow through with systematic monitoring. In addition, the emergence of the ILO’s “decent work” agenda has brought more attention to the qualitative aspects of job creation, such as employment in the informal economy, the working poor and job security. These need to be included in evaluation processes as well.
- (b) Donor harmonisation and co-ordination on labour market issues is not as advanced as in some other areas of donors’ interventions, such as health and education. This may be because of the cross-cutting nature of the employment theme and because of relatively few interventions. Discussions within POVNET have highlighted the need for more conceptual clarity on the employment, growth and poverty reduction nexus and on the instruments that donors and partner countries can use to create more, better and more productive jobs.
- (c) Most jobs in developing countries are in the informal economy. Therefore, donors are increasingly interested in understanding better what the interplay between the formal and informal economies in developing economies is and what is the right mix of policies and institutions that would create incentives to increase formal employment. To support this objective, some donors have contributed to academic research on the causes and consequences of formality and informality. Examples include AFD country studies, the joint Institute for the Study of Labour (IZA)/World Bank research programme, and the ILO’s In-Focus programme on Informality.
- (d) Few donors have significant experience in working with labour market institutions, including the promotion of social dialogue or assistance to help reform labour market laws and regulations. Traditionally, the ILO has focused on

these issues. However, bilateral donors are increasingly taking account of the important role of institutions, both formal and informal, in shaping employment outcomes. For instance, through its business sector programmes, Denmark is supporting reform of several labour market institutions as well as the establishment of genuinely tripartite dispute resolution mechanisms and institutions. Other donors, such as the Netherlands and Sweden, help to build capacity in employers' organisations and labour unions in developing countries by establishing links with similar institutions in their own country.

Cross-cutting issues

The 2007 World Development Report "Development and the Next Generation" showed that unemployment is higher for youths than for adults and that working youths are often found in low paying jobs or unpaid family work. Promoting youth employment is thus central to many donors that support the Youth Employment Network, a joint initiative between the World Bank, the ILO and the United Nations. In addition, the World Bank has prepared an inventory of interventions that support efforts by young people to find work. It showed that the most common type of intervention is skill upgrading through training programmes. Nevertheless, some donors have developed more holistic approaches. For example, Germany seeks to improve the social and economic integration of young people through targeted interventions built on three dimensions: (i) increasing the employability of young people; (ii) helping them to start a business; and (iii) providing mediation and job matching services.

Donors recognise that the promotion of gender equality is central to employment strategies, as the participation rate of women in the formal labour force is lower and they are often employed in low paid and precarious jobs. The lack of sex-disaggregated employment data impedes more precise assessment of the gender gap, the monitoring of progress and the evaluation of the impact of women-focused programmes. Nevertheless, donors have developed a dual approach to promote women's access to higher quality employment. Targeted interventions, such as micro-finance schemes for women or girl emancipation programmes, are reinforced by efforts to mainstream gender issues into the broader context of socio-economic policies and development co-operation. Most donors channel their support for better employment opportunities for women through multilateral initiatives, such as the World Bank's Gender Action Plan or the Women in Informal Employment: Globalizing and Organizing (WIEGO)[†] research policy network.

[†] www.wiego.org/about/