Promoting Pro-Poor Growth

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Foreword

Promoting pro-poor growth is about increasing the contribution of economic growth to poverty reduction. This is pursued through policies enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute and benefit from growth. Effective strategies and measures in these areas are critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals - especially the target of halving the proportion of people living on less than one dollar a day. Developing and sharing good practice in advancing this agenda has been the focus of the Development Assistance Committee (DAC) through its Network on Poverty Reduction (POVNET) since 2003. This is all the more important today as developing countries struggle to deal with the consequences of the global recession and embark on growth enhancing and poverty reduction strategies.

Productive employment and decent work are the main routes out of poverty and towards achieving pro-poor growth and the Millennium Development Goals. The majority of poor people work, but mostly in the informal economy where employment conditions are poor, productivity is low and incomes are inadequate. Policies that improve conditions in the informal economy - including those that help movement into the formal economy - increase the productivity and employability of poor people and improve the enabling environment for local entrepreneurship that will lead to better employment outcomes in developing countries.

Employment is an on-going development priority which has gained added importance in the current difficult economic period. There is growing demand in developing countries for more public action on employment. To help donors respond, DAC Ministers endorsed the enclosed policy statement at their High-Level Meeting on 27-28 May 2009 which encourages donors to make productive employment and decent work a key objective of development co-operation. In addition, through the POVNET, the DAC has developed the enclosed Policy Guidance Note for donors on Employment. The background papers which were drawn on to prepare the Policy Guidance Note are also included in this volume. This work on employment complements the policy guidance POVNET has developed on social protection as well as the previously published work on *Agriculture*, *Infrastructure, Private Sector Development* and *Poverty Impact Assessment.*

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In order to achieve its aims, the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee, whose members have agreed to secure an expansion of aggregate volume resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Community.

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Acronyms

AAA	Analytical and Advisory Activities (World Bank)
ADB	Asian Development Bank
AFD*	*Agence Française de Développement*
AusAID	Australian Government Overseas Aid Program
BCN	Better Care Network
BMZ*	German Federal Ministry for Economic Cooperation and Development
CPRC	Chronic Poverty Research Centre
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee (OECD)
DECT	Dowa Emergency Cash Transfer
DFID	UK Department for International Development
EPL	Employment protection legislation
EPRI	Economic Policy Research Institute
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EUDN	European Research Development Network
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFMD	Global Forum for Migration and Development
GTZ*	*Deutsche Gesellschaft für Technische Zusammenarbeit*
IADB	Inter-American Development Bank
IAFFE	Annual International Association for Feminist Economics
ICA	Investment Climate Assessments
ICT	Information and Communications Technology
IDS	Institute of Development Studies
IFC	International Finance Corporation (World Bank)
IFPRI	International Food Policy Research Institute
ILO	International Labour Organisation
IPC	International Poverty Centre
IMF	International Monetary Fund
IZA*	Institute for the Study of Labour
LMP	Labour market policy
MDG	Millennium Development Goal
NAP	National Action Plan

NGO	Non-governmental organisation
OSH	Occupational safety and health
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OEE	Output-employment elasticities
POVNET	DAC Network on Poverty Reduction
PRSP	Poverty Reduction Strategy Paper (ILO)
SEWA	Self Employed Women's Association
SDC*	Swiss Agency for Development and Cooperation
Sida	Swedish International Development Cooperation Agency
SME	Small and medium enterprise
TVET	Technical and Vocational Education and Training
UNECA	United Nations Economic Commission for Africa
UNDP	United Nations Development Programme
UNESCO	United national Educational, Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UN-ISDR	United Nations International Strategy for Disaster Reduction
UNRISD	United Nations Research Institute for Social Development
USAID	United States Agency for International Development
USDOL	United States Department of Labour
WIEGO	Women in Informal Employment Globalizing and Organizing
WTO	World Trade Organisation
YEN	Youth Employment Network

* Denotes acronyms in original language.

PART I

Policy Statement on Employment and Social Protection

and

Policy Guidance Note on Employment

Making Economic Growth More Pro-Poor: The Role of Employment and Social Protection*

Sustained economic growth, in which poor women and men participate directly, as both agents and beneficiaries, is essential for reducing poverty. Recurring crises expose the vulnerability of poor individuals and families as well as their jobs and livelihoods. The current economic crisis, and the on-going challenges of population growth, price volatility, food insecurity and climate change, highlight the need for more effective public actions to address the real constraints and opportunities faced by poor women and men.

Employment and social protection, two critical avenues towards achieving pro-poor growth and the Millennium Development Goals (MDGs), have not received enough attention in public policy-making:

- Productive employment and decent work are the main routes out of poverty. Well-functioning labour markets and an enabling environment for local entrepreneurship are essential to increase employment opportunities for the poor. Policies that recognise and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction. Increasing the employability of poor people, especially for women and youth, unlocks their potential to contribute to growth.
- Social protection directly reduces poverty and helps make growth more pro-poor. It stimulates the involvement of poor women and men in economic growth, protects the poorest and most vulnerable in a downturn and contributes to social cohesion and stability. It helps build human capital, manage risks, promote investment and entrepreneurship and improve participation in labour markets. Social protection programmes can be affordable, including for the poorest countries, and represent good value for money.

Actions in these two areas are mutually reinforcing and promote pro-poor growth. Better and more productive jobs raise incomes, allow social spending by poor workers and help finance social protection. Social protection improves the productivity and employability of poor people and stabilises and increases their incomes and links short-term coping strategies with longer-term growth enhancing and poverty reduction strategies.

Action on both employment and social protection will be a critical and countercyclical element of developing countries' response to the current global economic recession. Measures in these areas will help protect the progress made over the last decade towards achieving MDG 1 in the face of global recession and volatility in international markets. Combinations of measures promoting social protection (*e.g.* cash

* This Policy Statement was endorsed at the DAC High-Level Meeting on 27-28 May 2009.

transfers) and employment (*e.g.* workfare) will help protect the most vulnerable while also promoting longer-term recovery.

Developing countries will need considerable assistance from donors to build the foundations for the economic rebound. They also need support when providing social protection measures to build resilience to the recession and tackle the real economic hardships faced by poor people. Though obviously difficult when budgets are under pressure and fiscal space is limited, it is even more important now to create the conditions and incentives for pro-poor growth that will reduce poverty and build livelihoods robust enough to weather the storms of the global economic climate.

Social protection

Social protection refers to policies and actions which enhance the capacity of poor and vulnerable people to escape from poverty and enable them to better manage risks and shocks. Social protection measures include social insurance, social transfers and minimum labour standards.

Social protection directly reduces poverty, stimulates the involvement of poor women and men in the economy and contributes to social cohesion and stability

Social protection directly reduces poverty through improved health outcomes, increased school attendance, hunger reduction and livelihoods promotion. It helps reduce gender disparities in human development outcomes. It can provide essential support to vulnerable members of society who are unable to work.

Social protection makes growth more pro-poor by enabling household investment in productive activities and human capital, raising productivity and incomes. It helps poor women and men to manage the trade-offs between meeting immediate needs and securing future livelihoods. Social protection helps poor and vulnerable households to safeguard their assets and adopt effective coping strategies to meet challenges arising from man-made and natural disasters, economic crises and climate change. This allows households to invest in more productive but often riskier livelihood strategies.

By strengthening the employability of poor women and men and enabling them to seek and obtain better and more remunerative work, social protection promotes their participation in the labour force. Social protection thus builds self reliance, not dependency.

Social protection reinforces the social contract that can help legitimise and strengthen the state, which is particularly important in fragile contexts.

Well-designed social protection programmes can be affordable, including for the poorest countries, represent good value for money and require strong political commitment

The costs of social protection measures can be kept relatively low and manageable by starting small and developing them over several years. Context-specific targeting and delivery are critical design and capacity issues which impact on costs and the ability to reach the poor and achieve desired outcomes. Evidence shows that even small programmes bring benefits, as supported by evidence from *e.g.* the International Labour Organisation (ILO) and South Africa.

Social protection policies need to be directed at the informal economy to maximise reach and results. As social protection is generally seen as essentially linked to formal working environments, workers in the informal economy tend to be invisible to policy-makers.

The state has the primary role in providing the framework for delivering social protection. Social protection systems thus require strong and sustained political commitment to deliver lasting benefits and must be integrated into national social policy frameworks. Investment in implementation systems, monitoring and evaluation, fiduciary risk management and accountability mechanisms are important for the effective and sustainable delivery of social protection.

Employment and labour markets

The MDG 1 target on *productive employment and decent work for all* emphasises the importance of employment for reducing poverty. The vast majority of poor people work, but employment conditions are frequently poor, productivity low and incomes inadequate.

Policies that recognise and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction

Most poor people, and particularly women, earn their livelihoods in the informal economy, which does not necessarily shrink with economic growth. Policies aimed at increasing employment and reducing poverty will be more effective when they take into account the informal economy. This means that measures, such as skills development, the promotion of entrepreneurship and improving working conditions, must be designed for delivery and impact in the informal economy.

Measures that facilitate the process of formalisation of firms and labour should generate more productive employment and decent work, improve social protection and reduce poverty. Policies need to reduce barriers and provide incentives to formalisation and tackle the forces driving informality.

Increasing the employability of poor people, especially for women and youth, unlocks their potential to contribute to growth

Promoting the employment of women makes sound economic, social and political sense, and is all the more important in economic downturns, which impact severely on women. Young people and women face particular barriers and biases concerning their access and participation in economic growth, resulting in a major underutilised potential for growth and poverty reduction. Their employability can be promoted through measures that specifically address their respective constraints and potentials and also by giving particular attention to activities where they have high labour market participation.

The productivity and employability of poor women and men can also be increased with well-tailored and recognised vocational training, building on basic education and life skills. These programmes have to be demand-driven, apply also to the informal economy and become an integral part of education and employment strategies.

Well-functioning labour markets and an enabling environment for local entrepreneurship are essential to increase employment opportunities for the poor

A sound understanding of how labour markets are structured and work is needed for policy-making. Donors should support developing country efforts that improve knowledge and sex-disaggregated statistics in order to strengthen evidence-based policy-making and involve other stakeholders in that process. A multi-stakeholder approach, supporting a broad-based dialogue, is crucial to establishing socially responsible employment practices and regulating labour markets in ways that deliver state, employer and employee objectives.

International migration due to labour market imbalances needs to be better managed through a stronger partnership between origin and destination countries and through more coherent approaches to promote development outcomes and minimise negative effects. Making the best of migration requires countries to: *(i)* conduct more research and sharing of good practices, including how to manage the impacts of brain-drain; *(ii)* encourage brain-gain through circular or return migration; *(iii)* reduce the transfer cost and improve the security of remittances; and *(iv)*strengthen co-operation with diaspora communities. Remittances are an important resource flow to developing countries and are already being adversely affected by the global recession, adding to the vulnerability of developing countries and their citizens.

Employment contributes towards stability and economic recovery in fragile situations. Short-term employment creation is an essential component of post-conflict strategies alongside longer-term investments in the enabling environment for the private sector.

Implications for donors

There is growing demand in partner countries, and from regional institutions such as the African Union, for more public action on social protection and employment. Many countries incorporate strategies and targets in these areas in their national development and poverty reduction programmes. As donors, we need to respond positively to this demand and support these developing country policy initiatives.

Donors' support for social protection programmes should provide adequate, long-term and predictable financial assistance to help partner governments establish gender-sensitive social protection programmes and create the conditions for those programmes to be politically and financially sustainable. This is especially important in the current situation of contracting fiscal space and declining financial inflows. Such support must be provided through harmonised and co-ordinated financing mechanisms in support of nationally defined strategies and programmes. This requires:

- Supporting developing countries' own efforts to build the political commitment and policy processes needed to develop and implement social protection systems.

- Committing to a long-term partnership, including financial and technical support, to underpin developing countries' efforts to build social protection systems.
- Investing in developing country initiatives to develop and share knowledge on the effective design and implementation of social protection systems.

Productive employment and decent work needs to be a key objective of development co-operation. This requires:

- Taking specific measures to improve employment, productivity and working conditions in the informal economy, facilitate formalisation, encourage entrepreneurship and promote more, productive and decent employment in the formal economy.
- Increasing the participation of women and young people in the labour market, by addressing the discrimination, constraints and barriers that they face and by strengthening measures to improve access to demand-driven vocational training.
- Supporting developing-country efforts to improve knowledge and sex-disaggregated statistics to strengthen evidence-based policy-making and involving other stakeholders in that process.

Our actions in these areas must be harmonised and aligned with national policy, in line with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. We must commit to developing country policy-making processes and to their outcomes. We must also help governments strengthen implementation capacity, foster effective stakeholder engagement and facilitate the empowerment of poor people in national policy-making processes.

Employment is the Major Route out of Poverty: How Donors Can Help

Key Policy Messages

- Productive employment and decent work needs to be a key objective of development co-operation and receive greater attention in policy dialogue with developing countries. Productive employment and decent work are the main routes out of poverty, including in fragile environments, and are crucial for achieving the MDGs.
- Specific measures need to be taken to improve employment, productivity and working conditions in the informal economy, facilitate formalisation, encourage entrepreneurship and promote more, productive and decent employment in the formal economy.
- The participation of women and young people in the labour market needs to increase, including by addressing gender-based discrimination, and the constraints and barriers that women and young people face as well as by strengthening measures to improve access to demand-driven vocational training.
- Efforts by partner countries to improve the availability of reliable, sex-disaggregated statistics should be supported because these are crucial for understanding the functioning and dynamics of both the formal and informal labour markets and enhance evidence-based policy-making.

Introduction

Productive and decent work[1] is the main route out of poverty for most poor people. By making better employment outcomes an MDG target for eradicating extreme poverty, the international community has highlighted the importance of promoting employment, which is also a core objective for several international organisations including the International Labour Organisation (ILO), World Trade Organisation (WTO) and Organisation for Economic Co-operation and Development (OECD). Employment performance is therefore central to the success of poverty reduction strategies and to efforts to enhance development, but it has to be productive and decent paid employment if individuals, the economy and society are to benefit fully. Both the pace and pattern of economic growth matter as well. A rapid pace of growth and increasing labour productivity are needed to generate large numbers of new and decent jobs in developing countries while a broad-based pattern of growth is needed to maximise the participation of and benefits to poor people.

The lack of sufficient productive and decent employment opportunities is a major bottleneck to reducing poverty and achieving the MDGs; it is also an increasing source of social and political instability. Strengthening the productive resources and capacities of poor women and men enhances their ability and likelihood of finding or creating productive employment. Increases in income, especially for women, result in greater investments in health and education that in turn increase the welfare and productive capacity of the workforce. They also increase poor people's purchasing power which stimulates demand for goods and services, including social protection, leading to additional opportunities for wage and self employment, and contributing to more inclusive and sustainable growth.

Most of the world's poor people are working but have poor employment conditions and earn little. They are working in very diverse environments, mostly in the informal economy, such as unregulated factories and small workshops, on streets or in open spaces, in fields, forests and pastures, or at home. Collectively, they produce a significant share of developing countries' national income [41% in developing countries, compared to 18% in OECD countries (OECD, 2006)] and make up a large untapped potential for further growth. Yet informal workers and businesses remain mostly invisible for policy-makers. As a result, they lack basic social protection, are locked into low productivity activities, with scant opportunities for economic mobility, slip more easily into deep poverty and rarely benefit from specific policies targeted at their particular needs and opportunities. As a consequence, incomes earned in the informal economy, where women are over-represented, are lower than those in the formal economy.

Through the work of its Network on Poverty Reduction (POVNET), the OECD's Development Assistance Committee (DAC) has developed policy guidance for donors aimed at reducing poverty by increasing employment and making labour markets work better for poor people. It builds on earlier work on private sector development (UN, 2005). Recognising that poor people identify getting a job – whether through self-employment or from wages – as their most promising path out of poverty (Narayan *et al.*, 2000), this policy guidance advocates making employment a central feature of poverty reduction strategies and highlights the importance of addressing both the formal and informal labour markets more effectively. This policy guidance is based on available evidence from developing countries and lessons learnt from good practices, elaborated after consideration of a series of topics: (*i)* informality, (*ii)* vocational training, (*iii)* international migration, (*iv)* social protection, (*v)* youth and employment, (*vi)* women and employment, and (*vii)* situations of fragility. Additional work, including a conceptual framework on employment and poverty reduction and on the relationship between economic growth, employment and poverty reduction, underpinned preparation of this guidance.

The dynamics and dependencies of employment and labour markets

A sound macroeconomic framework is the basis for supporting growth and employment creation

Macroeconomic policies can contribute to raising domestic productive activities and thus create new employment opportunities, but often need to be sustained by structural and institutional changes to be effective. While many developing countries have achieved macroeconomic stability in the recent past, leading to moderate or even fast economic growth, major challenges remain in facilitating a growth pattern that is more robust and pro-employment. Co-ordinated macroeconomic policies are key instruments for a structural anti-cyclical fiscal policy as recommended by the International Monetary

Fund (IMF) and the OECD. They can help smooth out economic fluctuations and raise investors' confidence, but also contribute to growth and employment creation in periods of economic downturn. In many developing countries, monetary policies only include inflation targets. More attention could be given to growth and employment, without jeopardising macroeconomic stability. Moreover, in increasingly open economies, exchange rate policy is a powerful tool to influence the competitiveness of the domestic economy with all its consequences on employment.

The impact of growth on employment and poverty reduction varies considerably. Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction (Ravallion, 2004). While generally positive, its impact is often below expectations, often due to initial levels of inequality in incomes and assets. Economic growth without significant employment creation, *e.g.* based on minerals exploitation, is a phenomenon which leads to increasing inequalities in wealth and inevitably to increasing poverty. This is why POVNET promotes pro-poor growth and stresses the importance of both the pace and the pattern of growth. Poverty reduction through faster and more inclusive growth is the target we are trying to reach by increasing the participation of poor people in the labour market.

The evolving sectoral pattern of growth matters for poverty reduction. Over time, economic development is associated with a move from lower to higher productivity activities coupled with a move of the labour force from the primary to the secondary and tertiary sectors. Agriculture is a key sector as that is how most poor people in developing countries currently derive their incomes and sustain their livelihoods. In agriculture-based countries (mainly sub-Saharan Africa), it generates on average 29% of the gross domestic product (GDP) and employs 65% of the labour force (World Bank, 2008). But agriculture is also a complex sector; while productivity-intensive growth in agriculture significantly reduces the incidence of poverty, employment-intensive growth in low productivity agriculture actually increases it. It is increases in productivity in activities higher up the value chain, and employment-intensive growth in the secondary sector (manufacturing, construction and utilities) that substantially reduce the incidence of poverty, when they are accompanied by increases in agricultural productivity. For example, expansions in high labour-absorbing sectors such as manufacturing and tourism have benefitted poor people. The tertiary sector can offer expansions in high productivity employment when education levels are relatively high, such as in India or Latin America.

A conducive investment climate is essential to underpin development of the private sector and to mobilise more productive investment. Governments can improve their investment climate by reducing the risks and costs (for example, through infrastructure investment and reducing excessive costs to comply with regulations) of investment, improving efficiency and encouraging innovation by removing imperfections in land, commodity and financial markets and developing the capacities of government institutions that regulate and monitor the performance of labour markets (such as occupational health and safety inspectorates).

Key areas for donors' attention include:

- Supporting the development and implementation of macroeconomic policies that lead to sustained pro-poor growth as well as policies and public interventions that improve the competitiveness of the private sector and create decent employment.

- Helping increase attention to employment outcomes in the design of sectoral policies including through *ex ante* analysis of sectors with high potential for employment and value addition (quality, quantity, specific group of workers, age, gender, specific geographic regions facing employment challenges).
- Supporting efforts to increase agricultural productivity and the development of rural enterprises, thus reaching many poor people.

Involving stakeholders in evidence-based policy-making

The role of government, workers and employers

It is the responsibility of governments to facilitate provision of labour market institutions and a business environment that fosters productive and decent work.

Improving poor people's access to the labour market and decent employment requires concerted efforts by governments, civil society, trade unions and the private sector. Businesses can complement these efforts by adhering to corporate social responsibility (CSR) standards. To have the greatest impact on reducing poverty, all interventions aimed at labour market development, private sector-led growth and employment promotion need to take account of the constraints and opportunities in the informal economy and not just those found in the formal economy.

Effective policy development processes have to be forward looking and include planning of their implementation and the provision of means to monitor and evaluate them. Governments often develop policies or define laws relatively easily, but lack the right means and adequate human and institutional capacities to implement and enforce them.

Incentives are needed to develop a multi-stakeholder approach to support socially responsible employment practices, to regulate labour markets to extend basic worker rights and benefits to informal wage workers and to make governments more accountable.

Representatives of the private sector in both the formal and informal economies, social partners and communities, as well as women and youth, need to be involved in policy formulation processes and their implementation. Organisations that represent the interests of workers and employers need to enhance their capacity to engage in such political dialogue, create businesses and so improve employment outcomes. Poor people in particular, if included in the debates on labour market policies, stand to benefit from better representation and a voice in decision-making.

It has been shown in South Africa that including professional and social partners in designing policies for vocational training resulted in a better response to the needs of the labour market. Such policies have to target the informal as well as the formal economy, women as well as men, and young people as well as adults, in order to have a wide impact. Organising workers around social protection can be a way of empowering them. A key objective is to better integrate employment creation and the social protection of informal workers into poverty reduction and other development strategies. In the formal economy, companies are expected to set an example and take responsibility in promoting good business practices and decent work according to legislation, but also going beyond as part of their corporate social responsibility.

Individual and institutional capacity development of governments, workers and business organisations is a vital contribution to a well-functioning labour market. Unions not only have to become a competent partner but also need to be granted access to a well-structured and functioning policy dialogue.

The importance of better statistics

Access to reliable, sex-disaggregated statistics is crucial for understanding the functioning and dynamics of both formal and informal labour markets and to support evidence-based policy-making.

Detailed and up-to-date information on the structure and dynamics of the labour market is needed to underpin policy-making, but also monitoring and evaluation. In developing countries, the labour market is often not well understood or standard concepts (*e.g.* "unemployment") difficult to apply. Viable statistics, analyses and evaluations are needed to address the labour market effectively, to compile and understand the country-specific evidence and the potential constraints to finding adequate and adapted solutions that will reach poor people and address the specific constraints faced by youths, women and people with disabilities. To ensure transparency in policy-making processes, the information emanating from such sources should be publically available.

Key areas for donors' attention include:

- Supporting participatory approaches for capacity development on employment policy design. Involvement of public sector, private sector, trade unions, Community Support Officers (CSOs) as well as groups facing specific barriers (*e.g.* youth, women, ethnic groups) including those in the informal economy.
- Promoting the development and access to national multi-stakeholder institutions for social dialogue on employment, social protection and pro-poor and pro-employment macro-economic policies: *i.e.* a tripartite approach.
- Providing support for the systematic and sustainable development, collection and treatment of national sex-disaggregated data related to the formal and informal labour markets, to enhance evidence-based policy-making that draws on nationally owned information.

Employment in the formal and informal economies

Policy-makers need to recognise the importance of the informal economy and help to improve productivity, working conditions and social protection in the informal economy while easing and encouraging formalisation.

Achieving a dynamic formal economy with decent employment conditions is undoubtedly a main goal of any government's economic strategy. It underpins the provision of services, including social protection, the implementation of rules and regulations and the collection of revenue by the government to fund the provision of public goods. However, in most developing countries, the informal economy is very large and the global persistence of poverty is connected to the size, durability and conditions in the informal economy. Informal employment is very high (Table 1) and even increasing worldwide (OECD, 2008) and, contrary to what had been expected, it does not necessarily decline as a country develops.

Table 1. Trends in employment in the informal economy

Region	Informal economy employment as a percentage of non-agricultural employment	
	1980-89	1990-99
North Africa	38.8	43.3
Sub-Saharan Africa	68.1	74.8
Latin America	52.3	56.9
Asia	53.0	63.0

Source: Charmes, 2000

By paying greater attention to the informal economy, donors can help developing country governments to unveil a large and unfilled potential to generate growth and reduce poverty. Governments can do this through policies that: (*i)* increase productivity and earnings in the informal economy, especially through a focus on skills development, (*ii)* reduce the risks to those working in the informal economy, and (*iii)* reduce barriers and provide better incentives to promoting and creating more productive and decent formal jobs.

Traditionally, measures related to informality and informal employment have aimed at their formalisation. Often, formalisation policies have had more negative connotations and have taken the form of stressing the illegality of certain informal activities, thus making it more difficult for informal economic actors to carry out their activities. In many countries, the costs of formalising become prohibitive and encourage employers to continue to operate in the informal economy. By pushing already vulnerable groups of people into even more difficult situations, badly designed formalisation policies can contribute to increased poverty and vulnerability rather than to poverty reduction.

Instead, governments should address the drivers for informality, particularly:

Exclusion: a low capacity of the formal private and public sectors to accommodate rapid labour force growth, resulting in a mismatch between demand and supply of labour.

Entry barriers: unreasonable regulations, costly/hostile legal environments and increased use of subcontracting can make entry into a formalised labour market difficult or impossible.

Exploitation: changes in formal labour regulations or their implementation can increase informal units and the number of workers in informal businesses.

Exit: informalisation of once-formal jobs as a strategy to lower costs and deal with competition.

The informal economy is structured very diversely and can only be described in a country-specific context. Governments and donors therefore have to plan their interventions based on sound knowledge of how the informal economy actually works.

Key areas for donors' attention include:

- Increasing the voice of informal workers and businesses in decision-making processes with special attention to women and youth (*e.g.* through representation of informal workers in employers' and workers' organisation, the role of the CSOs).
- Assisting micro enterprise development and self-employment in urban and rural areas by improving working conditions and productivity though access to financial resources, business development, skills development programmes and basic infrastructure.
- Supporting labour market reforms and promoting legal approaches (including enforcement and/or incentive measures) to formalise informal businesses and work arrangements of wage workers (*e.g.* domestic workers or informal workers of formal enterprises).

Increasing the employability of poor people

A rapid pace and a more inclusive pattern of growth will increase employment opportunities for poor people. But, to take advantage of these opportunities, poor women and men need to increase their ability to participate productively in the growth process so as to benefit more from it. A skilled labour force and an ability to move flexibly between jobs and types of occupation are key attributes of a dynamic labour market. A shortage of skilled labour can severely influence prospects for sustainable growth. Barriers to access and to the movement of the labour force across occupations, sectors and regions can prevent them from benefiting from increased employment opportunities. Social protection enhances the productivity and participation of poor people in the labour market by reducing their livelihood risks.

Vocational training

The productivity and employability of poor people can be significantly increased with well-tailored and recognised (certificated) vocational training, especially for workers in the informal economy.

A primary asset and resource of poor people is labour. Improving and extending vocational training to develop appropriate skills is crucial to facilitating transitions to more productive jobs and therefore improves the employability of the work force.

Many existing vocational training systems need to be reformed. They are generally inadequate in size, concentrated on the formal economy, not very effective and not very relevant to the needs of the labour markets in poor countries. They need to be truly demand driven by the private sector. By focusing on the formal economy only, technical and vocational education and skills development systems fail to address the needs of the full labour market. Introducing recognised professional certificates allows individuals to prove their skills. Attempts to restructure technical vocational education, apprenticeships and training systems remain small-scale. Vocational training thus needs to be scaled up and has to become a part of an overall employment and education policy.

Vocational training needs to build on basic education systems. Only about 60% of students who enter basic education in sub-Saharan Africa actually complete it (UNESCO). Basic education and life skills development is vital for supporting the economic development process because it improves agricultural productivity and can facilitate the transition of workers from agricultural jobs to work in the secondary or tertiary sectors.

Helping employment seekers become entrepreneurs who create jobs (for example through self-employment, micro-enterprise creators) can be a neglected path to entering the labour market. An employment and education policy should therefore include entrepreneurship training. Together with mechanisms that provide start-up capital, businesses can be created in a sound economic context.

Key areas for donors' attention include:

- Providing advice and support with a view to making vocational training cost-effective and demand-driven, gender neutral, decentralised and involving the private sector and labour market organisations with innovative approaches, such as through public-private partnerships.
- Supporting cost-effective policies that facilitate the upgrading of training in the informal economy, including apprenticeships.
- Promoting the setting-up of vocational training in the informal economy and nation-wide recognised certificates.

Social protection and empowerment

Social protection and empowerment increases the access of poor people to the labour market and the productivity of workers and thus helps to break the vicious circle of poverty.

The productive potential of poor people can be unlocked through active social protection mechanisms. Poor people generally adopt risk coping strategies to adapt to frequent or continuing economic stress. When under economic stress, poor people may respond by consuming less, taking their children out of school, reducing expenditures on health care or selling their productive assets. The provision of social protection can break this vicious circle of poverty by easing risk coping strategies, while empowering poor people to better access productive employment opportunities and giving them an important incentive for formalisation. It also helps them take the decisions and make the adjustments to put them on more sustainable paths out of poverty.

Access to social protection is often related to work in the formal economy. Workers in the informal economy, where 70% to 95% of the labour force in developing countries (including agriculture) is employed (ILO, 2002), are therefore excluded from contributory schemes and may not be able to afford private insurance or get access to community-based schemes. But the creation of separate social protection institutions and systems for the informal economy are not needed. Instead, the formal social security administrations need to adapt and expand to include informal workers. Risk pooling among larger populations will ultimately increase the sustainability of these systems for all. In addition, countries with substantial and long-standing social protection programmes know that their effectiveness has not been just risk management, or response to crises, but rather a long-term investment – with high rates of return – in a productive economy and society. Progress towards sustainable social protection measures thus requires the inclusion of informal workers in formal social protection institutions.

Social cash transfers can effectively promote engagement in labour markets and there is evidence to suggest that they need not create work disincentives (Posel *et al.,* 2006) or give rise to moral hazard issues. Studies from South Africa shows that working age adults in poor households that receive a social pension are more likely to look for work and more likely to find employment than comparable adults in households that do not receive a social pension. Productive safety nets provided through public work programmes can temporarily ease economic stress from unemployment and facilitate access to the labour market.

Key areas for donors' attention include:

- Providing advice on how to design and fund safety net programmes.
- Supporting and developing capacity in national ministries of labour and social affairs, which have the responsibility for national social protection strategy development – as well as in the social security administrations that manage the pension, health insurance and other social security schemes.
- Providing financial support or subsidising through other means contributions by the self-employed and informal sector workers to pension, health insurance and other social security schemes.

International migration

More coherent policies for the promotion of development through migration should be pursued by means of stronger partnerships between origin and destination countries -- with special attention to brain-drain and circular-migration issues.

Policies toward international migration, employment and investment in developing countries must be more coherent, given the many interactions between those phenomena. But more coherent policies require a much better understanding of the links and impacts between mobility, jobs and development. However, empirical evidence does exist and this suggests that the labour markets in sending countries adjust to emigration in different ways, depending on the scale and type of migration and the country's general socio-economic condition. As in many other areas, grasping the variety and complexity of these relationships requires the collection of more data and the development of appropriate analytical tools.

The effects of migration on employment have many facets. For example, the migration of low-skilled workers might result in rising wages or, in areas with high rates of emigration and an oversupply of labour, a relaxation of local labour market pressures. For some, overseas work experience might provide opportunities to improve skills and acquire further knowledge while others, whose qualifications are not adequately recognised in their receiving country, may see their skills diminish while abroad.

The promotion of "circular migration" can be an effective response to brain drain, which often deprives developing countries of their human capital and has serious consequences on the delivery of key services, *e.g.* education or health care. This can take the form of re-entry visas for migrants on renewable short-term contracts, portable pensions and other social benefits. "Ethical recruitment" practices and measures to improve working conditions, infrastructure and career opportunities for high-skilled personnel in developing countries should parallel/accompany the acquisition of professionals from sectors exposed to brain drain. On-the-job training and skill acquisition schemes affecting migrants' employability and knowledge transfer can also support circular migration. Diaspora networks play an important role in reducing the costs of brain drain by fostering co-operation and the conveyance of knowledge and skills as well as collective and business investment.

Remittances will contribute more to job creation if policies help create stronger incentives to save and invest in migrants' countries of origin - including, notably, in community-development projects and small-scale labour-intensive business. Migrants abroad often remit savings to their families at home. Families generally use these for consumption and for investments in education, health and better housing. Policies could seek to create incentives to use more of the remittances for productive investments. Expanded access to money transfer institutions, a reduction in transaction fees and improved safety of money transfers should also be promoted. Remittances can counterbalance the deficiency of local insurance systems and function as social safety nets. Remittances are however likely to fall drastically in times of recession and increase unemployment in destination countries.

Considering the manifold links between migration and employment, migration policy has to be coherent (and complementary) with policy fields of education and vocational training, the labour market and private sector development, social development/security; all of which should be aware of the situation of potential migrants.

Key areas for donors' attention include:

- Promote greater analysis and understanding of the impacts of migration on employment and investment.
- Increase the opportunities and reduce the challenges of migration sending and migration receiving countries by helping to promote partnerships between countries, especially regarding the reduction of brain drain effects and the promotion of circular migration.
- Supporting efforts to create a more conducive environment for remittances that are profitably invested, saved or used.

Focus on youth, women and vulnerable groups

Special attention to women, young people and other groups facing specific barriers in the labour market improves their access to the labour market, enhances social cohesion and promotes more sustainable growth.

Sustainable development is built on social cohesion as well as sound economic management. Policies for high economic growth need to be accompanied by social, employment and other policies to ensure that poor people share the benefits of growth. Women, young people and people with disabilities can be disadvantaged and may need special measures to help them access the labour market better.

Youth

The integration of youth in the labour market should be promoted by adjusting existing employment policies accompanied by more targeted interventions.

The failure of the formal economy to generate sufficient employment opportunities for young people raises the spectre of social disaffection, rising crime and political instability. Developing country populations are becoming increasingly younger and about one third of the youth is unemployed or part of the working poor. In sub-Saharan Africa, 65% of the population is below 25 years of age. There is an urgent need to target youth employment.

Young people face particular barriers and biases concerning their employability, access to and participation in economic growth. A growing number of qualified young people are trying to integrate into the labour market but are often unable to do so. While higher and more sustained rates of economic growth will help, not enough jobs are being generated for young people and not enough young people have the necessary education and skills required by the increasing demand for skilled labour. As a result, growing numbers of young people are unemployed or part of the working poor, thus raising the spectre of social disaffection, rising crime and political instability. It also adds to the vicious circle of intergenerational poverty transfer.

There is no "magic bullet" to increasing youth employment, but a combination of approaches should have a mutually reinforcing impact. While there is little hard evidence on cost effectiveness, there is evidence that all approaches (*e.g.* specific skills training, multiple service interventions, such as job placements, or wage subsidies, and promotion of entrepreneurship) have similar impact potential. The potential to strengthen youth employment can be increased by combining various approaches in an integrated manner (*e.g.* vocational training, apprenticeships, job sharing, work experience schemes, etc.) to exploit their synergies. Also, when designing vocational training policies, it is important to differentiate between the specific backgrounds of life-skills and the amount and quality of primary, secondary and tertiary education. However, while labour-intensive public works programmes can have their merits, their long-term impact on educated youth is not necessarily significant. More attention is also needed on employment creation in new sectors that are particularly attractive for youth [*e.g.* information and communications technology (ICT) and the environment].

Key areas for donors' attention include:

- Advocating inclusion of youth employment considerations within support for public investment programmes (in particular infrastructure and construction) and support the creation of incentives for enterprises to hire more young people.
- Voices of the youth: Supporting existing labour policies, but adjusted to specific youth needs, or through targeted interventions in a specific environment.
- Supporting youth, where they face special barriers, for example by linking increased entrepreneurship of the youth with access to financial services, incubators and start up support.

Women

Achieving women's economic empowerment and gender equality in the labour market requires targeted action and makes economic sense for the whole of society.

We still have not achieved anything near gender equality, in spite of decades of discussions, conferences, and political agreements on gender equality. Women (estimated to make up 60% of the working poor) face particular barriers and biases concerning employment, assets, access and participation in economic growth. Promoting the employment of women makes sound economic, social and political sense, and is all the more important in economic downturns which impact even more severely on women. In terms of economic empowerment, women currently face three major challenges:

1. The gender gap in employment: Women are less likely to have a (paid) job than men. An increased awareness is needed for women of their constitutional and legal rights, and on the importance of girls' access to primary and secondary school enrolment and attendance.
2. Women's jobs are more likely to be concentrated in the informal economy and in low value-added activities. Efforts are thus needed to increase women's representation in higher value-added sectors, including by making the formal economy more accessible and attractive for women.

3. Women are more likely to be in low-wage jobs with poor working conditions or in unpaid work in the family and community (*e.g.* care of children and elderly and sick people). There is thus a need to reduce women's decent work deficit through labour market policies and legislation, involving public and private employers and trade unions.

Key areas for donors' attention include:

- Targeting more interventions at women, including addressing and benchmarking gender equality in regulatory reforms, access to finance, access to other business services, entrepreneurship and start up through incubators and activities in which women can and do get productive and decent work.
- Supporting women's organisations that promote women's economic empowerment (entrepreneurs, labour rights, voice), but also sensitisation of men and society to create awareness and understanding of the need of specifically targeting women.
- Promoting greater awareness of the double burden women face: unpaid reproductive, personal family work and productive paid work. Programmes should help reduce unpaid work and translate women's labour into paid work, and their paid work into higher, more secure incomes.
- Expanding the basis for gender-sensitive policy formulation through greater collection of data disaggregated by sex and indicators that measure processes which either lead to diminishing barriers to gender equality (*e.g.* law on land entitlement excluding women) or measure processes which lead to growing opportunities to promote women's empowerment (equity measures, involvement of women in decision-making).

Employment in situations of fragility

More, more productive and decent jobs in fragile situations contribute to stability, economic recovery and growth.

Employment issues are very relevant for "fragile states", where about one-third of the world's poorest people live. In addition, employment and welfare strategies that focus on reducing inequalities and on increasing access to (public and private) productive resources and services reduce the likelihood of conflict and enhance the legitimacy of government. This helps respond to the challenge in fragile states of restoring the confidence of people in their governments, rebuilding sustainable livelihoods and repairing the damage done as a result of conflict, neglect and abuse of power.

Short-term employment creation is an essential component of post-conflict strategies, alongside longer-term investment in creating the conditions for the private sector to flourish. Where young people have no employment or access to productive resources, they are more likely to be recruited into armed militias or criminal activity. Short-term employment creation through labour-intensive public works, micro-finance programmes or public-private partnerships to provide basic services is therefore a key response in the transition from humanitarian assistance towards structural development. Focusing on youth and women is particularly important in fragile situations as they are more at risk that in other countries.

Employment generation depends on the emergence of a flourishing private sector. But reviving and redesigning an economy after conflict, including reviving the private sector, is a complex task that has received insufficient attention from policy-makers. Consequently, governments and donors need to engage in more of a dialogue with the private sector (both formal and informal) in order to promote economic growth and employment.

Key areas for donors' attention include:

- Giving higher priority to employment and social protection as operational areas of post-conflict assistance.
- Supporting governments in fragile states to design and implement employment policies that promote equal opportunities and welfare systems that allow marginalised groups to benefit from economic growth, linking government and the private sector.
- In post-conflict situations, ensuring that there is a smooth transition from humanitarian assistance to structural economic development by creating short-
- term employment which is conducive to economic recovery, focusing also on women and youth. At the same time, steps need to be taken to create an enabling environment for structural economic growth and equal access to productive resources and employment.

Conclusion

Achievement of the MDGs will require donors to give greater attention to employment outcomes in their policy dialogue with developing country governments. This relates not only to dialogue on promoting economic growth but also discussions about a range of related sectors including education, rural development and governance. More productive work and decent employment is not only an objective in "good performers", it may also be the key to promoting a more inclusive and sustainable development path in post-conflict situations.

To date, many efforts related to employment have focused on the formal economy, on the understanding that poor people, who are predominantly operating in the informal economy, will have the skills to take up new opportunities that arise. We now know that such a strategy is likely to have limited impact because poor people need to have their skills up-graded, because greater attention needs to be paid to the dynamics and realities within the informal economy and because women and youth face specific barriers when trying to access the labour market and so need special measures to help them overcome these barriers.

The objective for donors should remain to increase the number of decent jobs in the formal economy. However, in parallel, efforts should expand to promote entrepreneurship, to build up capacity for public-private dialogue and policy implementation and to increase productivity in the informal economy, including in rural areas, while helping informal firms move along the continuum towards a greater degree of formality.

Notes

1 Decent work as defined by the ILO covers fundamental principles and rights at work and international labour standards; employment and income opportunities; social protection and social security; and social dialogue and tripartism.

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PART II

In order to provide a basis for developing policy guidance for donors, background papers have been prepared on key topics related to employment and labour markets. While these background papers were drawn on to prepare the Policy Guidance Note approved by the DAC in Part I of this volume, the opinions expressed and arguments employed in each of these background papers are the sole responsibility of the authors and do not necessarily reflect those of the OECD or the governments of its member countries.

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

Laura Delponte, OECD

- 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/*

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

Christoph Ernst and Janine Berg, ILO

- 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.
- 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.
- 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

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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 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

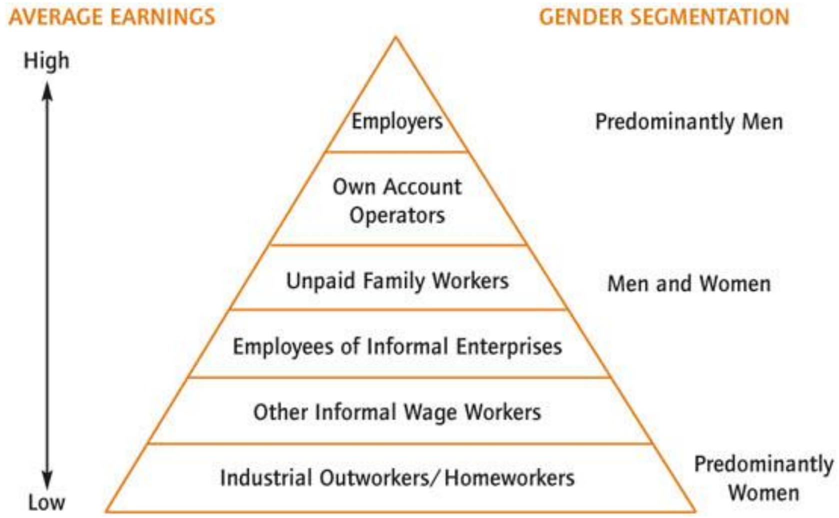
In developing countries, particularly low-income developing countries, unemployment is a luxury that few can afford. Most low-income countries do not have unemployment insurance and although family and kinship ties remain strong, workers cannot rely on these ties to compensate for their lost earnings. Thus, self-employment and causal 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 households". 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 then adults. In 2005, the global youth unemployment rate was 13.5% (ILO, 2006). Young people are also more likely than adults to work informally.

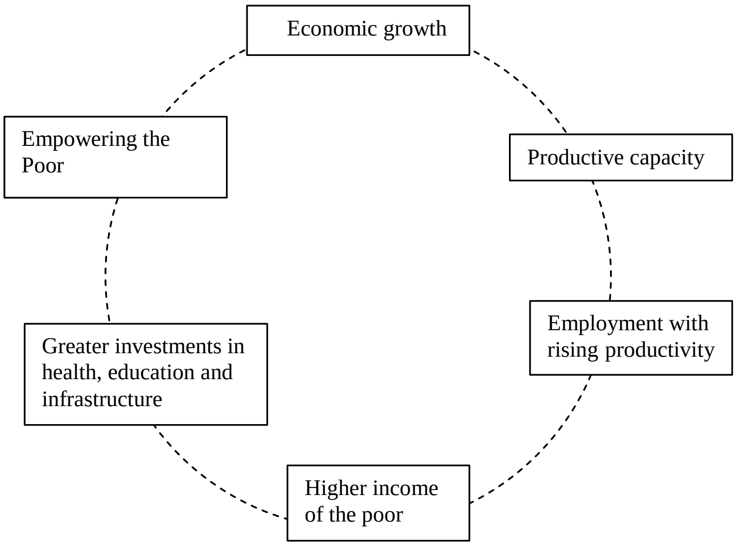
In addition, more than one third of the world's poor live in '***fragile states***' where the challenges of rebuilding the state and the economy are particularly acute. Because of the deteriorating economic situation and the unequal access to employment and productive assets, the poorest segments of 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 polices 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; +/0 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 Maharastra 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 Udiapur, 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 efficiencies 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 remittances[3] 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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Understanding the Relationship between Economic Growth, Employment and Poverty Reduction*

Katy Hull

- Growth in one sector of the economy will not automatically translate into benefits for the poor: much will depend on the profile of growth (its employment - or productivity - intensity), the sectoral location of the poor, and the extent of mobility across sectors.
- For employment-intensive growth to translate into poverty reduction it must occur in a "more productive" sector, while "less productive" sectors may require productivity-intensive growth to ensure a decline in headcount poverty.
- Country-specific quantitative and qualitative analysis is required to identify constraints to job creation, productivity and mobility and to ensure that the poor are able to participate in more and better job opportunities.

Introduction

Whether they are subsistence farmers, salaried workers, or self-employed entrepreneurs, poor people derive most of their income from work. This basic fact means that the level of employment, the quality of jobs, and the access which the poor have to decent earnings opportunities will be crucial determinants of poverty reduction. The intuition that jobs matter for development has not been lost on the governments of low income countries and the vast majority of national development strategies look to employment generation as a major channel for poverty reduction.

Despite the intuitive notion that employment matters for poverty reduction, there is insufficient empirical research in this area. While there is a broad consensus that not all growth spells have the same impact on poverty, there have been relatively few attempts to systematically unpack the relationship between economic growth, employment and poverty reduction. Data deficiencies in many low income countries and the difficulty of ascribing causality to correlative relationships between changes in income and employment may each go some way to explaining the dearth of research to date.

What research there is both underscores the importance of jobs for poverty reduction and highlights the extent of the unfinished analytical agenda. Studies have demonstrated that the sectoral pattern of growth will affect the extent of poverty reduction: Loayza and Raddatz (2006) find that growth in unskilled intensive sectors contributes to poverty reduction; Satchi and Temple (2006) find that growth in agriculture may increase poverty

* 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.

while growth in the urban sectors may cause it to fall. But there remains a lack of consensus on which sectors are most important for poverty reduction or whether changes in employment or productivity will have the greatest impact. For instance, access to non-farm rural employment and informal urban employment emerged as important factors in some, but not all, of a sample of 14 countries which experienced pro-poor growth in the 1990s (World Bank 2005); and while Coxhead and Warr (1995) find that increases in agricultural productivity reduce poverty, Fane and Warr (2002) detect only a meagre impact.

This paper aims to bridge some of the gap between an intuitive understanding that jobs are crucial for poverty reduction and a lack of empirical research to demonstrate the nature of this relationship. Its objective is to provide policy-makers and analysts with the tools by which to understand the interaction between growth, changes in both the number and the quality of jobs, and poverty reduction and to devise appropriate policy responses. Specifically, it aims to address the following three questions:

- How does the sectoral pattern of growth affect its poverty impact?
- Is employment-intensive or productivity-intensive growth more important for poverty reduction?
- What policies may facilitate the poor's participation in growth?

Since there is strong evidence to suggest that labour markets in developing countries are usually segmented between "more productive" and "less productive" jobs sectors, Part II provides an overview of theories on labour market segmentation. The goal is not, nor can it be, to provide a "one size fits all" model of segmented labour markets. Rather, it is to highlight some of the most common patterns of segmentation and its implications for the relationship between economic growth and poverty reduction.

Part III offers a three step framework for observing the relationship between economic growth, employment, and poverty reduction. The framework enables analysts to determine: first, the extent to which growth is associated with changes in employment (the quantity of jobs) or productivity (the quality of jobs); second, the relationship between these changes and poverty reduction, and; third, correlations with the broader policy and institutional environment. Part III demonstrates recent applications of each of these steps, while highlighting data challenges and the scope for future research.

As this paper's main objective is to bridge a gap between empirical research and policy, Part IV demonstrates how findings on the relationship between economic growth, employment and poverty reduction might inform policy-making. While appropriate policy responses will always be country-specific, Part IV draws on extensive country based analysis to demonstrate a range of potentially relevant policy options. These include measures to expand employment-intensive growth in "more productive" sectors, improve productivity of "less productive" jobs, enhance the mobility of the poor between sectors, and promote conducive policies and institutions, while paying due concern to political economy constraints.

Labour market segmentation and its implications

Labour market segmentation in theory

Labour markets in low and middle income countries tend to be highly segmented, with different wages and conditions of employment in each sector and limited mobility from "less productive" to "more productive" jobs. In contrast to basic neoclassical models predicting the equalization of wages, segmented labour market models predict that institutionally set wages (due, for example, to regulatory interventions or the bargaining power of workers) will ration "more productive" jobs. Since some workers cannot afford to remain unemployed, they will accept a "less productive" job in which earnings and/or conditions of employment are below the level set in the "more productive" sector. Box 1 provides a brief explanation of the various labels employed in the description of segmented labour markets.

Box 1. "More productive" vs. "less productive" jobs, and other labels

Models of labour market segmentation revolve around the identification of two or more distinct sectors. These sectors have received various labels. Some of the most common forms of distinction are summarized here.

"Primary" *vs.* "secondary" sectors. Dickens and Lang (1986) use the labels "primary" and "secondary" to distinguish between high-paying unionized jobs and lower-paying non-unionized jobs.

"Insiders" *vs.* "outsiders." Knight and Yueh (2004) distinguish between "insiders" (urban dwellers) and "outsiders" (rural-to-urban migrants) in China. They find evidence that "insiders" positions remain protected against competition from "outsiders."

"Good" *vs.* "bad" jobs. *Avirgan et al. (2005)* Use the labels "good" and "bad" jobs to distinguish between formal work and informal work in a number of developing countries, noting that earnings are consistently lower and working hours longer in the informal sector.

"Upper-tier" *vs.* "easy entry" jobs. Fields (2004) distinguishes between rationed "upper-tier" activities and almost unlimited "easy entry" activities, which cut across both the formal and informal sectors.

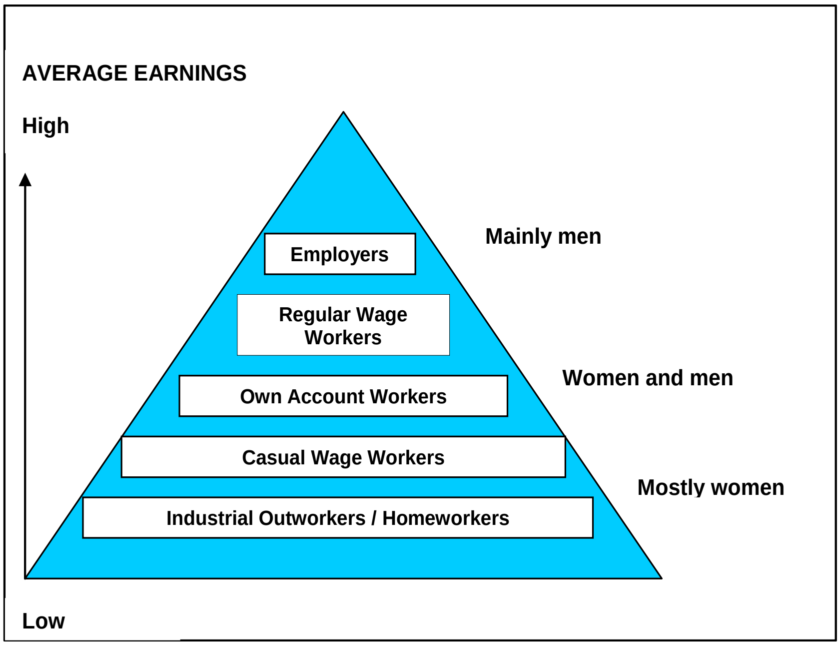
It should be noted that while this paper employs the labels "more productive" and "less productive," this distinction, like all those summarized above, describes a single phenomenon: namely, the division of the labour market between jobs with good conditions and pay, which are limited in number, and jobs in which conditions and pay are generally much lower.

As one of the first to recognize the saliency of a segmented labour market model in developing countries, Lewis (1954) sought to explain "the workers on the docks, the young men who rush forward asking to carry your bag…and the like." Lewis identified a dual labour market in which workers who were unable to obtain jobs in the formal sector took up work in a free entry, unregulated informal sector. While wages in the formal sector were kept at above market levels, those in the informal sector would fall as labour supply increased.

Recent revisions of the dual labour market model have challenged the notion of the informal sector as a free entry sector of last resort. Maloney's research in Mexico (2003) suggests that some workers may choose between formality and informality on the basis of a rational cost-benefit analysis. Informal sector employers may feel compelled to offer terms and conditions of employment which are comparable to those in the formal sector so as to attract good workers and reduce turnover. Instead of representing a distortion-free sector, the informal sector will be subject to spill-over effects of formal sector regulations.

Other responses to the standard dual model have asserted that it is insufficient to explain the "multi-faceted employment dynamics in developing economies" (Chen *et al.*, 2005). Suggesting that both the formal and informal sectors are subject to internal segmentation, these models draw attention to "upper tier" and "easy entry" activities in all sectors of the economy (Fields, 2004). They accept that both "more productive" and "less productive" jobs can exist in agriculture, in the urban formal sector, and in self-employment. Figure 3 characterizes a typical pattern of segmentation within the informal sector. Employers and wage workers occupy the "upper tier" of this sector: positions within this tier may be competitively sought after and actively preferred to jobs in the formal sector. Meanwhile, outwork and homework constitutes a free entry sector of last resort.

Figure 3: Segmentation of informal employment



Source : Adapted from Chen *et al.* (2005)

Leonardi (1998) argues that while segmented labour markets are by now an "established fact," it "remains to be proven" along what lines segmentation exists. The exact pattern of segmentation is of course context specific and cannot be dictated *a priori*. But while conceptions of dual or multiple labour markets will differ in their details, they share common features: the existence of two or more sectors with different wage setting mechanisms, with limited upward mobility for workers in the "less productive" sectors. In addition to the institutional barriers to mobility generated by the rationing of "more productive" jobs, there may be geographical barriers (for instance, poor infrastructure connecting urban and rural areas), legal barriers (such as weak enforcement of property rights), or barriers due to discrimination based on ethnicity, race or gender, which make it particularly difficult for the poor to participate in sectoral growth. Figure 1's characterization of women as concentrated mainly in the "less productive" jobs tiers of the informal sector is all too familiar in many developing countries (Chen *et al.,* 2005) and indicates that certain groups among the poor may face even greater barriers to mobility than their peers.

Implications of labour market segmentation

It is beyond the scope of this paper to establish the precise pattern of labour market segmentation in developing countries. Rather, the goal here is to highlight the likely implications of significant segmentation on poverty reduction (see Box 2).

Box 2. Implications of labour market segmentation

Labour market segmentation has four principal implications for the relationship between economic growth and poverty reduction.

First, the overall rate of economic growth is likely to be lower under segmented conditions than in a fully integrated market, since bottlenecks inhibit the efficient flow of labour force participants between jobs.

Second, whereas the neoclassical labour market model would predict that an increase in labour demand in one sector of the economy will cause wages to rise across all sectors, labour market segmentation implies that factor returns will not equalize across sectors. In other words, growth in one sector may not have an effect on wages in other sectors of the economy. Segmentation indicates that for growth to impact the poor, it must occur in a sector in which they are located or to which they at least have access.

Third, growth that results in increased employment opportunities in "less productive" jobs sectors may not be enough to alleviate poverty. Since work in these sectors is characterized by low wages and/or poor conditions, a simple multiplication of similar opportunities will result in the expansion of underemployment and/or exploitation. On the other hand, growth which results in increased productivity in the "less productive" jobs sector may help to reduce poverty since it will help to raise wages, in effect bringing "less productive" jobs closer to the standards of "more productive" jobs.

Fourth, growth that results in an increase in the number and productivity of jobs may need to be accompanied by policies to enhance the mobility of the poor across sectors. Since barriers to movement can stem not only from the rationing of "more productive" jobs but from geography, infrastructure, and legal and cultural norms, the participation of the poor in growth will depend in part on concerted efforts to identify and remove these obstacles.

A three step framework

Objectives of the framework

1. The objectives of the framework provided below are threefold. It aims to help analysts understand first, how the sectoral pattern of growth affects its poverty impact and second, whether employment-intensive or productivity-intensive growth is more important. Finally, the framework aims to shed light on the broader policy and institutional environment which might facilitate the poor's participation in growth.

2. Alongside gaps in relevant data in many developing countries, the difficulty of assigning causality in the relationship between growth, employment and poverty reduction is probably a major reason for deficiencies in the current research agenda. A thorough analysis of the mechanisms by which the sectoral patterns of growth impact poverty would require a complex general equilibrium model. Such models risk stretching data beyond their limits and also pose immense challenges to analytical capacity.

3. Recognizing that the demands of general equilibrium models are often prohibitive in the context of limited data and capacity, the framework offered here is more modest. It provides analysts and policymakers with tools to observe correlations between employment generation and productivity growth, poverty reduction, and the broader institutional and policy environment. While correlations are of course not an indication of causality, this framework offers a pragmatic and feasible response to the absence of a thorough analysis of even correlative relationships in many countries. It can provide empirical input into debates on how the quantity and quality of jobs are linked to poverty. And it may help to stimulate discussion on the appropriate policies for enabling the poor's full participation in economic growth.

Figure 4: The three step framework

Step 1: Profiling Growth
To what extent is growth associated with changes in employment, output, or population?

↓

Step 2: Linking the Growth Profile to Poverty Reduction
To what extent are changes in the employment, output and population rates linked to poverty reduction?

↓

Step 3: Identifying Policies and Institutions that Matter
To what extent is a poverty reducing growth profile linked to the broader policy and institutional environment?

The framework provides three stages of analysis. First, it decomposes economic growth into changes in both the quantity *and* quality of jobs. Second, it ascertains whether improvements in employment or productivity are most readily associated with poverty reduction, and whether this pattern changes by sector. Third, it highlights the broader policy and institutional environment which is associated with a poverty reducing pattern of growth (Figure 4).

Step 1: Profiling growth

The first step in understanding how sectoral growth affects poverty via its impact on the quantity and quality of jobs is to find a suitable methodology for profiling growth.

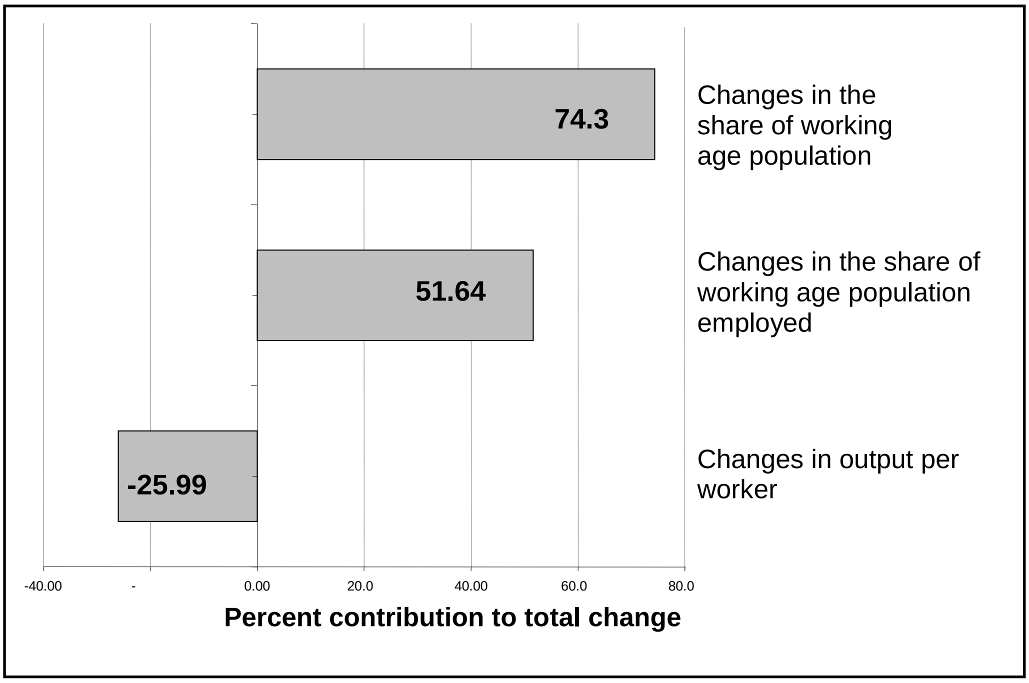
Analysis of the relationship between growth and employment has traditionally focused on the employment elasticity of growth – that is, the percentage change in employment in response to 1 percentage change in output. This measure has three notable shortcomings. First, it says nothing about the actual extent of job creation since a country that grew by 1% and enjoyed a 1% increase in employment would have the same employment elasticity rate as a country which had a 10% growth rate accompanied by a 10% increase in employment. Second, the measure does not take demographic changes into account, although growth in population often swamps increases in employment. Third, and most obviously, the employment elasticity of growth says nothing about the quality of new jobs created.

A simple way of understanding how growth is associated with increases in the quantity and quality of jobs is to perform a decomposition of *per capita* GDP growth into three components: productivity changes, employment rate changes and demographic changes. The amount of growth that can be attributed to changes in output per worker can be obtained by calculating the resulting growth in *per capita* value added between two points in time under the hypothetical scenario in which employment rates and the share of the working age population remain constant, but output per worker has changed as observed. Similarly, the amount of growth attributed to changes in employment or the share of the working age population can be obtained by calculating *per capita* value added when the other two components are held constant.

Figure 5 shows the results of this growth decomposition, using the example of Nicaragua over a four year period (2001-2005), during which value added growth totalled 12%. It shows that almost three-quarters (74%) of the increase in growth can be linked to changes in the structure of the population. In other words, had everything else stayed the same, the reduction in the number of dependents per working age person would have generated a growth rate of 5.3% (or 74% of 7.12). Changes in employment were also important: accounting for over half (51%), of the observed growth. This means that if productivity and the number of dependents per working age member had both remained constant, the higher rate of employment would have generated a GDP growth rate of 3.6% (or 51% of 7.12).

Unfortunately, changes in productivity acted in the opposite direction. Indeed, had population and employment levels remained constant, shrinking productivity would have had a negative impact equivalent to more than a quarter (26%) of the actual observed growth rate. Put differently, had productivity not changed, observed growth would have been close to 9%, but decreases in productivity meant that growth was 7.12%.

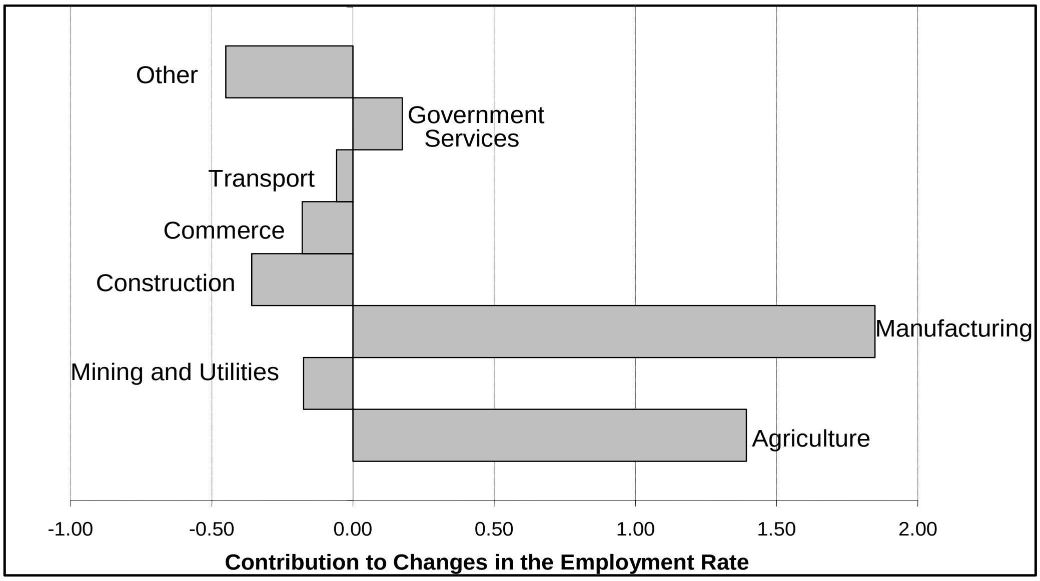
Figure 5: Aggregate employment and productivity profile of growth (Nicaragua 2001-5)



Source: Calculations based on data from Better Care Network (BCN) and EMNV

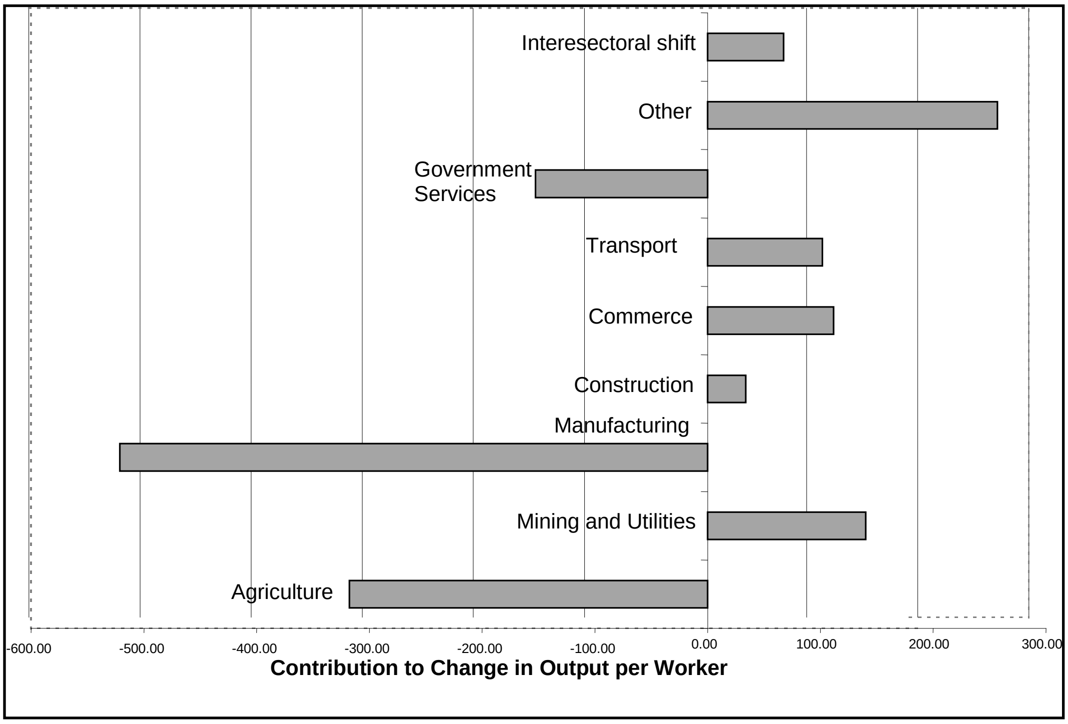
The decomposition of growth can easily be extended to multiple sectors so as to detect any variance in the employment and/or productivity intensity of growth by sector. Figures 6 and 7 show the results of a decomposition of the employment and productivity growth rates by sector in Nicaragua. The employment rate grew by 2.19% total, with increases in manufacturing and agricultural employment contributing most to this trend (Figure 6). But agriculture, manufacturing and government services all saw decreases in output per worker and, given their large share in total employment, this had important negative effects on aggregate output per worker (Figure 7).

Figure 6: Contribution of each sector to changes in the employment rate (Nicaragua 2001-2005)



Source: Calculations based on data from BCN and EMNV.

Figure 7: Composition of each sector to change in output (Nicaragua 2001-2005)



Source: Calculations based on data from BCN and EMNV.

In sum, in contrast to traditional measures of the employment elasticity of growth, this first step of the framework enables analysts to discover whether growth is most readily associated with increased employment-intensity (changes in the quantity of jobs) or increased productivity-intensity (changes in the quality of jobs), while accounting for the impact of demographic change. The easy application of this methodology to individual sectors of the economy makes it particularly valuable for understanding the relationship between growth and employment in segmented labour markets.

Step 2: Linking the growth profile to changes in poverty

The second step is to identify links between the growth profile and poverty reduction, both across the economy and by sector. This can be done by regressing each of the components of the growth profile identified in step 1 above (productivity changes, employment changes, demographic change) against percentage changes in poverty.

If employment-intensive growth reduces poverty, then changes in the employment rate could be expected to be significantly and negatively correlated with changes in the poverty headcount. If, on the other hand, the income of the poor rises due to increased productivity then, changing productivity will be negatively correlated with changes in the poverty headcount.

As in the first stage of analysis, step 2 can also be broken down by sector (See Annex 1, which also describes an alternative way for analyzing the relationship between the growth profile and poverty reduction in cases in which there are insufficient observations on headcount poverty over the requisite time period). Rather than applying *a priori* assumptions regarding which sector provides a repository of "good" or "bad" jobs, step 2 enables the analyst to identify "more productive" and "less productive" sectors, based on the observed relationship between the growth profile and poverty reduction (Table 4).

Table 4. The relationship between employment-intensive and productivity-intensive growth and poverty reduction

	employment-intensive growth	**output-intensive growth**
"more productive" jobs sector	**+ve** correlation with poverty reduction	**+ve** correlation with poverty reduction
"less productive" jobs sectors	**neutral/ -ve** correlation with poverty reduction	**+ve** correlation with poverty reduction

Applying this methodology to a sample of countries, Gutierrez *et al*. (2007) find strong evidence that the sectoral pattern of growth and its employment and productivity-intensities matter for poverty reduction. While employment-intensive growth in the secondary sector (manufacturing, construction, mining and utilities) is correlated with poverty reduction, employment-intensive growth in agriculture is correlated with increases in the poverty headcount. On the other hand, productivity-intensive growth in agriculture is significantly correlated with poverty reduction, whether through increases in sectoral productivity or through the movement of workers into other sectors. In other words, across the countries studied, the secondary sector seems to represent a repository of "more productive" jobs while agriculture is associated with lower productivity on average.

Within these broad findings, Gutierrez *et al*. (2007) discover a high level of heterogeneity. While manufacturing and agriculture represent, respectively, "high productivity" and "low productivity" sectors across the sample as a whole, this pattern holds less true in certain regions. For instance, in Latin America employment-intensive growth in the secondary sector is not robustly correlated with poverty reduction, indicating the likelihood of internal segmentation between "more" and "less productive" manufacturing jobs, and upper-middle income countries are found to have a different set of relationships between sectoral patterns of growth and poverty reduction than lower-income countries.

In sum, the second step of this three-step framework enables analysts to identify whether employment-intensive growth or productivity-intensive growth is more correlated with poverty reduction, and whether these relationships vary by sector. Analysis to date indicates a high level of heterogeneity across regions and levels of development, demonstrating scope for much deeper research.

Step 3: Identifying the underlying conditions which matter for poverty reduction

If step 2 reveals that certain sectoral patterns of growth (such as increased employment-intensity in the services sector or greater productivity-intensity in agriculture) are correlated with poverty-reduction, the policy relevance of this observation will hinge in part on identifying the broader variables associated with this pattern of growth. Step 3 enables analysts to identify whether certain policies or institutional conditions are correlated with particular growth patterns.

This can be done by regressing the measure of the sectoral pattern of growth against a vector of possible explanatory variables, such as education, labour market regulations, the investment climate, and trade. Explanatory variables should be taken from the beginning rather than the end of the spell since this may make it easier to detect a line of causality running from these variables to poverty reducing patterns of growth. Annex 1 provides equations to enable analysis of these relationships.

Cross-country analysis confirms that the broader policy and institutional environment will affect the extent to which growth reduces poverty (Gutierrez *et al.*, 2007). For example, across a sample of countries, minimum wage legislation appears to significantly reduce employment-intensive growth in the secondary sector, while openness to trade appears to boost it. Education is robustly and positively associated with productivity-intensive growth in agriculture. These tentative findings demonstrate the scope for future research, since significant heterogeneity in the relationship between the broader institutional and regulatory environment and the sectoral pattern of growth could be expected between regions and countries.

A note on data

Application of the three stages of this framework of course requires data on total and sectoral GDP, poverty, population and employment, as well as policy and institutional variables. Possible sources for this data are summarized in Table 5 below. Particularly when it comes to determining institutional and policy variables, the suggestions offered in Table 5 are by no means the sole sources of data. Some notes of caution regarding use of this data and advice on overcoming its shortcomings are also offered in Box 3 below.

Table 5. Possible sources of data

Data	Source	Notes on Coverage
Aggregate GDP	World Development Indicators (World Bank)	Annual, since 1960
Sectoral GDP	U.N. National Accounts Data	Value added disaggregated into 7 sectors, since 1970
Population	U.N. Population Division	Annual, since 1950
Employment and labour force	ILO-KILM Database	Up to 20 labour indicators, since 1980
Poverty	PovCalNet (World Bank)	Based on household surveys, either income or consumption poverty, since early 1980s
Labour regulations	Rama and Artecona (2002); Sulla, *et al*. (Forthcoming).	Includes minimum wage, severance pay, union membership, strikes, since late 1940s
Investment climate	International Country Risk Guide	Includes investment profile, since 1984
Trade	Sinnot and Lopez (2003)	Measures openness to trade, 1960s onwards

Box 3. Understanding and overcoming data limitations

To perform all three stages of the framework described above, data on GDP, population, employment, labour force, and poverty must be available for the same two consecutive points in time, while data on broader policy and institutional variables should be available for the first time period.

Unfortunately, these demands are in some cases too high: low income countries, and particularly those in sub-Saharan Africa, often suffer from missing or inconsistent data, especially on headcount poverty and labour market outcomes. The most comprehensive data on poverty, derived from household surveys, is available from the World Bank.* But many countries have an inadequate number of surveys, while changing sample sizes and definitions pose problems for comparability. The ILO's KILM database is the most comprehensive source of information on labour force and employment rates. But it poses some problems for comparisons across countries or within countries across time. The main difficulty for cross-country comparisons is that definitions and coverage vary. In particular, some countries report values for formal employment only and other leave out sectors such as agriculture. Changes in sample and survey design pose problems for within country comparison. In addition, key observations for many sub-Saharan African countries are lacking entirely.

…/…

Box 3. Understanding and overcoming data limitations *(continued)*

There are nonetheless a number of pragmatic steps which analysts can take when some of this data is inconsistent or lacking. As mentioned above, Annex 1 describes an alternative way for analyzing the relationship between the growth profile and poverty reduction in cases in which there are insufficient observations on headcount poverty over the requisite time period. As for the shortcomings in employment and labour force data, the KILM database alerts users to variations between survey design, changes in samples, and breaks in series, making it possible to control for differences in measurement and coverage. And studies for some sub-Saharan Africa countries, based on household surveys, can provide supplementary data where ILO data is inadequate.[**]

Gutierrez *et al.* (2007) demonstrate that analysis of the relationship between growth, employment and poverty reduction is viable in a range of developing countries, in spite of serious shortcomings in the data. The team was able to gather relevant data and perform analysis for a total of 106 growth spells in 39 developing countries, although only one-fifth of these were low income (as opposed to middle income) countries, and only 4 were in sub-Saharan Africa.

[*] *http://go.worldbank.org/5IJ993CJ40*

[**] See, for instance: World Bank (2007a) for Senegal; World Bank (2007b) for Ghana; and World Bank (2007c) for Madagascar.

Policy implications for promoting poverty reducing economic growth

The three step framework described above can help to inform policy by demonstrating whether certain sectoral patterns of growth or particular policy and institutional contexts are correlated with poverty reduction. This section considers four sets of policy implications which might be generated by application of the framework, drawing widely from existing country-based analysis (Hull, 2006).[1] Finally, it alerts development practitioners to the political economy of labour market reforms.

Promoting employment-intensive growth in "more productive" sectors

As shown in Gutierrez *et al.* (2007), the sectors of the economy which constitute repositories of "more productive" jobs will vary by region and country. Steps one and two of the three step framework enables analysts to shed the assumption that a particular sector (for example, manufacturing) must automatically be equated with "good" jobs. Instead, "more productive" jobs are any jobs in which employment intensive growth is correlated with poverty reduction, whether in services, manufacturing, agriculture or even certain segments of the informal economy.

Once a link between poverty reduction and employment-intensive growth has been established for a particular sector, an obvious question becomes: are there any feasible policies to expand employment in this sector? For instance, country-based analysis for Argentina, Burkina Faso, Chile, Tunisia, and Ukraine, among others, has pinpointed the growth of small and medium enterprises (SMEs) as a potential source of poverty reduction.[2] Among the policies to expand the employment base in this sector, Burkina Faso has strengthened development and support services for SMEs. A study for Mexico recommends a strategy for targeting interventions to improve factor productivity growth in small enterprises.[3] Analysis for Turkey recommends policies to strengthen the links between SMEs and larger firms, so that the former benefit from economies of scale in the latter.[4]

By way of further example, the rural non-farm sector is also identified in a number of country studies as a source of potentially dynamic poverty-reducing employment in a number of countries, including Pakistan and India.[5] Policies to boost employment in this sector include investments in infrastructure to strengthen linkages between agriculture, off-farm opportunities, and urban markets. Analysis for Ukraine suggests policies to incentivize farms to make use of local input supply services, and analysis for Sierra Leone points to support for dynamic agro-business, agro-processing and fisheries sectors as a means of strengthening non-farm employment opportunities.[6]

In sum, wherever "more productive" jobs sectors are located, policies should direct support to potentially dynamic areas, while promoting linkage through supply chain integration, in order to strengthen demand for workers.

Boosting productivity-intensive growth in "less productive" sectors

While policies to expand job opportunities in "more productive" sectors are essential for poverty reduction, the majority of the working poor will remain employed in "less productive" jobs, at least in the short term. Again, since the sector in which these jobs are concentrated cannot be determined *a priori*; the first two steps of the three step framework can be helpful in identifying those sectors where an expansion of employment opportunities alone is not associated with reduction in the poverty headcount. In such sectors, policymakers must search for possibilities to boost productivity-intensive growth.

Agriculture is often, but not always, identified as a "less productive" sector. While it remains Cambodia's most important employer in numerical terms, *per capita* value-added in agriculture has grown less than in other sectors, contributing to a widening urban-rural divide.[7] As in Kyrgyz Republic, flagging levels of productivity in rural areas is often ascribed to a failure to diversify into more profitable products and agro-processing.[8] Strategies to boost productivity in agriculture often consist of increasing public investments in roads, irrigation, the intensification of farming methods and diversification into higher yield crops. They also look to encouraging those crops which are likely to generate commercial processing and export demand. (See for instance analysis for Bangladesh, Pakistan, Punjab, and Lesotho)[9]. Radwan (1995) notes that for growing productivity to impact the poor, efforts should be made to ensure that the absorption of innovative technology is not institutionally biased towards large producers, by ensuring that small-scale farmers have access to credit and extension.

The informal sector represents another segment which is often, although by no means always, associated with "less productive" jobs. As in Bolivia, jobs in this sector can become trapped in a bad equilibrium: while low productivity and hence low earnings means employers cannot afford to comply with regulations which are prerequisites for entering the formal sector, informality limits the potential for productivity growth.[10] Analysis for countries as diverse as Bosnia and Bolivia identifies the following constraints to productivity: weak access to credit; inability to tap export markets; difficulty in accessing international production chains; and the absence of economies of scale in which productivity is higher and regulatory burdens become more manageable.[11]

Recommended policies concentrate on drawing the informal sector along a continuum toward formality, by easing access to credit, enhancing the quality and organization of informal production, and facilitating relationships with formal firms. In Kenya, a Small and Medium Enterprise Development Project has helped to strengthen linkages to financial services providers and markets, enabling informal enterprises to grow and to graduate from informal to formal status.[12] Developing linkages with the formal sector through sub-contracting is common in the garment industry in South Asia and may be a way of ensuring that the informal sector has access to markets, raw materials and technology. Steps must be taken, however, to ensure that these arrangements are not employed as a means of circumventing core labour standards.[13]

To sum up, policies to improve the quality of "less productive" jobs must focus on enhancing incentives for diversification into more commercially viable sub-sectors (such as export-oriented agriculture or garment production), helping enterprises to escape from low productivity traps. Access to credit, technology, and infrastructure will play important roles in strengthening linkages with "more productive" sectors.

Ensuring access to more and better jobs

As stated in Box 2, barriers to mobility can stem from geography, infrastructure, and legal and cultural norms, as well as the rationing of "more productive" jobs. If such barriers exist, the expansion of "more productive" jobs alone will not be enough to ensure poverty reduction: policies will be required to enable the poor to move more freely from "less productive" to "more productive" sectors.

The first step to removing barriers to mobility is to identify them. For this purpose, the three step framework must be backed up with additional quantitative and qualitative research. Depending on country context, research could address the following questions:

- Do insecure property rights, or other institutional weaknesses, dissuade people from moving or seeking more productive employment?
- Do workers lack sufficient skills or qualification to transition into higher earning opportunities?
- Do the poor suffer from a deficit of information about job openings?
- Do significant infrastructure problems prevent easy movement?
- Are legal and/or informal norms skewed against women, youth and/or ethnic minorities in the workplace?
- Do particular groups suffer from work-related exploitation or violence?

Box 4 (over) highlights just some of the barriers to labour market mobility that have been identified in country-level research.

Box 4. Barriers to Mobility **

Institutional. In Pakistan, weak property rights are shown to limit the extent to which farmers are willing or able to diversify out of farming by selling or leasing their land. In Poland, housing market rigidities are identified as a significant barrier to labour market mobility.[2] In China, the household registration system traps temporary migrants in "less productive" sectors of the urban economy.

Educational. In Lesotho, education and technical training have a strong influence on workers' chances of wage employment and the level of earning. In Honduras, a male urban worker with a post-secondary degree earns approximately 100% more than a male urban worker with high school education and 170% more than a male urban worker with primary school education. In Pakistan, education is an important determinant of mobility, through its effects on female labour force participation, rural-urban migration and participation in the rural non-farm sector.

Informational. While all countries suffer from imperfect information between "buyers" and "sellers" of employment, the problem tends to be greatest in developing countries due to the weakness of formal channels for the exchange of labour market information (such as vacancy advertising or employment offices) and the prevalence of rural and informal sectors. Barriers to information flows between potential employers and employees are found to be highest in the informal sector, in rural areas, and among women in Trinidad and Tobago (Murphy and Strobl, 2008).

Infrastructural. Poor transport is identified as a major constraint on the urban poor's ability to get a job in Latin America. In Honduras and Madagascar, off-farm employment has been limited by a lack of good transportation and roads to bridge the physical distance between rural areas and urban centers. As well as directly limiting access to good jobs, living "off-road" can have indirect impacts on work-force participation through its effects on access to education, health and credit (Sender *et al*., 2005).

Informal. Racial discrimination, gender discrimination and discrimination related to the stigma of coming from certain neighborhoods is found to account for the prevalence of the poor in "less productive" sectors and their inability to move to "more productive" jobs in Latin America. In India, members of Scheduled Castes and Tribes are more likely to be trapped in casual labour jobs and have lower access to "more productive" off-farm employment

Violence and exploitation. Bonded labour, under which the worker is tied to an employer and required to work for very low or zero wages, is determined partly by religion, ethnicity and caste in Pakistan. The use of in-kind wages and wage arrears in Russia forces workers to remain attached to "less productive" jobs by hampering their ability to move (Friebel and Guriev, 2000). In sub-Saharan Africa, informal sector and casual workers tend to have low organizational and bargaining capacity, making them unable to defend their interests against unscrupulous employers (Sender *et al*., 2005). One study finds that women in Mozambique who sought wage employment against the wishes of their husbands were often severely beaten (Sender *et al*., 2004).

** Drawn from: Pakistan, *idem*; 2004. "Poland – Growth, employment and living standards in pre-accession Poland"; 2005. "China – Integration of National Product and Factor Markets - Economic Benefits and Policy Recommendations"; 2004. "The urban poor in Latin America"; 2006. Lesotho, idem; 2006 "Honduras – Poverty assessment: attaining poverty reduction"; 2004. "Drivers of sustainable rural growth and poverty reduction in Central America, Honduras case study"; 2005. "Madagascar – Development policy review: sustaining growth for enhanced poverty reduction"; 2006. "India – Inclusive growth and service delivery: building on India's success"

Analysis to date suggests a range of policy interventions to help dismantle such obstacles to mobility:

- **Institutional**. In a number of cases, enhanced mobility rests on the reform of institutions associated with restricted movement of the workforce. Policy recommendations for Pakistan suggest increasing the security of property rights as a means of encouraging movement out of agriculture – enabling farmers who want to diversify into potentially more productive off-farm employment to sell or lease their land.[14] Research for China suggests that remnants of the household registration system be phased out and highlights the necessity of reforms of urban social policies that currently limit rural migrants' access to benefits.[15] Analysis for Poland underscores the importance of policies to reduce rigidities in the housing market, alongside the provision of targeted mobility grants to enable individuals to overcome financial constraints on their mobility.[16]

- **Educational**. Education, in its various guises, is often a crucial precondition for labour market adjustment to more profitable economic activities. In Ecuador, the creation of a considerable mass of secondary educated workers is deemed necessary for enabling participation in more technologically advance sectors.[17] Country-based analysis for Egypt and Kenya has called for stronger links between training institutes and private sector sources of demand, as a means of increasing market relevance of the labour force.[18] The historical case of Ireland demonstrates how a small economy, with a history of chronic labour migration, can develop into a prosperous niche by shifting its comparative advantage towards products and services based on skilled labour. The Irish example has been used as a reference point for other countries, such as Moldova.[19] In rural economies, educational improvements have been shown to increase returns to small-scale farmers because educated farmers are readier to absorb new production techniques and innovate (Radwan). Education levels are also positively associated with ability to adapt agricultural activities effectively to climate change-induced risks in sub-Saharan Africa (Maddison, 2007).

- **Informational**. The experience of East Asian countries demonstrates the potential role played by the expansion of employment services and search assistance, and in particular E-systems, in overcoming informational barriers in the labour market. For instance, in Malaysia employment offices in different areas are able to share information about job seekers and vacancies via networks and the internet (Betcherman *et al.,* 1999). Organizations in the informal economy, such as the Self-Employed Women's Association (SEWA) in India, can also provide potentially isolated workers with access to information about employment opportunities and markets (World Bank 2006).

- **Infrastructural**. The provision of reliable and affordable transport is identified as key to enabling the urban poor to reach the best opportunities in Latin America, while good rural roads and reliable electricity and water supplies are essential for accessing off-farm employment in rural areas, according to a country study for Ukraine.[20] In Nepal, improved transportation and communication has facilitated the convergence of agricultural and nonagricultural wages across regions in recent decades.[21] Infrastructure reforms can even be addressed to enhance labour market participation of specific groups. As noted in a Gender Assessment for Pakistan, investment in timesaving infrastructure is critical to encouraging women's participation in work activities.[22]

- **Overcoming discrimination, violence and exploitation**. Responding to employment differentials across age and gender lines, research often recommends vocational training and apprenticeship programmes specifically targeted to young people (Kenya) and women (Poland).[23] However, due to experiences in the MENA region where, despite generally high levels of education, women's labour force participation remains low, analysis also suggests that the increased availability of educated women alone will not improve employment prospects in certain social and cultural environments.[24] Investments in education and training should be accompanied by other interventions to break a web of socio-cultural practices which prevent full-capacity participation in the labour market. Trade Unions, which in some countries have made efforts to mobilize members outside their traditional constituencies, can play an important role in strengthening the voice of marginalized groups (Sender *et al.,* 2005, World Bank 2006), while donors can provide capacity-building programmes to strengthen organizations that provide workplace empowerment for discriminated groups. Governments may also need to revisit laws and affirmative action policies regarding the fundamental rights and educational and labour market opportunities of minorities.

Institutional and policy reforms

The third step of the three step framework enables analysts to ascertain whether particular policies and institutions are positively or negatively associated with poverty-reducing patterns of growth. The results generated by this step can help to inform discussions with policymakers about the appropriate reforms to promote a broader environment conducive to growth in both the quantity and quality of jobs.

Country-level studies have helped to identify a host of policies and institutions which act as constraints to job creation and productivity. These include the legal and regulatory hurdles to business entry, operation and exit, and poorly designed labour market regulations. For instance, inflexible or costly hiring and firing regulations are identified as an obstacle to employment growth in Chile, India (World Bank 2005), Mexico and Zambia, among others.[25] Wage rigidity – indicated by the absence of a statistical relationship between employment and the real wage – can also hamper job creation. In many developing countries it has been related to the inflexibility of public sector wages (see, for instance, analysis for Uruguay, the Caribbean, and Tunisia), while binding minimum wages are also thought to increase the reservation wage.[26]

Investment Climate Assessments (ICAs) demonstrate that corruption can pose a major barrier to employment creation and firm productivity. Studies for Afghanistan and Ukraine note that intricate regulatory regimes tend not be perceived as a major barrier by firms because they are loosely enforced. However the non-enforcement of regulations presents a problem in itself – the opportunity for arbitrary application of rules and corruption.[27] In Lao, "tall poppy syndrome" (by which larger or more successful firms are subject to higher levels of regulation and face a greater number of business inspections), incentivizes firms to produce at suboptimal levels, hampering productivity and labour demand.[28]

A number of country-level studies corroborate Gutierrez *et al*. (2007) cross-country finding that openness to trade is associated with a poverty reducing pattern of job creation. Anti-export biases of trade regimes are identified as hampering the productivity of jobs in Morocco and Bangladesh.[29] Non-tariff barriers to trade – including poor storage facilities and port infrastructure, and delays at customs – are also identified in

Afghanistan, Kenya, Kyrgyz Republic and Peru.[30] Indeed, though a number of country studies identify tariffs as problematic, most recognize that inefficiencies in customs, complex standards regimes, and transit problems can act as greater barriers to trade (and hence the creation of "more productive" jobs) than tariffs themselves.

In response to the policy and institutional barriers to job creation, country-level policy advice often recommends measures to lower the costs of doing business and introduce more flexible labour market regulations. For instance, a study for Tunisia recommends lowering minimum capital requirements for starting a business, while one for the state of Orissa in India looks to simplifying the procedures for firm entry and exit.[31] Recent reforms in Colombia brought down the costs of firing workers as a means of encouraging employers to recruit more workers during boom periods, while in the Slovak Republic a new Labour Code introduced the option of non-standard contracts (World Bank, 2006). Strategies to alleviate wage rigidity often suggest reforming public sector compensation policies or the introduction of sub-minimums to encourage the employment of often excluded groups, such as young people.[32]

In order to ensure job security with minimal distortions in the labour market, social protection measures should be de-linked from specific jobs, where possible. As noted in the 2006 World Development Report, the "design of the optimal solution" will depend on the "institutional and administrative capacity of government and on the structural characteristics of the labour market" (World Bank 2006). In low income countries, public works programmes may be the most feasible policy response. These programmes are self-targeting (avoiding high demands on administrative capacity) and can be implemented even if levels of informality are high. If well-designed, labour-intensive public works programmes for infrastructure can also have a lasting impact on the quantity and quality of jobs by releasing binding constraints to growth (Radwan, 1995).

ICAs often advise measures to reduce corruption, so as to create a more predictable business environment which will be more attractive to investors, and hence a source of job-creating growth. In Zambia, a proposed anti-corruption strategies consists of action to raise the likelihood of getting caught and punished for corrupt behaviour by improving transparency and accountability mechanisms and strengthening the judiciary.[33] In Columbia and Cambodia, measures to reduce the opportunities for corruption consist of reducing red tape and unnecessary administrative procedures[34]

To boost employment creation following trade liberalization, country advice recommends a complementary agenda, including improvements to customs, ports and other critical infrastructure, regulatory reforms, innovation and education.[35] The adoption of international product standards, including sanitary and phytosanitary measures, are also identified as prerequisites for realizing the job-creating potential of tariff reductions.[36]

Understanding the political economy of reform

Reforms to policies and institutions to improve the quality and quantity of jobs can be highly sensitive from a political economy standpoint, even if they make sense from efficiency or equity perspectives. Labour market "insiders" – sometimes represented by powerful labour unions – often lobby to maintain regulations that operate in their favour, while "outsiders" – concentrated in less productive sectors – will suffer from ongoing vulnerability to the vagaries of the labour market. For policymakers, the challenges rest in finding the correct balance between job creation and job protection and forging a viable reform path. Box 5 contains some key insights into the political economy of highly sensitive reforms garnered from recent experiences in Chile, Colombia, Croatia, Poland and Slovakia, among other countries.

Box 5. Political economy insights on successful labour market reforms **

An "agent of change" (whether a government unit, an employer organization or a progressive trade union) is often crucial to champion controversial labour market reform.

Measures to increase voice and accountability of the poor may be essential to ensure that the government's labour policy agenda is not entirely dominated by politically powerful labour market "insiders." Democratic local governments and strong autonomous associations, such as informal sector unions, will play an important role in strengthening outsiders'" positions.

Public information campaigns can help to build societal consensus for reform by documenting the high costs of bad labour market policies and demonstrating the benefits of reform.

Policymakers should identify "unlikely" coalitions of support for reform. For instance labour market "outsiders" (such as informal sector workers) and employers in the independent private sector may have shared interests in supporting welfare and efficiency enhancing reforms.

Comprehensive reforms have a higher likelihood of success than piecemeal reforms. Reforms should cover a range of labour market policies and be linked with reforms to social production systems. Efficient product markets will help to ensure that labour market "insiders" cannot capture wages at the expense of "outsiders".

At the same time, due attention should be paid to the sequencing of reforms. For instance, a recent Country Economic Memorandum for Morocco notes that there is limited potential to reduce minimum wages or alter the exchange rate regime in the short term, even though these strategies are considered optimal from the perspective of reducing labour rigidities and stimulating export-led growth. Instead, it suggests pursuing two less controversial reforms - trade liberalization and tax modernization – first.

Losers may require compensation. The most effective forms of compensation will simultaneously address obstacles to reentering the labour market (for instance through support for education and training or transport vouchers).

**For further information see World Bank (2006); 2005. Ukraine, *idem*; 2006. Morocco, *idem*.

Conclusion

The objective of this paper has been to contribute to the understanding of the relationship between employment and poverty reduction. Its goals have been to provide tools to assess the impact of employment-intensive and productivity-intensive growth under segmented labour market conditions, and to enable a transition from research to policy outcomes. Specifically, it has sought to help analysts and policy-makers address three questions.

First, how does the sectoral pattern of growth affect its poverty impact? This question is of particular relevance under the segmented labour market conditions commonly found in developing countries. Growth in one sector of the economy will not automatically translate into benefits for the poor: much will depend on the profile of growth (its employment- or productivity-intensity), the sectoral location of the poor, and the extent of mobility across sectors.

Second, is employment-intensive or productivity-intensive growth more important for poverty reduction? This will depend on the quality (or productivity) of jobs in the sector in which growth occurs. Put simply, for employment-intensive growth to translate into poverty reduction it must occur in a "more productive" sector, while "less productive" sectors may require productivity-intensive growth to ensure a decline in headcount poverty. The first two steps of the framework in Part III provide tools for profiling growth (according to its employment- and productivity-intensity) and assessing its impact on poverty.

Finally, what policies will facilitate the poor's participation in growth? Step three of the framework suggests that a range of policies – pertaining to both the labour market directly and the policy and institutional environment more broadly – can promote a poverty-reducing sectoral pattern of growth. Country-specific quantitative and qualitative analysis is required to identify constraints to job creation, productivity and mobility. Depending on the sector in question, policymakers may wish to boost employment and/or productivity, while ensuring that the poor are able to participate in more and better job opportunities. Part IV draws on existing research to highlight policies pertaining to infrastructure, education, trade, the investment climate and human rights, among other key concerns.

Notes

1 Hull (2006) reviews World Bank Analytical and Advisory Activities (AAA) from 2004 until August 2006, identifying more than 100 pieces of AAA with a substantial focus on the topic of employment generation. This paper draws on some of the most pertinent findings of the review. Individual studies are referenced below in footnote form. All are World Bank publications unless otherwise stated.

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Informality and Informal Employment*

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- Strengthen the knowledge base on the diverse nature of informal employment, including its links with the formal labour market, and the costs and benefits of, as well as the barriers to formalisation.
- Focus more attention on workers in informal employment to increase their productivity and earnings, and reduce the risks they face, with the aim of creating more decent jobs.
- Acknowledge the diversity of occupations and job types in informal employment and develop policy packages for the different categories of workers.

Introduction

Informal employment in its diverse forms is gaining increasing attention within global and national development agendas. The incidence and persistence, and the causes and consequences of informal employment are increasingly being discussed and debated. In this hot topic paper, we take stock of this ongoing discussion with the aim of raising awareness among the policy community that addressing the constraints, opportunities and incentives of informal workers and enterprises is essential for achieving pro-poor growth in both middle-income and low-income developing countries.

Why should we care about informality or informal employment? Firstly, all over the world, the share of informal employment, that is jobs performed outside the formal structures that govern taxes, workplace regulations and social protection schemes, is very high, and increasing. On average, over half of all jobs in non-agricultural sectors in developing and emerging economies can be considered informal. Informal employment is also pervasive in a number of OECD countries, covering well over a quarter of workers outside of agriculture. In some regions, including sub-Saharan Africa and South Asia, this rate is as high as 80% and, for a few countries, even higher.

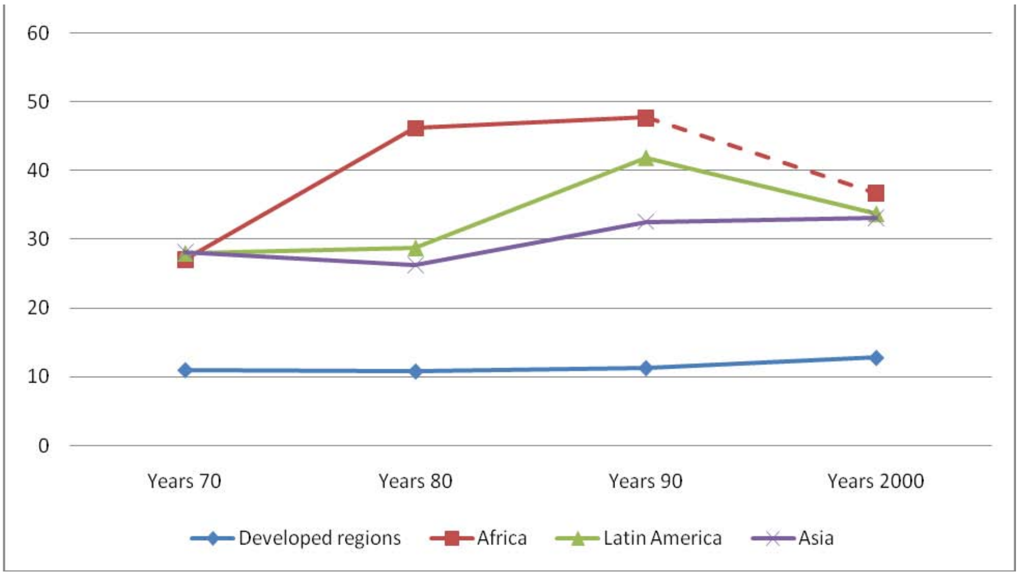
If informal employment in agriculture is included, the share of informal employment in total employment is even higher: as high as 90% in many countries in South Asia and sub-Saharan Africa (Chen *et al.*, 2005). Recent international consensus emphasises the role of productive employment and decent work for all to achieve sustainable growth and poverty reduction[1]. A poverty reduction strategy that acknowledges the role of decent

* 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.

work for all will then naturally need to focus on informal employment. The informal economy contains considerable unfilled potential to generate growth and reduce poverty.

Secondly, informal employment is not withering away. Non-agricultural self-employment – a proxy for informal employment – has been increasing continuously in absolute and relative terms since the 1970s and across the four decades (Figure 8). It represented 22.5% of total non-agricultural employment in the 1970s, 26.8% in the 1980s, and 31.3% in the 1990s, and it is expected to be at the same levels for the 2000s, when the data for Western and Middle Africa becomes available.

Figure 8: Share (%) of self-employed in non-agricultural employment



Source : OECD 2009a

Thirdly, the reasons for informality vary considerably among countries, occupational categories and types of enterprise within a country. For most, informal employment is the only available option and functions as a last resort for people excluded from the formal labour market. A strong link exists between informality and poverty; most of the working poor in the world work informally, either in self-employment or as wage earners. Many of these people lack basic social protection and are locked in low productivity activities, with scant opportunities for economic mobility.

However, being informally employed does not automatically mean being poor, of low productivity and excluded from services and social security. In many parts of the world, the informal economy also includes small-scale entrepreneurs who are not poor and have a large capacity for innovation and a large potential to grow. In addition, as has been suggested by some recent authors, quite a few working people may actively choose informality to avoid paying taxes and complying with regulations, and also to opt out of social insurance schemes and other public services that they consider low quality (Perry *et al.*, 2007; Maloney, 2004; Jütting, Parlevliet and Xeniogiani, 2008). However, it is debated to what extent informal employment is a “real” choice and how important this cause of informality is in different country contexts (Tokman, 2008).

A new interest in informal employment and its relationship to pro-poor growth

The renewed interest in informal employment was reflected in and further promoted by the 2002 International Labour Conference Resolution and Conclusions on Decent Work and the Informal Economy[2]. The resolution includes conclusions related to the definition and diagnosis of the informal economy, the main characteristics and decent work deficits of informal workers and informal economic units, and a range of actions to address these decent work deficits and to facilitate integration into the mainstream economy.

The term "informal economy" was considered preferable to the traditional "informal sector"[3], because informal workers and economic activities do not belong to one sector of economic activity, but cut across many sectors. The informal economy refers to *"all economic activities that are, in law or practice, not covered or insufficiently covered by formal arrangements."* Informal employment is a broader concept that also includes employment of an informal nature in formal enterprises, as well as wage and self-employment in informal enterprises and households.

Two important factors have contributed to the questioning of the conventional wisdom that the informal economy has little growth potential and that it disappears with economic growth.

The persistence and increase of informal employment

In many regions informality is on the rise or at least persistent. Even in environments that have benefited from sustained growth, informal employment is often rising faster than formal employment. As an example, self-employment has risen as a share of total employment in India (Ghosh *et al.*, 2007) and nearly 50% of the urban workers in China have no formal contract and often work under precarious conditions. This calls into question the approach of focusing policy interventions on those who are in the formal economy. Instead, the main challenge is to increase the productivity and earnings and reduce the risks of those working informally, with the aim of creating more decent jobs and gradually formalising informal employment.

The diversity of informal employment

The mainstream economics perspective on informal employment is in the context of labour market segmentation where good formal jobs are scarce and workers outside the formal labour market are queuing for them while working involuntarily in low-productivity informal jobs. However, given the size and diversity of informal employment, we need to look in more detail at the dynamics and segmentation *within* informal employment.

Generally, informal employment can be classified according to major characteristics such as wage employment or self-employment, urban or rural employment, and in informal or formal enterprises. Some major regional differences can be noted among developing countries. Self-employment of various kinds is the dominant form of informal employment in sub-Saharan Africa, accounting for four-fifths of informal employment in Kenya, Ghana, Mali and Madagascar (Heintz and Valodia, 2008). In Latin America and South Asia, informal self-employment and informal wage employment each account for approximately half of the informal workforce. However, while in South Asia most informal wage employment is within informal enterprises, in Latin America almost half of the informal wage-employed work in formal establishments (Chen and Doane, 2008; Tokman, 2008).

A set of main employment categories of informal workers can be identified to take into account differences in employment relationships. These categories can provide the basis for development of appropriate broad policy interventions.

- Employer-owners of informal firms;
- Own-account workers;
- Informal employees (of formal and informal firms);
- Sub-contracted workers and wage workers for households (domestic workers);
- Wage workers with no fixed employer (casual day workers); and
- Unpaid contributing family members.

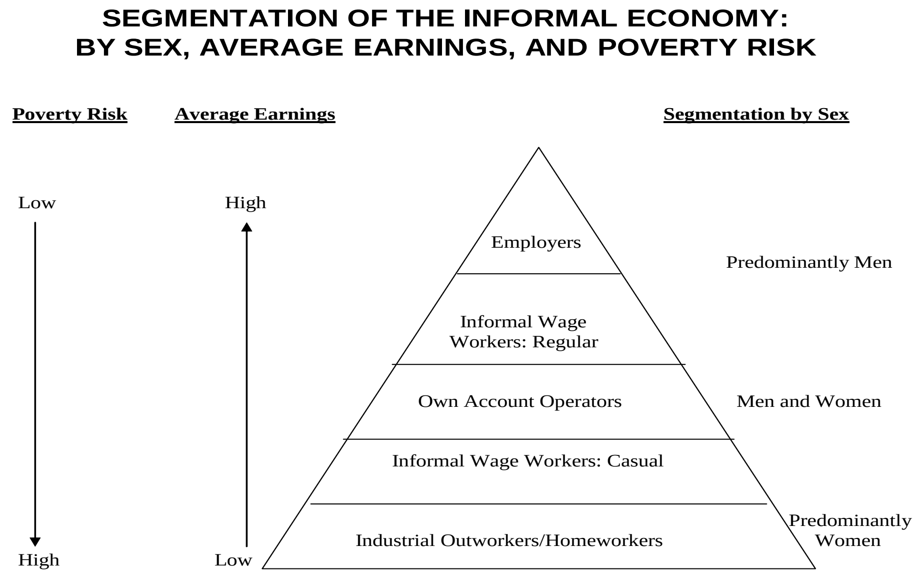
The main employment categories could be disaggregated further based on country-specific situations and the relevant importance of different occupational categories. For example, the Self-Employed Women's Association (SEWA), an organisation of self-employed women workers in India, divides its members into four major occupational categories: vendors and hawkers; home-based workers; labourers and service providers; and rural producers (Chen, 2006). Home-based workers and street vendors are two of the largest sub-groups of the informal workforce, with home-based workers perhaps the more numerous but street vendors the more visible. Taken together they represent an estimated 10-25% of the non-agricultural workforce in developing countries (ILO 2002).

Street trading in Africa

A regional review of informal street trading in Africa found that street trading accounts for a large share of new urban jobs in sub-Saharan Africa (Skinner, 2008). This growth is a result of a combination of factors, especially urbanisation, migration and economic development. The main concerns of street traders relate to the right to a place to work, and harassment by police, city officials, and retail traders. Other concerns relate to the strong position of wholesale traders and access to capital. Often traders have to borrow from the wholesale traders at very high interest rates. The strengthening of organisations of street traders and the participation of street traders in urban planning are central to addressing these concerns. Some best practices exist in policies to accommodate street traders. In Dar es Salaam, Tanzania, and Durban, South Africa, street traders have been issued licences to operate. Associations of street traders have established good relationships with city authorities and infrastructure for street traders has been established at central locations. However, many street traders are not members of any organisation.

The following pyramid depicts the segmentation within the informal economy by employment status and the relative earnings of different segments (Chen *et al.*, 2005, Figure 9). While micro-entrepreneurs who hire others, that is employers, can have a relatively good income, other groups such as home workers are much worse off. This figure also shows segmentation by sex. In general, men are more represented at the top of the pyramid (as micro-entrepreneurs/employers and informal employees), and women more as unpaid family workers and home workers. Categories of workers also differ significantly in terms of poverty risk, and irregularity and insecurity of work. The diverse and heterogeneous structure of informal employment calls for policy measures that are adapted to the specific situation of individual groups of employers and workers.

Figure 9: Segmentation of the Informal Economy: By Sex, Average Earnings, and Poverty Risk



Source: Chen *et al*, 2005

A labour market profile: Tailoring and stitching in Nepal

In Nepal, tailoring is carried out in local small informal shops, whereas stitching is often home based. These activities are done primarily for local clients and local markets, but are also often done for garment makers who subcontract work to local stitchers. Women dominate among garment workers, in particular among home-based workers.

Tailoring and stitching can be done either on a piece-rate basis or through self-employment; in fact, the two work methods may be combined if necessary, that is workers may have more than one employment status at a time. Piece-rate workers do not have a contract and are paid by the owner of the garment business; the self-employed may sell directly to customers or through middlemen. Earnings are low and vary substantially over different periods of the year (24-40% of average income in Nepal). In Nepal, as in other countries, home based work is paid at much lower rates than the same work done outside the home, for example in factory settings.

Tailoring and stitching are caste-based activities carried out largely by the Damai (Periyar), a community so marginalised that other caste groups are very reluctant to enter the sector of tailoring and stitching. Problems with middlemen and contractors are foremost, and delayed or incomplete payments are common. Garment workers report that they need more skills training, more work, and payments on time. They also mention the need for at least a minimum wage, and access to some kind of healthcare, particularly because eye problems, back pain and other health problems affect their ability to work.

Source: HomeNet South Asia and the Institute of Social Studies Trust, 2006

The drivers and determinants of informality and informal employment

There is an important debate in the literature about what has been driving the increase in the share of informal employment observed in developing countries in the last decades. It is important to understand the drivers of informality in order to be able to design proper policy responses. The literature suggests a set of alternative explanations.

Firstly, informality could to a large extent be seen as a result of the type of development that fails to generate sufficient good jobs for all. This has been accentuated by low capacity in the private and public sectors to accommodate rapid population and labour force growth and has been worsened by labour market discrimination and segregation between men and women, social groups and different occupations.

Secondly, an increase in subcontracting driven by globalisation and economic liberalisation has led to greater diversity in the forms of informal employment. This in turn has led to a greater heterogeneity among informal workers, and an increase in the number of those with higher skills and productive capacity.

Thirdly, formal regulations have mostly been designed for larger enterprises and are therefore often inadequate for the needs and conditions of the growing sector of micro-enterprises. Changes in labour regulations and/or in implementation of labour regulations may also have had an impact on the share of informality in the economy.

Fourthly, there has been informalisation by employers of once-formal jobs as a strategy to lower labour costs and deal with competition.

One important related issue in this debate is whether changes in informality can be attributed to changes in employment arrangements *within* sectors, or to shifts in employment *across* sectors in the economy. This second possibility is worth examining as some economic sectors are especially prone to informal employment relations as we have seen above. An increase of the relative share of such sectors in the economy thus would lead to an overall increase in informality.

However, evidence from Latin America suggests that a large part of the increase can be attributed to increases *within sectors*. For example, Bosch and Maloney (2006) find that 91% of the 4% increase in informality in Mexican labour markets from 1991-5, as well as 90% of the decline to its original level in 2001, can be attributed to changes within sectors. A similar picture arises for most other Latin American countries (Gasparini and Tornarolli, 2007). This evidence suggests that certain jobs that were previously formal have become informal over the last decade(s). Such a tendency also seems to be relevant in South Africa, where informal employment within formal enterprises is becoming an increasing source of precariousness (Altman, 2007; Skinner and Valodia, 2002). For South Asia, Chen and Doane (2008) note that the traditional, industrial and global modes of production that coexist today are each associated with high degrees of informal employment.

Good and bad practices in addressing informality and informal employment

Traditionally, measures related to informality in employment have been aimed at formalisation of informal activities. These have included measures to improve the overall business environment, to simplify business registration practices and to reduce red tape. However, often formalisation policies have had negative connotations and taken the form of stressing the illegality of informal activities and making it more difficult for informal economic actors to carry out their activities. This has included measures such as moving street vendors out from central locations, introduction of obligatory cash machines at market places, and stricter enforcement of laws and regulations. The results of these measures are questionable at best. Often, rather than reducing poverty they have contributed to increased poverty and vulnerability by pushing already vulnerable groups of people into even more difficult situations.

More rarely, governments have implemented measures targeted at strengthening the position, increasing the earnings and growth potential, and reducing the risks of informal workers and entrepreneurs. Supplementary to this, a large range of initiatives has been supported by international, non-governmental and private actors throughout the developing world. These include activities in many important but diverse fields such as microfinance, business development services, sub-sector development, vocational training and support to member-based organisations of informal workers. From these types of programmes, good practices can be identified that could be implemented within a more broad-based strategic framework.

SEWA (Self-Employed Women's Assocation)

The Self-Employed Women's Association (SEWA) is an organisation of poor self-employed women in India. These are women who earn a living through their own labour or small businesses. SEWA's main goal is to organise women workers in order to improve the work and living conditions of the women and their families. SEWA has a membership of over one million workers, all of whom are women in the informal economy from a range of different occupations and trades in both urban and rural areas. To help their members achieve their goals, SEWA engages in what it calls "Struggle and Development": that is, union-style collective bargaining and campaigns to raise awareness, air grievances, and demand change; and development interventions to promote alternative economic opportunities and build assets. The development interventions of SEWA include financial services (savings, loans, insurance), social services (health care, childcare, adult literacy), infrastructure (housing, sanitation, electricity, transportation), capacity building (technical skills, leadership), and enterprise development and marketing services.

Source: Bhatt, 2006; Chen, 2008

Waste recycling in Durban

The municipal government of Durban/eThekwini – in cooperation with organizations of informal sector workers – has established buy-back centres in the city to purchase recyclable materials such as cardboard from self-employed waste collectors. Prior to the establishment of the buy-back centres, waste-collectors often had to rely on intermediaries for market access, which reduced their terms of trade and the share of value-added they were able to realise. The establishment of such centres for marketing recyclables allowed the self-employed to sell their services more directly to the companies processing the materials collected. In this way, a targeted, municipal-level intervention was able to increase market access and to create a type of market exchange which was not prevalent before. The development of markets often provides economies of scale which reduce transactions costs. Operating individually, the informal self-employed cannot take advantage of these potential benefits. However, by consolidating the purchase and sale of recyclables by establishing marketing centres, self-employed individuals can improve access to markets, raise productivity, and improve their earnings. Cooperation between municipal government bodies and organizations of the informal self-employed was necessary to realise these collective benefits.

Source: Heintz and Valodia, 2008

Policy lessons and recommendations for donors

The UN Commission for Social Development adopted a resolution in February 2008 that "emphasizes that promoting decent work aims at the overall improvement of living and working conditions for all and encourages efforts, as appropriate to the country context to address the challenge to gradually formalize economic activities in the informal sector". In addition, a new target to the Millennium Development Goals stresses the role of productive employment and decent work for all in national and international development strategies. However, even if employment has received a more prominent role in the second generation of Poverty Reduction Strategy Papers (PRSPs), a strategic approach targeted at informal employment or decent work for all is still to a large extent lacking (ILO, 2007).

Formalisation is a multifaceted concept. Traditionally, formalisation has been seen as incorporating informal economic activities into the existing formal regulatory frameworks, primarily business registration and taxation. However, formalisation must be seen more broadly than this and should include access to the rights and benefits associated with formality. As a formalisation policy needs to identify and address the barriers to formalisation, it also needs to take into consideration the limits to formalisation. As a consequence, specific measures and services should be targeted directly at informal workers and informal entrepreneurs. Donors could play an important role in promoting a more balanced approach to formalisation.

The 2002 ILO Resolution states that "the promotion of decent work for all workers, women and men, irrespective of where they work, requires a broad strategy: realizing fundamental principles and rights at work, creating greater and better employment and income opportunities, extending social protection, and promoting social dialogue". A strategic agenda for formalisation would then need to include a holistic approach to reducing the decent work deficit of both formal and informal jobs. It is vital to better integrate the employment creation and the social protection agenda of informal workers into poverty reduction and development strategic processes. This would include better integrating broad employment objectives into macro policies (taxes, fiscal issues) and sector policies (such as labour, education/skills, infrastructure, social protection).

Towards a three-pronged strategy

Effectively addressing informality needs to start by understanding the costs and benefits for those employed within different segments of the informal economy. Where people have chosen to leave the formal sector, they need to be given incentives to rejoin it. Benefits should be linked to social contribution levels, while administrative procedures such as business and workers' registrations should be simplified. Apart from positive incentives, reducing informal employment also implies strengthening enforcement mechanisms. However, policies also need to adequately address those who have no choice but to work informally. Such people need a different approach from those who voluntarily opt out of the formal sector. Poverty-alleviation programmes can tide over people whose options for entering the labour market are limited. A better understanding of the complexity of informal employment and a more nuanced approach to addressing the specific needs of informal workers are urgently needed.

Informal employment comprises various phenomena that require distinct policy approaches. The recent OECD Development Centre publication "Informal Is Normal?"

therefore calls for a three-pronged strategy that should be adopted, depending on the specific situation in a country.

The following components can be identified:

- For the world's poor, working informally is often the only way to participate in the labour market. Policies should consequently try to unlock these people from their low-productivity activities, enable them to be more productive and provide them with economic opportunities on fair terms. Specific recommendations include active labour market policies, such as training and skill-development programmes, for those in informal jobs; and credit, business development services, improved technology, as well as market access and knowledge for those who operate informal enterprises.
- If informal employment is a deliberate choice to avoid taxes or administrative burdens, governments should aim to establish efficient formal structures designed to encourage people to (re-)join the formal market. Countries should aim to introduce formal structures that can offer the same (or higher) levels of the flexibility and efficiency that informal channels occasionally offer. In this way, informal entrepreneurs, who frequently have strong innovation and growth potential, can more effectively contribute to the overall competitiveness of a country. Targeting those who voluntarily opt out of the formal sector also involves establishing credible enforcement mechanisms. However, many of those who have informal jobs did not voluntarily opt out of formal jobs – rather their employers in both formal and informal enterprises chose to hire them under informal contracts. Policy interventions need therefore to be carefully designed to distinguish between aspects related to employers who hire informal workers and aspects related to the informal workers themselves.
- In many low-income countries, finally, informal employment is mainly a consequence of insufficient job creation in the formal economy. "Informal Is Normal?" thus also recognises the need for a general push for more employment opportunities within the formal sector. Governments should support small businesses to comply with formal requirements and encourage large companies to create formal employment opportunities.

A broad strategy and policy package for a gradual formalisation of informal activities would include policy measures within four major areas and may include sets of measures designed for country-specific situations and carefully adjusted for different categories of informal workers:

- Adapting regulations to the conditions and needs of informal entrepreneurs and workers, and providing incentives to facilitate registration and legal recognition.
- Empowering informal workers through promoting organizations of informal workers and representation of informal workers in policy-making and rule-setting bodies.
- Increasing the earnings and growth potential of informal workers, for example through vocational training.
- Reducing the risks of informal workers and broadening access to social protection.

A set of broad preliminary policy recommendations for donors could be outlined at this stage, in addition to promoting macro-economic policies that encourage labour-intensive growth and to support the implementation of the policy agenda outlined above.

- Strengthening the knowledge base on the diverse nature of the informal labour market, including the interaction with the formal labour market. Identification of binding constraints for formalisation.
- Supporting the inclusion of decent work for all into development and poverty reduction strategic processes.
- Mainstreaming employment issues for informal workers into programmes in private sector development, infrastructure, agriculture and other related fields.
- Supporting capacity-building for organisations of informal entrepreneurs and workers, and trade unions of informal workers. Strengthening the participation of these organisations in the strategic planning processes.

Notes

1 In 2007 the UN Secretary-General introduced a new target under Millennium Development Goal 1: to achieve full and productive employment and decent work for all, including women and young people.

2 Resolution and conclusions concerning decent work and the informal economy, adopted on 19 June 2002, International Labour Conference, 90th Session, Geneva, *www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25.pdf.*

3 The term "informal sector" was coined by a British anthropologist, Keith Hart, in his study of the economic activities of rural migrants to Accra, Ghana in the early 1970s and was popularised and promoted by the International Labour Organisation (ILO) World Employment Mission to Kenya in its 1973 report.

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Vocational Training and the Informal Economy*

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- Vocational training should respond to the needs of the informal economy and be inclusive, involving all relevant stakeholders.
- Employment concerns should lead to strengthened links between education and vocational training.
- Vocational training should be part of a strategy to put countries on the paths of sustainable development, adequate mechanisms need to be designed that are sustainable, tailored to each situation and ensure shared responsibility between stakeholders.

This paper reviews six aspects of vocational training, an important policy instrument for enhancing employment. These aspects were discussed in the POVNET task team on Employment and Labour Markets during 2007 and 2008.[1] Boxes give excerpts from case studies discussed. Recommendations for donors appear at the end of the paper.

Before reviewing the six aspects, it is worth recalling that vocational training is but one instrument for employment generation and, as such, should be kept in perspective. Whereas vocational training can develop appropriate skills and thereby improve labour supply and the “employability” of the work force, demand for labour depends on incentives for investment, including prices, the exchange rate and generally, the business climate in the country.

In Africa, macro-economic shocks have drastically undermined employment. The deflationary structural adjustments made before the 1994 devaluation of the CFA franc had severe effects on the wage sector, with today 95% of employment in Benin and 90% in Cameroon and Senegal in the informal economy. In 2008, the world financial and economic crisis is again a major threat for employment in developing countries as well as in the developed world.

The **first** and arguably the most important aspect points to the fact that vocational training should respond to the needs of the informal economy and be inclusive because in developing countries people work and trade predominantly in the informal economy. During the 1990s, informal work in the non-agricultural sector represented:

- 43% of employment in North Africa,
- 57% in Latin America,

* 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..

- 63% in Asia and
- 75% in sub-Saharan Africa.

Including traditional agriculture, the percentages were even higher. In sub-Saharan Africa, as already mentioned, percentages stood at 95% in Benin and 90% in Cameroon, Ethiopia and Senegal.

Two thirds of the people of sub-Saharan Africa, which total close to 800 million, are less than 25 years old, compared to 30% in Europe. Field studies show large youth cohorts entering the labour market. In South Africa, every year there are 826 000 school leavers and in Benin 200 000. In Morocco, just outside sub-Saharan Africa, the figure is 400 000. Whereas equivalent figures for annual labour demand are not readily available, the formal economy is clearly unable to provide employment in such massive quantities. Most school leavers, especially early school leavers, make a living in the informal economy. With little access to formal vocational training, the vast majority resorts to make-shift mechanisms in the informal economy (on-the-job training, self-training or traditional apprenticeships).

Many technical vocational education and training systems fail because they focus on the needs of the formal economy. Contrary to a common tendency distinguishing the "formal economy" from the "informal economy" and developing different approaches for each of these "sectors", an early concern of South Africa after the end of apartheid was to develop an inclusive approach to the labour market (Box 6).

Box 6. Approaches to the labour market in South Africa

In South Africa, an inclusive labour market system and a single regulatory framework incorporating the entire labour market with the extension of protective measures to all workers in both formal and informal employment were established in 1998 under the Skills Development Act. The Act institutes:

- the National Skills Authority (NSA), representing the public authorities and the social partners, and advising the Department of Labour,

- the skills development levy, which raises 1% of the total payroll,

- the Sector Education and Training Authorities (SETAs), made up of employers and employee representatives, and covering 23 sectors: finance, banking, textiles, chemicals, agriculture, etc.

SETAs receive 80% of the skills development levy and develop training in enterprises and programmes to improve critical skills for the labour market. With the remaining 20% of the levy, the National Skills Fund (NSF) serves the unemployed and people in the informal economy.

Gender considerations are part of the concern for inclusiveness (Box 7).

Box 7. Vocational training for women in the Indian sub-continent

In the slums of Delhi and Bangalore, the Decent Employment for Women (DEW) project, funded by the United States Department of Labour (USDOL) and executed by ILO, trained 4 500 women between 2001 and 2004, after carrying out a training needs assessment. The project helped women find employment and markets for their products. An impact study showed that trained women were satisfied by increased household income. Lessons learned include:

- the special attention, time and effort required to change attitudes of trainers from formal training institutions,
- the gradual impact on the social status of women resulting from increased skills.

The Community-based training project (CBT, 2003-2005) in Bangladesh (funded by UNDP, executed by ILO) is a similar project carried out in rural areas. By 2005, over 1 000 women had completed their training which included confidence-building, technical and business skills. The project comprised a careful assessment of economic and market opportunities as well as training needs.

In Mali, the effort to address the needs of the real economy has lead to support a "dual" training system (Box 8).

Box 8. Dual training aims at addressing real needs in Mali

Formally introduced in Mali in 1997, dual training (apprentissage alterné or dual) is a training system which combines work supervised by a trained artisan (80% of the training time) and formal courses in a training centre (20%). Evaluations confirm that the dual system improves skills significantly and contributes to social inclusion and to improved employment. The private sector is now routinely involved with the Ministry of Employment in the design of programmes and in the quantification of training needs for the dual system.

A similar system is being pursued in Benin (Box 9).

Box 9. Benin strives to make vocational training more relevant to the needs of the youth and of the informal economy

Benin recently reformed its vocational training policy to adjust technical and professional education (*enseignement technique et professionnel*, ETFP) to urban labour demand. The reform develops practical training in the form of dual apprenticeship *("apprentissage dual")*which alternates theoretical training with practical apprenticeship. A professional certificate of qualification (*certificat de qualification professionnelle*, CQP) is awarded after 600 hours of training in an education center, delivered every week for one day during a three year apprenticeship including five days of work per week in a business or artisanal workshop.

For the first time in 2006, 292 apprentices were awarded the CQP. In time, the reform will provide 3 000 CQPs per year. Nine options are or will be available : masonry, electricity, plumbing, surface preparation, cycle mechanics, carpentry, refrigeration & air conditioning, sowing & clothing and hair-dressing. The reform will also create a work qualification certificate (*Certificat de qualification de métier*, CQM) to recognize artisanal skills. The demand for this certificate is estimated at 15 000 candidates.

Second, employment concerns should lead to strengthened links between education and vocational training. While the Millennium Development Goals have focused the attention of international donors on education, links to vocational training need to be strengthened to provide youth with effective access to labour markets and include them in the productive economy with decent jobs.

West African countries such as Benin, Togo, Senegal and Mali are restructuring technical vocational education and training (TVET) systems to incorporate traditional apprenticeships, including certification mechanisms (Box 9), while South Africa and Ethiopia are opening their TVET systems to informal economy needs. Morocco is now explicitly addressing needs for the informal economy through its Ministry of Education (Box 10).

Box 10. Morocco: the Ministry of Education takes on informal education

The Moroccan Ministry of Education recently created a Department of Informal Education to address the needs of 2 to 3.5 million school drop-outs aged – to 15. Professional insertion initiatives deal with several dozen thousand young people. The new Department also sponsors adult literacy programmes, half the workers in the informal economy having never been to school.

In the case of agriculture, the link that needs attention is the one between farmers and agricultural research, rather than education. Whether or not traditional agriculture is considered an informal activity,[2] agriculture generally offers considerable scope for improving output and income through proper training of farmers. Where small scale enterprises prevail, as in traditional agriculture, the challenge is to increase productivity and reduce vulnerability, rather than to create employment.[3] Hence, vocational training in agriculture is mainly pursued through extension services, which need to be properly connected to research, market intelligence and professional organisations, and to provide for adequate training of trainers.

Third, vocational training should include all relevant stakeholders. To re-establish the connection between technical education and vocational training on the one hand, and the needs of the labour market on the other, experience in South Africa (Box 6) and experiments in Morocco, Benin and Cameroon (Box 11) underscore the need to associate social partners (employers and employees) in technical vocational education and training (TVET) systems for the identification of jobs and the development of appropriate training strategies and methods.

Box 11. Involving stakeholders in Cameroon

The White Book published by the Chamber of Commerce of Cameroon (Chambre de commerce, de l'industrie, des mines et de l'artisanat, CCIMA) in 2006 ("Projet politique de la CCIMA pour l'artisanat du Cameroun 2005-2010") makes a number of policy proposals to support apprenticeship, including dual training (formations en alternance), which alternates theoretical training with practical apprenticeship. Dual training is currently provided by GIPA, a craftsmen group of about 100 artisans in Yaounde. With German support (DED, Deutscher Entwicklungsdienst), GIPA works on vocational training in the urban sector and on engaging craftsmen in the training effort.

Fourth, mechanisms need to be designed that are sustainable, tailored to each situation and ensure shared responsibility between stakeholders (households, employees, enterprises and the State). Box 1 referred to the funding mechanism in South Africa.

Fifth, vocational training should be part of a strategy to put countries on the paths of sustainable development. In Morocco, or example, vocational training is coordinated with initiatives supporting the transition out of the informal economy. In addition to a number of public initiatives in vocational training, Al Amana, a private association supported by Vita, an NGO, and USAID, manages a portfolio of 260,000 micro-credits, mainly in the informal economy. Furthermore, training policies should target sectors with promising employment prospects, as in South Africa (Box 12).

Box 12. South Africa seeks out employment opportunities

In 2003, a Growth and Development Summit organized by the South African Government and the social partners (employers and employees), agreed to deploy all possible means to create jobs. Accordingly, the partners agreed to:

- invest more in sectors offering good job creation opportunities such as textiles, the food industry, call centres and crafts,
- improve the quality of infrastructure in transport, energy, communications, research and development, and, more generally, the business environment,
- create job opportunities in the informal economy through public works, care programmes (care for the aged and people in poor health, care for young children, school feeding), and labour-intensive environmental protection programmes (at least 130 000 jobs were created in public works in 2005),
- provide appropriate skills and better access to the job market for school leavers.

Sixth, country reviews show that vocational training systems are generally inadequate in size and inadequately relevant to the needs of the labour markets in poor countries. In many poor countries, experiments and Technical and Vocational Education and Training (TVET) reforms are recent and generally remain small-scale (see Box 13). The challenge is to scale-up after the pilot phases.

Box 13. The challenge of scaling up dual training in Mali

The scope of the dual training system in Mali remains small, with about one thousand apprentices graduating every year, as compared to the 300,000 or so entering the labour market. Scaling-up requires:

- the extension of the system to a variety of activities;
- a better control of costs, which currently vary between 60 and 1 000 euros per trainee *per annum*; and
- a proper training certification system.

Recommendations

The POVNET task team on Employment and Labour Markets concluded with the following recommendations for donors.

Recognise the role and place of the informal economy

- Use informal training systems. Such widespread systems should be carefully assessed when reforming education and vocational training.
- Use informal professional organisations to structure training demand.
- Recognize the ability of workers in the informal economy who have experience in training and improving job skills; use them as skilled trainers or experts in vocational training programmes.
- Support schemes to improve notoriously poor statistics and knowledge on the informal economy.

Improve the design of vocational training programmes

- Improve informal apprenticeship practices gradually. Best practices engage all partners concerned.
- Train adults as well as youth. Efforts to improve the quality of youth training can also benefit adult literacy and vocational training in the informal economy.
- Develop pre-employment schemes to reduce social and educational wastage. Pre-employment schemes help early school-leavers build on their education and improve employment options.
- Develop balanced funding mechanisms to make training systems sustainable. Properly designed, such systems involve the range of public and private partners.
- Support the move beyond training towards social inclusion and job creation. Means to provide such support can be intellectual (tutoring, monitoring…), practical (tool kits…) or financial (micro-credit).

Emphasize education

- Continue focusing on basic education. The attention given by donors to secondary education should not affect the need to focus on basic education. Hardly 50% of students currently complete their basic education in sub-Saharan Africa and workers in the informal economy generally have low levels of education. Gaping needs for quality improvements in basic education remain.

Notes

1 POVNET is the OECD Development Assistance Committee Network on Poverty Reduction

2 Opinions may vary though statistical studies generally consider that informal enterprises are enterprises that cannot be distinguished from households and that don't keep accounts. See references : OECD Development Centre.

3 *Promoting Pro-Poor Growth: Agriculture* (OECD, 2006).

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Youth Employment*

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- The youth face specific barriers in the labour market; their unemployment rate is significantly higher and their employment and working conditions are worse than those of their elders, which leads to high economic and social costs for their society. Special attention must, therefore, be paid to integrating the youth better into the labour market, even more so given that their number is so high.
- Support for the youth should mainly be based on existing employment policies, complemented, where necessary, by targeted interventions and when implemented, its impact on other age groups must be taken into consideration.
- Often a supply demand mismatch lies at the root of the weak labour market integration of the youth; this is a situation that could be resolved by adopting integrated approaches that consider both sides of the labour market effectively and involve all sectors of society, including the youth, in the decision-making process

Introduction

Youth employment has grown in prominence on national and global development agendas. The youth employment challenge has its own dimensions and confronts countries worldwide regardless of their stage of socio-economic development. The underlying problems are the large number of young people entering the labour markets every year, the lack of employment opportunities in particular in poor economies and post-conflict countries, and the low quality of education and training without a proper link to the labour markets. This paper tries to outline the dimension of the problem, the reasons why to intervene, and the possibilities of improving youth employment.

What are the recent global labour market trends and challenges with regard to youth?

- Today's world contains an estimated 1.2 billion young people aged between 15 and 24 years (an increase of 17% compared to 1995), that is 24.7% of the world's working-age population. (ILO, 2008a, ILO, 2008c). About 87% of them live in developing economies (UN, 2007).
- As the youth population grew faster than both the total population and youth employment, the share of the youth who are employed in the youth population declined from 49.2 to 44.5% between 1997 and 2007 and the total number of

* 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.

unemployed increased from 63 million to 71 million between 1997 and 2007, in particular in sub-Saharan Africa (from 8 to 10 million) (ILO, 2008c).

- Worldwide, youth unemployment is high, with a global average of 11.9% in 2007, *i.e*. almost three times higher than the adult unemployment rate. (ILO, 2008c). Moreover, young people made up 43.7% of the world's total unemployed population despite accounting for only 25% of the working population. However, unemployment is only part of the problem.
- More than one-third of young people in the world are unemployed, have completely given up looking for a job (discouraged) or are working but still living below the USD 2-a-day poverty line (the working poor) (ILO, 2006). There are an estimated 125 million young working poor at the USD1 threshold, which in 2005 corresponded to 20% of employed young people.
- Overall, there is no significant difference between the sexes when it comes to young people's search for work. The unemployment rate for female youth is, at 12.5%, only slightly higher than the male rate of 12.2%. (ILO, 2008b). Nevertheless, differences can be stronger in specific countries [1] and regions due to economic and cultural reasons and may justify gender-specific interventions. Moreover, young women are engaged more in unpaid (family, personal, reproductive) work, which affects their participation in paid productive activities.

Why special attention to youth?

In view of the youth employment challenge, many governments are investing considerably in youth employment programmes, which complement general poverty reduction and employment policies. Questions arise as to what justifies these youth-specific interventions and why it is not sufficient to focus on promoting a favourable investment and business climate.

The following main arguments have been put forward to justify youth-specific interventions:

- Young people face specific challenges in accessing the labour market and this lowers their chances of finding decent employment. The main difficulties are: (a) a higher chance of losing their jobs during economic downturns ("last in, first out" ; (b) specific barriers to entry, often stemming from lack of experience; and (c) path dependence: early unemployment increases the likelihood of subsequent unemployment. (Clark and Summers, 1982; Freeman and Wise, 1982).
- Underutilized young people incur significant economic costs[2] as the national workforce is not being used to its full potential. Moreover, young people are, in general, more dynamic, often have a higher educational level than their parents. It is also mainly young people who opt for migration if they cannot find adequate employment in their own country. Underutilization of young people in the labour market can trigger a vicious circle of intergenerational poverty and social exclusion.
- Often, lack of employment opportunities may result in social conflicts, such as violence and juvenile delinquency, which, in turn, incur high social costs. Moreover, post-conflict countries have predominantly young populations without

a decent job, many of them deprived of education, having grown up in violent societies and often having been combatants themselves.

How to promote youth employment?

Labour demand

Resolving the problem of youth unemployment and under-employment requires, on the one hand, growth of salaried employment in the formal economy. This leads to more jobs for young people and encourages the transition from the informal to the formal economy. On the other hand, the quality of employment (*e.g.* productivity, working conditions) in the informal economy, where the majority of young people work, should be improved.

Job creation depends primarily on economic growth, which itself depends on investment, but also on the international context. A stable macroeconomic environment which boosts investment – both private and public – and thus growth, is fundamental to the creation of new formal jobs for all groups of workers, but is of particular benefit to young people, who suffer most from economic downturns because of their short job tenure and lack of experience ("last in, first out").

Sectoral policies, in particular, can promote job creation in the medium to long term, provided they are well designed and targeted to sectors with high potential for employment growth. Well-targeted policies can promote private initiatives in traditionally "youth-friendly" sectors such as tourism, catering, information and communications technology (ICT)[3], basic and social services, including health, as well as in the sports sector.[4] In developing countries, 75% of the youth living in poverty are found in rural areas. Rural youth is more likely to have started work in childhood. They are the favourite victims of human trafficking and sexual exploitation and are more vulnerable to being recruited by militant extremist groups. Most urban poverty, in turn, is the result of rural deprivation and resulting distress urban migration (ILO, 2005). Therefore, special attention should be given to the agricultural sector by moving away from subsistence agriculture, and introducing commercialization and productivity improvements through technological changes and infrastructure support. The international trade and aid policy should also be taken into consideration in this context.

Youth in general shows a strong interest in the conservation of our planet. Environmental management also has an interesting employment potential. A successful example is a youth employment project in the Indian State of Goa. A mix of interventions based on individual motivation, use of best practices, public–private partnerships and legislative measures has resulted in the last three years in more than 2 000 jobs for young people in waste management and recycling, with opportunities for further expansion.

Training West African youth in a growth sector: Corporate social responsibility and information technology

Background

In 2000, Cisco, a US-based IT company, launched its Least Developed Countries (LDC) Initiative, replicating Cisco networking academies in LDCs. The Networking Academy Program is a comprehensive 560-hour course designed to provide students with the skills that will enable them to design, build and maintain computer networks. At the end of the curriculum, students can choose to pass a Cisco-certified examination.

In partnership with international donors, Cisco set out to provide Internet-based learning and IT skills training in half of the world's 50 least developed countries. In West Africa alone, 125 networking academies have been established in 11 countries. Currently, over 9 200 students are enrolled throughout West Africa. More than 60% of students are between 25 and 34 years old.

Outcome and impact so far

A survey of the LDC Initiative conducted in six countries shows that two-thirds of respondents found IT jobs after completing the programme and that 10% started their own business. Currently, 31% of students graduating from the courses are women, exceeding the target of 30%.

Lessons learned

- The programme is successful because it covers the demands of a growing sector. The IT industry estimates that sub-Saharan Africa will have 400 000 vacancies in this sector in a few years' time due to a lack of qualified specialists. Closing such skills gaps is probably the quickest way to combat youth unemployment.
- The cooperation between a private company and public donors leads to wide outreach and demand-driven training programmes.
- Fees being charged for the courses improve the sustainability of the academies. However, they might inhibit the access of poor youth, although reduced rates are offered for unemployed.
- Limited access to electricity and fast Internet is a hindrance to the Initiative's expansion, especially in rural areas.

Source: "Building the Case for Business Collaboration on Youth Employment. Good Practices from West Africa" (forthcoming *www.ilo.org/yen*).

The public sector can also influence youth employment directly through public spending. Employment-intensive investments, such as in infrastructure or construction, will create employment opportunities in sectors dominated by young people. In 1989, with the support of the African Development Bank and the World Bank, the Senegalese Government set up a USD 33 million public works programme for young workers in labour-intensive activities such as construction, rehabilitation and maintenance of public services. These activities were subcontracted to small and medium-sized enterprises. In total, 350 000 temporary jobs and even 6 000 permanent jobs have been created per year through 3 226 projects. Strong political support, clear objectives and continuous development assistance have been the key elements for success. On the negative side, the programme has not provided training for young participants and has targeted mainly urban areas (United Nations Economic Commission for Africa – UNECA - 2005).

Nevertheless, it is the private sector that is the main driver for growth and job creation. Entrepreneurship is a driving force for initiating business ideas, mobilizing human, financial and physical resources for establishing and expanding enterprises and creating jobs. Entrepreneurship is another way of unleashing the economic potential of young people. The promise of youth entrepreneurship can be maximized through programmes and strategies that address the barriers to doing business. Young people face particular challenges because they lack appropriate skills and experience, are less creditworthy, and have more difficulty in accessing business networks and sources of information. A burdensome business environment is difficult for all, but as youth have generally less knowledge and experience of business regulations and related legal and institutional frameworks, this constraint can discourage them from venturing into a business career and so increase the risk of business failure.

Societies that appreciate entrepreneurship, and thus promote its values and norms, can create a dynamic and vibrant class of young entrepreneurs. Empirical evidence shows that educating young minds in enterprising behaviour and boosting their confidence for calculated risk-taking, increases the incidence of entrepreneurship being adopted as a career option. The successful development of youth business hinges upon good access to well-integrated services such as management training, business mentoring programmes, financial services, support in gaining access markets and networking opportunities. Enhancing their capacity in association building and policy advocacy can address this disadvantaged position. Young women entrepreneurs face additional hurdles, as in many cultures they are influenced to be even more risk averse, while their roles in the family and society keep them from tapping opportunities in business development. This also means that they are more likely to be in the informal economy and less likely to be entrepreneurs employing others.

Youth entrepreneurship: The case of Shell LiveWIRE International

Background

Shell LiveWIRE was initiated in Glasgow, United Kingdom, in 1982, as a programme to encourage the young to develop their own businesses. Today, it is a global community initiative which considers self-employment as a viable and desirable career option. The programme is active in 25 countries across the globe, including: Argentina, Brunei Darussalam, China, Hungary, Ireland, Iran (Islamic Republic of), Mauritius, Nigeria, Oman, Pakistan, Romania, Singapore, South Africa and Sri Lanka.

LiveWIRE involves a combination of information, training, counselling and mentorship for over one million young people annually. Each national programme receives significant support from the Shell oil company and a range of corporate sponsors, often combined with government assistance.

.../...

Youth entrepreneurship: The case of Shell LiveWIRE International *(continued)*

Outcome and impact so far

Since 2000, over four million young people have been in contact with the LiveWIRE programme. Currently, one million young people are in touch with the programme each year worldwide and 200 000 young people undertake some form of training.

Results may vary across countries. Specific stocktaking for the United Kingdom indicates that, since 1982, 600 000 young people have explored the idea of starting their own business; approximately 16% of all enquiries led to a business start-up; as a result, three to four jobs are created by each business start-up; and 65% of new start-ups are still trading four years later.

A similar exercise carried out in Oman showed that the "Intilaaqah Oman" programme currently trains and supports over 5 500 young people each year. 37% of participants over the last 12 years still run an enterprise, and nearly all the remaining participants are in private or public sector employment or further studies. In Oman, 54% of participants are young women, which shows the gender sensitiveness of the programme. 95% of Intilaaqah-supported businesses are in the formal sector, and most generate an income far greater than what is possible in the public sector.

Lessons learned

There are some intrinsic factors of success in the LiveWIRE programme, such as:

- Open accessibility: It is available to all, irrespective of socio-economic status, such as educational level or gender. The only eligibility qualification is an interest and motivation in pursuing the enterprise option.
- Standardization of programme elements and processes: The impressive and successful reproduction of LiveWIRE as a youth enterprise initiative across the globe is in part due to a well-tested formula for youth entrepreneurial development. New countries embracing the model have been able to "leapfrog" on others' experiences and extensive product development.
- Attention to national identity and cultural sensitivity and collaboration with local partners: Whilst there are common elements and values, in each country LiveWIRE reflects the culture, needs and the resource opportunities of that country. Prior to the establishment of a programme in any country, in-depth country research is carried out to identify local needs, opportunities and critical business development issues.

Source: Kenyon, 2008

Higher volatility and lack of work experience are strong reasons why entrepreneurs often shy away from hiring young people. Wage subsidies (World Bank, 2007) and/or reduction in payroll taxes for enterprises that hire inexperienced young workers seem to be the best options to counterbalance these concerns of employers and, therefore, increase the demand for young workers.

Labour supply

On the supply side, a well-linked educational and training system (*e.g.* the "dual system" combining school-based education with work-based training and apprenticeship, recently introduced in various African countries) and closer cooperation between this system and the private sector facilitate a smoother transition from school to work. Often, the educational system does not provide the appropriate labour force needed by the domestic market. This mismatch may generate a lengthy process to get a good job in the domestic market. Therefore, young people's employment opportunities are often be limited to the informal economy, which may lead to frustration, or even make them opt for migration (*e.g.* the "educated unemployed"), while there are unfilled vacancies in other technical jobs in the country.

Education and vocational training should be designed around the informal economy, where most young working people are found in developing countries. Often, vocational training has to be complemented by remedial education, as many young workers in the informal economy may have dropped out of the educational system at an early stage. Young people may have begun working prematurely, while still children, through economic necessity (*e.g.* AIDS orphans in some African countries may have become heads of households and breadwinners) or cultural constraints. As a result, they lack basic skills, including literacy and numeracy.

Nevertheless, these young informal workers acquire technical skills in informal activities but, as these skills are often not recognized officially, they face difficulties to have access to better jobs. Recognition and certification of skills acquired through informal channels are key elements in this regard. In addition, young people often do not know which profession to join and where to look for a job. Special youth labour market information and employment services, as well as early career guidance, may facilitate their entry into the labour market and help avoid a mismatch between youth labour supply and demand.

With regard to labour market institutions, in particular employment protection legislation (EPL) and minimum wages, it has been argued that these increase youth unemployment by making labour too expensive. And yet, recent evaluations do not provide a clear indication of the impact of these measures on young workers. In fact, some recent studies have even challenged this. (Freeman, 2005; Cazes and Nesporova, 2003; Godfrey, 2003). Moreover, many young people in developing countries work in the informal economy, where EPL and minimum wages have a rather limited impact. The question is not whether or not to regulate, but what kind and what level of regulations are appropriate to get the best forms of protection for young people without inhibiting firms from hiring.

Republic of Congo: Vocational training and the value of assessment

Background

ONEMO, an experienced national employment agency operating under the Ministry of Labour, was selected to execute a vocational training programme for young people formerly associated with armed forces and groups and assist them with employment placement and self-employment. From the beginning, ONEMO was convinced that the future for these young people would be in farming and had already started a series of preparations for agricultural training. Nevertheless, to their great surprise, most young men elected to participate in skills development programmes in construction-related occupations, such as masonry, welding and electricity, whereas women preferred tailoring (14) or hair-cutting (15). As a result, time and resources were wasted on the preparation of agricultural training and preparations for construction training started late into the process.

Outcome and impact so far

Finally, ONEMO managed to put together a six- to nine-month training programme in cooperation with the Coeducational Technical School based in Owando, followed by a three- to four-month internship with building companies established in this area. After successful training and internship, most young men (26) found a job in construction companies working with the Owando municipality, which benefited from a promising local economic development initiative.

Lessons learned

- Assessing market opportunities and understanding the expectations of young people are crucial to programme planning. A major difficulty initially was the lack of market opportunities assessment and of a pre-registration beneficiary survey prior to vocational training and guidance.
- Fortunately, the municipality initiative represented a real market opportunity, corresponded in great part to the capacities and aspirations of the youth and had received enough prior media coverage to grab their attention.
- Even though in this case interests and expectations matched market opportunities, often young people face constraints to making realistic decisions as they may lack reliable information sources.

Source : ILO, 2007

The need for an integrated and participatory approach

Experience shows that youth employment programmes and policies aimed at refining labour market dynamics often result in interventions that are fragmented, too narrow or isolated and do not fully take into account the general economic, institutional and social framework. Inconsistencies may arise in terms of the content of the interventions, their level, geographical location and target beneficiaries. Moreover, supply-side measures tend to outweigh demand-side measures. Anecdotal examples of improvable interventions include skills training programmes not backed by an appropriate demand for skills in the labour market, or entrepreneurship training without any possibility of gaining appropriate access to credit. It is, therefore, indispensable, in the domain of youth employment, to dispose of an over-arching, integrated strategy for growth and job creation. This strategy covers labour demand (job opportunities) and supply (employability), as well as the mediation or matching process, combined with well-targeted and structured interventions. A life-cycle approach to youth employment is also highly useful as it recognizes that what happens at one stage is affected by, and in turn affects, opportunities at other stages. (ILO, 2005). For example, premature entry into the labour market as a child lessens the chances for better employment in adulthood because of their lack of education.

Youth employment policies must be embraced by the broader context of a country's employment and growth policy, considering possible crowding-out effects on other age groups. Productive employment and decent work for young people requires sustained, determined and concerted action by a wide number of actors. As they cannot stand on their own, youth employment interventions must be linked to broader development frameworks. Coherence and coordination between relevant government agencies and other national and international (*e.g.* donor community) stakeholders is crucial. While not necessarily the only mechanism, the use of national action plans (NAPs) for youth employment can be useful to facilitating this. To be successful, however, these plans should have strong and sustained political commitment and be based on broad participation. In this context, it is important that youth also participate actively in the decision-making process, as they know best what they want and what they can offer. The participation of young people in membership-based organizations and their engagement in decision-making processes affecting their employment and working conditions is crucial to fostering social inclusion and advance democratization. Young people are often under-represented in these processes. A good example is the consultation of youth in PRSPs in Ghana, Honduras, Indonesia and Uganda. (ILO, 2005).

National action plans on youth employment as a tool for policy advice

Background

In 2002, the Youth Employment Network (YEN), an interagency partnership of the UN, ILO, and World Bank, introduced the lead country process on youth employment as a tool to raise awareness on this important topic. One key precondition for being accepted as a lead country by YEN is to commit to the preparation and implementation of a national action plan (NAP) on youth employment. The NAP provides a coherent set of policies and programmes to improve youth employment and should be integrated in national development policies and budgets. YEN offers technical assistance for drafting a NAP through its network.

Outcome and impact so far

YEN started with five lead countries in 2002, and today 18 countries have volunteered as lead countries committed to formulating NAPs. Of these 18 countries, seven are at the development stage; four have no current activity; one has drafted the document; and six are at the implementation stage. Only one country is currently embarking on an evaluation of its NAP. YEN's work led to UN resolutions encouraging member States to prepare NAPs and submit them to the UN Secretariat for analysis and follow-up in 2005. In total, 41 NAPs were submitted. NAPs are also implemented even outside the YEN framework.

National action plans on youth employment as a tool for policy advice *(continued)*

Lessons learned

- NAPs are a strong advocacy tool to put youth employment on national development agendas.
- So far, there are no clear minimum requirements to be fulfilled for becoming a lead country and for adopting NAPs. The risk is that NAPs remain just lip-service in the face of a pressing problem, without real commitment to implement.
- Little is known about outcomes and impacts of NAPs, solid monitoring and evaluation plans and their underlying indicators are usually missing in NAPs. YEN therefore recently initiated a benchmarking initiative on youth employment policies aimed at establishing a regular peer review process among lead countries on their performance in youth employment. Future support has to focus on providing technical assistance on how to measure this performance.

Source: *www.ilo.org/yen*

Conclusion

The energy, skills and aspirations of young people are invaluable assets that no country can afford to squander. Helping young people to realize their full potential by gaining access to productive employment and decent work is, therefore, a pre-condition for poverty eradication, sustainable development and lasting peace. Youth employment programmes can provide useful support to young people who are facing specific barriers in the labour market. Their underutilization has economic and psychological costs and may cause social conflict. Nevertheless, youth programmes have to be designed with caution to avoid crowding-out effects on other groups of workers.

Even though little evidence exists on existing youth employment initiatives, the following policy recommendations for the donor community can be put forward:

1. Donors should support country-led efforts in various policies that are contributing to an improved labour market situation for the youth. Genuinely national commitment for the promotion of youth employment requires the strong involvement of large sectors of society: Firstly, a greater participation of the youth within their own organizations or as representatives in other organizations, and also of key social actors such as CSOs, trade unions and the private sector, as well as closer cooperation with, and among, Ministries and other public institutions.
2. Youth employment issues could often best be resolved with already existing employment policies, which could be adjusted to youth-specific needs such as youth entrepreneurship, remedial education and vocational training. Targeted interventions could, however, be useful under specific circumstances. Nevertheless, it is important to take into consideration the possible crowding-out effects on other age groups.

3. Often a mismatch between the demand for young workers and the supply, the availability of appropriately skilled workers, has been at the roots of their weak integration into the labour market. Supply-side interventions are most effective when they meet current demand on the labour market, for example, for skills development in high-growth sectors. An integrated approach (*e.g.* national action plans on youth employment), where not just the Ministry of Employment/Labour, but also other key Ministries, address the issue of youth employment, could be helpful in this regard.

Notes

1 In particular Latin America and the Caribbean, the Middle East and North Africa (ILO, 2005).

2 Employment difficulties experienced by young people also causes psychological problems, even though this issue is not at the core of this paper. They may suffer from reduced self-esteem, discouragement leading to drug and alcohol abuse and related health problems.

3 Some countries in South-East Asia, such as Hong Kong (China), India, Republic of Korea and Malaysia, particularly benefited, at all levels of the value chain, by concentrating public investments in this sector (Curtain , 2002).

4 As noted in the 2003 report of the United Nations Inter-Agency Task Force on Sport for Development and Peace entitled "Sport for development and peace: Towards achieving the Millennium Development Goals", the sector was valued at USD 36 billion worldwide in 1999 and predicted to expand by 3 to 5% annually. The sector generates employment in the manufacture of sports goods, sports-related services, infrastructure development and sports events, along with related opportunities linked to spectators, sponsors, vendors and the media.

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Promoting Employment for Women as a Strategy for Poverty Reduction*

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- Place women's economic empowerment prominently on the agenda in high-level policy dialogue with Governments
- Engage with and support government authorities, employers' organisations and trade unions to promote gender sensitive labour market reforms and reduce the costs of doing business to facilitate women's entry.
- Support organisations that promote women entrepreneurs in informal and formal economy and non-state actors in sensitising governments to the need for tackling cultural and social barriers.
- Facilitate increase in supply of gender-sensitive business development opportunities and increase and diversify access to finance for women, including microfinance.

Why is employment important for poverty reduction

Employment is often described as the most important link between economic growth and poverty reduction. Providing income earning opportunities through wage employment or self employment for poor women and men is crucial to raising incomes and overcome poverty. However, currently women across the developing world enjoy limited access to fair and decent work compared to men.

Two main arguments are presented in current debates on women and economic empowerment. The *right-based argument* focuses on increasing women's job opportunities and their freedom to work in security and dignity. The *economic argument* emphasises women's economic capacities and potential contribution to economic growth. The economic argument draws on the fact that women tend to reinvest their income in improved nutrition, health and education for household members, thus increasing living standards and reducing "non-income poverty" in the long term. The Decent Work agenda of the ILO supports both arguments in combining the poverty reduction agenda with the fundamental right to work in freedom through the four pillars: Opportunities, Rights, Protection, and Voice.

Gender discrimination at the labour market has a significant cost. For Asia it has been estimated that gender discrimination costs up to USD 80 billion a year due to restriction on women's labour market participation and access to schooling (United Nations Economic and Social Commission for Asia and the Pacific - UNESCAP, 2007;).

* 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.

Furthermore, as documented by Costa and Silva in a study of selected Latin American countries, removing gender-based barriers to the labour market would lead to a significant reduction in the poverty rate (Costa and Silva, 2008).

The purpose of this paper is to identify issues keeping women in developing countries out of decent employment and point to strategies that donors may consider when designing interventions for improving women's employment opportunities.

Facts about women and employment - three imbalances

Women’s participation in paid, non-agricultural employment has continued to increase slowly. But women are still more likely than men to access low-paid, low-productivity and vulnerable jobs with no basic rights, social protection nor voice. According to a recent ILO report, the status of women at the labour markets throughout the world has not substantially narrowed gender gaps in the workplace (ILO, 2008).

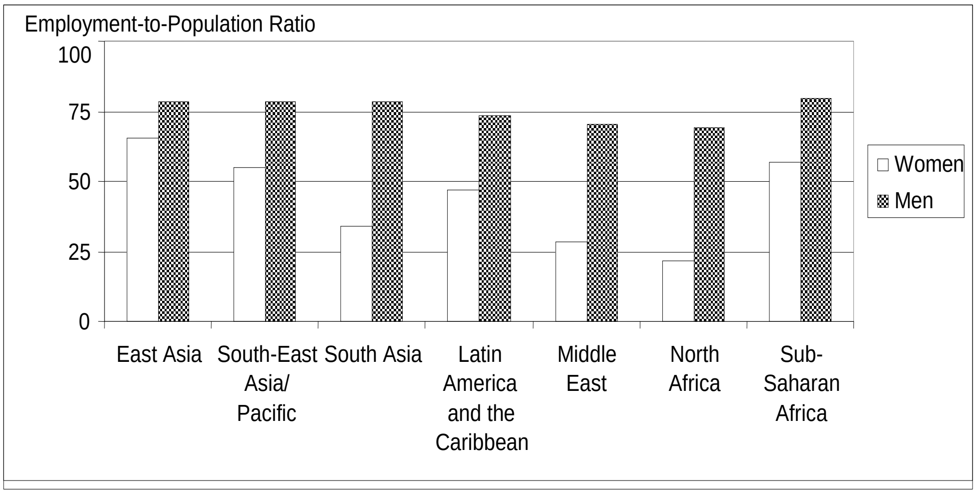
Women's economic empowerment currently faces three major challenges: women are less likely to have a paid job; women’s jobs are more likely to be concentrated in the informal economy[1] and in low value-added sectors; and in low-paid jobs characterized by poor working conditions.

Women face a significant gender gap in employment - especially in South Asia, the Middle East and North Africa

The gap between female and male employment worldwide is still significant. According to ILO estimates, the share of employed people in the world's working age population (the employment-to-population ratio) was 49.1% for women and 74.3% for men in 2007 (ILO, 2008).

The difference in the female and male share of employed people in the working age population is above 40 percentage points in South Asia, the Middle East and North Africa. At the other end of the spectrum, the gaps are below 20 percentage point in East Asia. As documented in a recent cross-country study of 18 sub-Saharan countries, countries with the highest male employment ratio also tend to have the lowest gender gap (Kolev and Sirven, 2007).

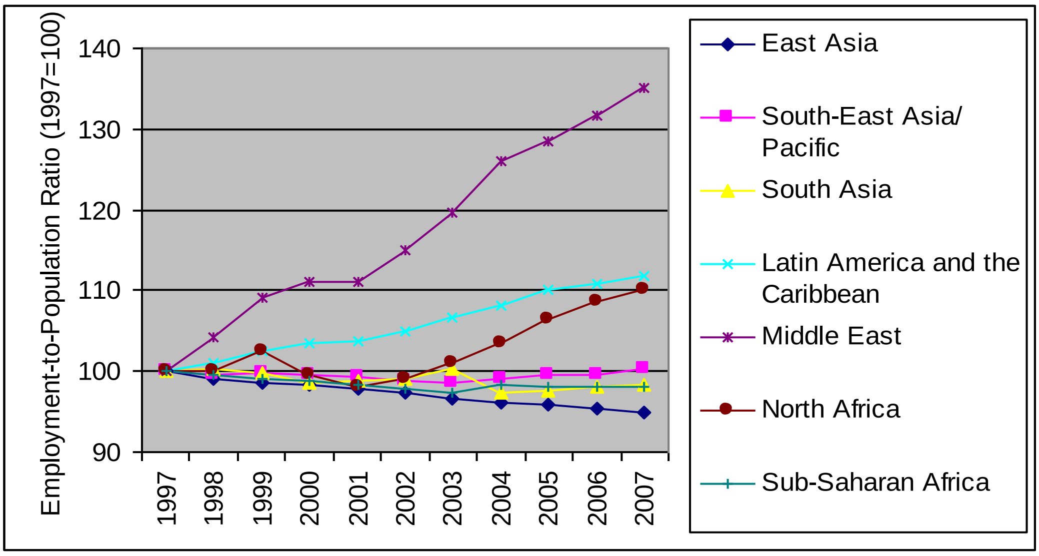
Figure 10: Employment-to-Population Ratio
(2007 preliminary estimates)



Source: ILO, 2008

Closing the gap? The Middle East has managed to increase the female employment-to-population ratio by more than 35% during the period from 1997 to 2007. The ratio has also increased by almost 10% in North Africa and Latin America and the Caribbean, while some regions have even seen a slight decrease, notably sub-Saharan Africa, South Asia, and East Asia (ILO, 2008).

Figure 11: Female Employment-to-Population Ratio
(1997-2007; 1997=100)



Source : ILO, 2008

Women are under-represented in the formal economy and in high value-added sectors

In developing countries six out of ten women work in the informal economy often as self-employed. Many of these women are domestic workers or informal factory workers, while others are unpaid workers in family enterprises and family farms. The poorer the region, the greater the likelihood that women work in the informal economy as unpaid contributing family members or low-income own-account workers.

Agriculture is the primary sector of women's employment. Women constitute 41% of the total employment in the agricultural sector. The regions with the highest proportion of women in the agriculture sector are East and South East Asia, the Middle East and sub-Saharan Africa (ILO, 2008).

In South Asia, Northern Africa, and Middle East women only constitute one in five of waged workers employed in the non-agricultural sectors (United Nations, 2007). It should be noted however, that some non-agriculture sectors are dominated by female workers. For example in Bangladesh, two out of three workers in the export-oriented garment industry are women (World Bank, 2000). In regions such as Latin America, the Caribbean, and in South-East Asia women constitute close to or above 40% of workers in the non-agricultural sector (United Nations, 2007: 12). Furthermore, the public sector tends to employ more women compared to the private sector, but women in the public sector tend to work in low paid jobs in social sectors such as education and health.

Women face a decent work deficit

The ILO Decent Work Agenda advocates for productive opportunities with a fair wage, rights and recognition, personal development, fairness and gender equality (ILO.org). Many women working in both the formal and informal sector have a substantial "decent work deficit":

Women's earnings are well below those of their male colleagues. Kolen and Sirven's cross-country study of sub-Saharan African economies finds a significant gender pay gap: The average female-to-male weekly income gap ranged between 23% (Burkina Faso) to 79% (Ghana), while women in Malawi earned slightly more than men (2007:12). According to UNIFEM, gender differentials in hourly earnings are common and apply to most types of employment, especially among own-account workers, while the gender ratio is more balanced for employees in the public sector (2005: 49). The gender pay gap can to a large extent be explained by lower level of education and by the fact that women are more likely to work in informal jobs. Controlling for the level of education, Kolen and Sirven (2007; 16-17) find that among workers with no education men earn almost three times more than women, while the gap is nearly closed with respect to workers with tertiary education.

Women's work related to domestic obligations in the family and unpaid contribution to family-run businesses is largely invisible in the statistics and of low status. Important efforts to document this type of work have been done by UNIFEM - including the unpacking of the term 'unpaid care work' which refers to the provision of services within households, for other households and community members. Although often not recognised as such, it is 'work' meaning that 'the activity has a cost in terms of time and energy and arises out of a social or contractual obligation, such as marriage or less formal social relationships' (UNIFEM, 2005).

Women are often engaged in employment with high degrees of insecurity. Lack of recognition of women's work is often reflected in discrimination against women in regard to access to the labour market and working conditions once women are part of the labour market (wage differentiation, benefits, maternity leave, promotion) and skewed pension laws once women leave the labour market. For example, female workers in the garment industry in Bangladesh have typically been employed to "exploit the comparative advantages of their disadvantages, like the low price of their labour, their lower bargaining power and their docility" (World Bank, 2000). In areas with high prevalence of female-headed households due to *e.g.* out-migration of men, poor women can be forced into the sex industry and be exposed to HIV/AIDS and violence.

Key factors at play - and possible solutions

Even though gender patterns of employment are caused by a variety of factors, which differ by *e.g.* region, sector and type of employment, there are a number of structural causes of a more general nature. These include social and cultural barriers to women's employment, and the extent to which political and legal frameworks are conducive for women's employment. Key issues and proposed solutions in relation to the three main gender imbalances identified in the previous section are presented below, building on experiences from different parts of the world.

Factors behind the gender gap - barriers to women's employment

The general gender gap is explained by multiple factors. The most important among these factors are social and cultural patterns keeping women out of the labour market as well as a tendency of government authorities to invest too little attention and resources in promotion of women's employment:

Women are "time poor". Due to the gender division of labour in the family prevailing in many countries, women's responsibility for unpaid household labour leaves only few hours daily for engaging in work outside the household (UNIFEM, 2005). The situation is further aggravated in cases where women are the sole head of household. Women's ability to free up time depends to a great extent on the availability of services and infrastructure such as potable water, good access roads etc.

Cultural beliefs and norms may keep women out of the labour market. In many cultures there is little or no acceptance of women taking up employment - in society, in families, among employers and even among women themselves. In many rural areas of Afghanistan for example, women do not have permission to leave their house, let alone take a job outside the household (IRIN, 2007). In sub-Saharan Africa early marriage is common and often seen as a key factor why women fail to access the labour market. The OECD database on Gender, Institutions and Development confirms this by looking at a broader set of factors related to discrimination against women (OECD, 2008a). Using a combined measure for family code, physical integrity, civil liberties and ownership right, the OECD finds that discriminatory institutions have a direct impact on women's economic development (OECD, 2006). Finally, it should be noted that customary norms and lack of access to information often prevent women for claiming their rights and exploiting opportunities.

Women lack the basic education to effectively participate. Girls are still excluded from education more often than boys, particularly in West and South Asia (United Nations, 2007) and more so for secondary education, vocational, and tertiary education. This education gap has implications for the ability of girls and women to access economic opportunities later in life. The rapid increase in women's labour force participation rate noted in the Middle East over the past decade has coincided with massive investments in education (ILO, 2008).

Finally, many governments have failed to demonstrate explicit leadership and political will to supporting employment for women. Often promotion of women's participation is vested with resource-poor ministries. For example in Ghana, where the Ministry responsible for gender issues, the Ministry of Women and Children's Affairs, remains "severely under-resourced, and is left to draw on a network of gender desk officers consisting mostly of junior officers with little capacity to influence decision-making" (IFC, 2007). Likewise, Poverty Reduction Strategy Papers typically make reference to the importance of gender mainstreaming, but often fails to set specific targets for outputs and outcomes or make specific budget allocations to advance these priorities.

Recommendations and good practice - reducing employment gender gaps

No simple solutions are available to reduce employment gender gaps, especially in regions where the gaps are deeply rooted in norms, cultural and social practices and further consolidated by poor infrastructure and service delivery. It has been recognized however, that economic growth that increases demand for labour has the potential for having a real impact on women's employment. Donors can contribute towards reducing gender gaps by cooperating with government authorities, the private sector and civil society to strengthen the supply of and demand for policies and programmes favouring women's access to the labour market.

Place women's economic empowerment more prominently on the agenda in high-level policy dialogue with Governments and in implementation instruments related to the Paris Declaration and the MDGs. A more prominent gender focus in poverty reduction strategies and private sector development strategies will set an example for the society at large and facilitate a stronger resource allocation to this area.

Support non-state actors in sensitising governments to the need for tackling cultural and social barriers. Private sector organisations, business chambers and NGOs could be supported to strengthen the demand for gender sensitive laws regarding inheritance and ownership, and conduct awareness raising programmes on women's rights to decent employment etc. Another modality is to support networking and facilitate organisation among women. Simple awareness raising programmes targeting women have in many cases triggered positive effects on women's participation in economic development.

In Guatemala for example the World Bank has carried out a land titling project to make women aware of their legal rights including the right to register land. As a result, women's land ownership has increased to 45% in the project areas - compared to 8% for the country as a whole (*IFC.org*).

Facilitate girls' access to primary and secondary school enrolment and attendance. While primary and secondary schooling not necessarily is an entry ticket to the labour market *per se*, it remains a fundamental building block for interventions such as awareness raising programmes, vocational training etc. Moreover, increasing girls' level of education will contribute to decreasing the pay gap between men and women.

Persuasion, advocacy and awareness raising will often be required, in combination with stipends or other financial support to motivate families to send their daughters to school, even though in most cases, education systems do not discriminate between boys and girls in terms of access.

In Bangladesh the World Bank supported Bangladesh Female Secondary School Assistance Program, led to a secondary school enrolment increase from 1.1 million to 3.9 million girls through the provision of tuition stipends (World Bank, 2007d).

Factors keeping women in low value added sectors

Women's tendency to work in low value-added sectors is, as outlined below, due to the existence of legislative and regulatory barriers as well as women's lack of skills and access to finance and business development services. However, many of the social and cultural factors discussed in the previous section also influence which type of employment women get involved in. For example, as documented by the OECD, the percentage of women participating in the paid non-agricultural labour market is generally higher in countries where women get married relatively late in their life cycle (OECD, 2006). Likewise, in a recent study, OECD notes that single women are more likely to be employed in the formal economy, while women with children are more likely to be employed in the informal economy (OECD, 2008b).

The costs of doing business often prevent many self-employed women from getting into business. To facilitate entrepreneurship among women, a considerable effort is required to streamline procedures for business registration and licensing, export permits, procedures for payments of taxes etc. Female entrepreneurs further have to struggle with the fact that legislation and tradition in some cases prevent their access to (and control of) productive resources, notably land.

The supply of gender sensitive business development services and finance is inadequate. To promote female entrepreneurs, gender sensitive business development services such as training, support to development of business plans and availability of business incubators catering to women are required. While microfinance is clearly a promising instrument for mobilising micro-scale entrepreneurs, it is still difficult for women to graduate to the next level and access loans from commercial banks (World Bank, 2007e; f).

Women in low value added sectors lack skills to access other sector. As evidenced by countries such as Singapore, Taiwan, and Malaysia an increase in vocational training is a precondition for countries to make the transition from low to high-value added production (World Bank, 2007a: 162)

Recommendations and good practice - increasing women's employment in high value-added sectors

To increase the share of women in high value added sectors within the formal as well as the informal sector immediate impacts may be achieved through simplification of legislative frameworks. In regard to medium and long term strategies, donors are encouraged to finance further research on the structural reasons why the majority of women are engaged in the informal sector. Finally, donors should work with government authorities, training institutions, private companies, NGOs and commercial banks to increase women's participation in non-agricultural sectors.

Support organisations that promote women entrepreneurs in informal and formal economy with capacity development and basic infrastructure.

Reduce the costs of doing business to facilitate women's entry by removing barriers for business registration, business licensing, acquisition of land etc. To ensure that future policies and regulations take such issues into consideration, some countries are conducting Regulatory Impact Assessments with specific emphasis on gender aspects on a pilot basis.

Recently, Lesotho made land registration easier for women by allowing married women to transfer land without their husband's signature. Moreover, many developed economies such as Australia, Canada and New Zealand have demonstrated that introducing simple measures for business registration may have a significant, positive impact on the number of women registering their own businesses - a finding that has been confirmed by a pilot project in Entebbe, Uganda. The pilot project, which has been granted an international investors award, succeeded in reducing the time spent by Ugandan businesses in obtaining licenses by 90% while revenue went up by 40%. The pilot triggered a wave of first time applications from women. (World Bank, 2006b: 42).

Facilitate increase in supply of gender-sensitive business development opportunities. In order to expand the range of employment opportunities for women, skills and capacity development such as technical skills in agriculture, private sector etc., may be introduced. Specific initiatives in skills development may also address gender disparities in education and training, *e.g.* vocational training. Institutionalisation of incubators specially targeted towards women could be an area with significant scope for development of public-private partnerships.

In China, the Tianjin Women's Business Incubator was set up to benefit female micro and small-scale enterprises. Through a USD 2 million investment from the Chinese Government, UNDP, AusAID, and the All China Women's Federation, the scheme benefitted almost 50 women-owned businesses - and as a result close to 3 000 jobs were created (*IFC.org*).

In Tanzania, TUCTA (Trade Union Confederation of Tanzania) is implementing a programme to improve the rights of women market vendors which includes collective bargaining with the municipalities to provide a safer working environment and prevent sexual harassment from customers, promote management training, provide business premises at affordable rents, improve knowledge of legal rights etc.

Increase and diversify access to finance for women, including microfinance. Microfinance has clearly proven to be an effective tool in facilitating women's access to credit. Supporting development of new financial products, such as longer term loans, could assist women in expanding their businesses.

The micro-finance sector in Africa is relatively weak in coverage and performance compared to other regions. While the number of micro-finance institutions has evolved as steadily as other regions, the MFIs in Africa have not reached out to as many people as in Asia or Latin America. By the end of 2006, MFIs in Africa were reaching around 11% of the poorest households in the region, compared to 68% in Asia and 20% in Latin America.

While typical micro-finance schemes may not reach the poorest of the poor, experience from a Bangladeshi programme - Challenging the Frontiers of Poverty Reduction (CFPR) - has shown that women can also be economically empowered through small grants offered in combination with skills development, health services, and general awareness training (BRAC and Aga Khan Foundation, 2006).

Looking towards the better resourced women, the real challenge is to create incentives for commercial banks to offer credit to women graduating from micro-finance schemes. This is an issue currently being explored by the Global Banking Alliance for Women (*gbaforwomen.org*).

Factors keeping women in low quality employment

In many countries, informal sector jobs are synonymous with female employment and associated with low status and poor working conditions. Consequently the factors keeping women in the informal sector also imply that women continue to face poor working conditions. In addition, as outlined below, women may continue to face poor working conditions due to flaws in labour market legislation. Poor compliance of labour market legislations at the work place and weak enforcement mechanisms may also contribute to keeping women (and men for that matter) in jobs with poor working conditions:

Many women are not guaranteed decent work conditions due to flawed labour market legislation. Working conditions with direct impact on women, such as equal wage, maternity leave, and pension are in many cases not properly addressed. For examples in the case of Uganda, the labour laws date back to colonial times and do not address issues such as discrimination, sexual harassment, and maternity leave and pay (World Bank, 2006b).

In many instances workplaces do not consider gender aspects in working conditions and organisation. Many employers, especially small and medium sized enterprises lack the knowledge, skills and motivation to put in place working conditions that are attractive to women. This includes measures such as flexibility in working hours and place of work, accessible means of transport, affordable quality child care facilities, bath and toilet facilities and access to training and education. Occupational safety and health (OSH) is another concern for female workers. According to a recent International Finance Corporation (IFC) study, international experiences indicate that OSH regulation based on prescriptive and enforced regulation does not significantly reduce the rate of accidents - and the administrative cost of such regimes are very high (World Bank, 2007b: 92). On the other hand, experience from trade unions shows that OSH is a good entry point for dialogue as it can lead to a win-win situation in terms of improved working conditions for workers and improved productivity for employers.

Recommendations and good practice - reducing women's decent work deficit

All steps designed to increase women's integration into the formal labour market will by and large have a positive impact on women's working conditions In addition to the steps proposed in the previous section, women's working conditions may be further improved by adopting and implementing adequate labour market legislations.

Engage with government authorities, employers' organisations and trade unions to promote gender sensitive labour market reforms. Promoting labour market policies, legal changes, compliance with ILO conventions and good corporate practices can improve access and working conditions for women through tri-partite processes and strengthening capacity of the tripartite organisations to promote gender equality in the labour market. A useful starting point could be to identify obstacles to women's decent employment.

In 2004 Tanzania adopted a new employment and labour relations act which prohibits discrimination in the workplace on the basis of gender, sex, marital status, disability and pregnancy. It requires employers to put in place, report on, and register with the Labour Commissioner plans to promote equal opportunities. It also introduces maternity leave and contains provisions protecting a mother's right to breastfeed and to be protected from engaging in hazardous employment (World Bank, 2007b). When advocating for labour standards it is important to strike the right balance between labour protection and job security, on the one side, and the need for employers to have flexibility, on the other side.

In 2003, after a 15 year struggle, domestic workers in South Africa were finally brought under the Unemployment Insurance Act covering employed workers. This requires employers to register their domestic workers and pay a monthly levy to a Fund. Workers also contribute. The Fund covers unemployment, maternity, sickness and death. Enforcement of the law is a problem, but there is evidence emerging of positive results in some areas. Statistics from the official disputes resolution body, the Commission for Conciliation, Mediation and Arbitration (CCMA), show fairly extensive usage of the disputes resolution machinery by the domestic sector. Latest statistics (April-December 2003) show that 12% of all referrals were from this sector, second only to the retail sector. The majority of cases referred are about dismissals – 85% between 1999 to 2003.

Through a combination of union campaigns and negotiations in a statutory tripartite (plus community) forum, workers rights and protections have been extended to a large numbers of vulnerable women workers in South Africa. This includes the right to organise, bargain collectively, access the dispute resolution processes and be protected from dismissal. It includes minimum conditions of employment such as leave, sick leave, maternity leave (although unpaid), overtime pay, prevention of discrimination, affirmative action and access to skills development. It applies not only to workers with full time employment and a single employer, but also to part-time workers and those with multiple employers. Recently, minimum wages were legislated through sectoral determinations for domestic and agricultural workers. Such determinations are made for “vulnerable” workers, where collective bargaining forums are not in place.

The way forward - partnership

In order to become effective, the solutions proposed above need to be adapted to specific contexts, involving actors relevant to the specific situation. It is possible, however to outline some general recommendations. Governments, the donor community and the private sector should seek to increase market demand and economic opportunities through increased investments targeted at labour-intensive industries and labour-surplus areas, supportive trade policies that protect these industries, as well as provide more and better linkages between formal firms, informal firms and informal workers.

A specific focus should be on reforming the financial and other economic institutions that affect working women, including reforms in the regulatory environment, to include one-stop registration and progressive fee structures. In the policy environment to address biases that favour formal firms/workers over informal firms/workers and men over women. Financial institutions should introduce simplified borrowing and collateral requirements and extend savings and insurance products, and urban policies and planning needs to include information enterprises and workers in the allocation of urban space, resources and contracts.

Organizations of working poor women into membership-based organisations, such as unions, cooperatives, and other associations accountable to their members and representation of these organizations in relevant policy-making and rule-setting institutions are important to ensure women's voice in decision-making processes. To ensure visibility of women's employment, there need to be an official recognition of the economic contribution of working women through improved labour force and other economic statistics. Additionally, working women should be recognized as economic agents and their membership-based organizations should be considered as legitimate representative institutions. These are all essential enabling conditions for economic empowerment of women.

Finally, the guiding principle for any donor should be partnership with national drivers of change, including government authorities, private sector representatives, employers' organisations, trade unions, NGOs and other development partners. Gender equality and women's empowerment are also being promoted in relation to *aid effectiveness,* as seen in *e.g.* the April 2007 Dublin workshop on development effectiveness in practice (OECD, 2007b). Any strategy should be well founded in national development strategies and have ownership from the most important change agents. In consequence, the first step is to carry out joint analyses to identify needs, opportunities, threats and key drivers of change.

Notes

1 Informality is not *per se* a problem, it is a way of being and working for the vast majority of the working poor, especially women. The real problems lie with the institutions that make it difficult for informal enterprises to register, deny them the benefits of formality if they do encourage informal wage employment, and thereby deny legal protection to millions of workers.

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Migration and Employment*

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- Policies toward international migration and employment in developing countries must be more coherent, given the many interactions between the two phenomena. But more coherent policies require a much better understanding of the links and impacts between mobility, jobs and development.
- More coherent policies should be pursued by means of stronger partnerships between origin and destination countries – with special attention to brain-drain and circular-migration issues.
- Remittances will contribute more to job creation if policies help create stronger incentives to save and invest in migrants' home countries – including, notably, in community-development projects.

Summary

Social, economic, political and environmental problems are root causes for migration. Regarding the labour market, migration is a symptom of imbalances in sending countries, such as high rates of unemployment and underemployment among low-skilled workers, low wages for skilled workers, and unmet demand for education and acquisition of skills.

International migration can help reduce poverty and raise economic growth rates in the migrants' countries of origin. First, an increase of remittances is generally associated with a reduction of overall poverty. Second, circular migration plays an important role. Economic analyses show that an increase in circular migration between developing and developed countries could produce gains of USD 150 billion per year, which would equally benefit developed and developing countries.

While the link between migration and economic development receives special attention, the particular dynamics of migration and its effects on the labour markets of sending countries are still poorly understood due to the lack of reliable data. However, initial empirical evidence shows that the labour markets in sending countries adjust to emigration in different ways, depending on the scale and type of migration and the country's general socioeconomic state.

The effects of migration on employment have many facets. The migration of low-skilled workers might result in rising wages or a relaxation of the local labour market in areas with high rates of emigration and an oversupply of labour. The outflow of skilled

* 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.

workers deprives developing countries of their human capital and results in brain drain with serious consequences on the delivery of key services like education or health care, and on economic productivity. In contrast, overseas work experience might provide opportunities to improve skills and further knowledge, while others whose qualifications are not recognised in their receiving country may see their skills diminish while abroad, making return difficult.

To grasp the variety and complexity of these relationships, more data must be collected and appropriate tools developed to detect and analyse the effects of migration on labour markets and employment. Considering the manifold links between migration and employment, migration policy has to be coherent and complement policy fields of education and vocational training, economic promotion and the labour market, all of which should be aware of the situation of (potential) migrants.

The option of re-entry of migrants into developed markets on renewable short-term contracts, flexible working arrangements and the protection of fundamental rights provide positive incentives for circular migration. To restrict and prevent the migration of professionals from sectors affected by brain drain, 'ethical recruitment' practices and measures to improve working conditions and infrastructure for high-skilled personnel in developing countries should be tied in with the acquisition of professionals from sectors exposed to brain drain.

On-the-job training and skill acquisition schemes affecting migrants' employability and knowledge transfer can also supplement circular migration. Additional training programmes in sending countries provide incentives for professionals to stay and thus help cushion the loss of expertise. Diaspora networks play an important role in reducing the costs of brain drain by fostering cooperation and the conveyance of knowledge and skills as well as collective and business investment.

The migrants' families often use remittances primarily to finance their livelihoods, rather than to invest productively. Some job creation will occur through the local multiplier effects of spending remittances for consumption and to secure livelihoods. This increases local employment while the saving of remittances can counterbalance local insurance system deficiencies. Given the limited scale of the positive employment and multiplier effects of remittances, some policies seek to encourage the use of remittances for more productive investments. This however requires more effective incentives for productive and employment-oriented investments in the economy, the reduction of transfer fees and better access to financial institutions. A further tool is government co-funding of diaspora-driven non-profit investments.

The relevance of migration to employment and labour markets

In 2005, around 190 million people (3% of the world's population comprising almost equal proportions of men and women) lived outside their country of birth. This proportion has remained relatively stable for several decades. The imbalance of active populations between developed and developing countries will however increase. The World Bank projects that by 2010 the active economic population of developed countries will increase by 50 million people compared to an increase of 733 million people in developing countries.

There is increasing political focus on the consequences of international migration for economic and social progress in the migrants' countries of origin. For instance, in

September 2006 the United Nations held the first High Level Dialogue on International Migration and Development. This led to the creation of a Global Forum for Migration and Development (GFMD). The GFMD first met in July 2007 in Belgium and the second meeting took place in the Philippines in October 2008. Furthermore, several multilateral organisations (such as OECD, ILO and World Bank), the European Union and many bilateral donors ascribe higher importance to migration issues in their research and policy agendas.

It is increasingly accepted that international migration can help reduce poverty and contribute to economic growth in the migrants' countries of origin. According to a World Bank study an average increase of 10% of emigrants in the total population of a developing country is associated with a 1.6 percentage point reduction in poverty (using an international poverty line of USD 1 per day). Moreover economic analyses show that an increase in temporary migration in developed countries, including low qualified migrants, could produce gains amounting to USD 150 billion each year, equally shared between developed and developing countries. Meanwhile, a 10% increase in the share of remittances in Gross Domestic Product (GDP) is associated with a reduction of poverty by 1.2%. However if migration leads to a significant loss of skilled labour to more developed economies (brain drain), international migration might have negative impacts on sending countries.

The connection between migration and employment, as a dimension in the link between international migration and economic development is therefore important for poverty reduction, and of interest to policy-makers in migrant-sending and migrant-receiving countries. One major reason for migration is the earnings gap between the host and the home country; hence most of the migrants leave their home countries for more remunerative work. Studies by the International Labour Organization (ILO) show that workers in high-income countries earn a median wage that is almost five times the level of that in low-income countries, adjusted for differences in purchasing power. However the earnings of migrants in their host countries are lower than those of native workers as migrants often lack the necessary qualifications and knowledge of the local language.

Another important reason for mobility is education and the acquisition of skills which are also related to employment and labour markets. Migrants come from all educational levels. Educated migrants have better prospects for the advance of skills and knowledge. The improvement of skills and the accumulation of financial capital from working abroad or by activities of the diaspora could have positive effects on the labour market like increased employability and the capacity to start a business in the country of origin. Yet these effects might be hampered when the upgrade in qualification does not match local needs or when economic and political conditions remain unattractive for investments.

International migration furthermore has effects on the labour market outcomes for many potential migrants or non-migrants in developing countries. These effects need to be better understood by decision-makers. Empirical studies on the link between migration and employment in developing countries do not show a clear picture and most of the theories are not quite satisfactory. However, social contexts in developing countries play an important role in establishing theories, which could be tested empirically and used for policy recommendations.

Mobility, whether temporary or permanent, has also always been used as an adaptive measure in times of environmental stress. Experts affirm that environmental deterioration exacerbated by climate change and the recurrence of natural hazards is likely to increase migration. However it is hard to attain detailed and reliable data on this issue since it is difficult to measure the extent to which climate change influences people's decision to move. Furthermore, migration can hardly ever be related to environmental degradation alone (Boko *et al.*, 2007).

The purpose of this hot topic paper is to explore the links between international migration and employment and labour markets in developing countries. It also provides concrete recommendations for governments of developing countries and development assistance agencies. While it is difficult to draw a line, this paper attempts to focus on the channel of labour markets and employment instead of systematically surveying the many effects of migration on development. It also does not address the effects of international migration on the labour markets of migrant-receiving countries of the OECD and elsewhere.

If people from a developing country participate in the global labour mobility system, labour markets and employment in that country will be affected through several channels. Five such channels are considered here:

- Emigration, wages and economic adjustment
- Brain drain and labour markets
- Effects of remittances on labour markets
- Diaspora networks and labour markets
- Return migration and employment

The labour market consequences of each of these mechanisms is subsequently explained, following which the important gaps in our knowledge about these five mechanisms that hamper effective action by practitioners and policy-makers are highlighted. Finally, selected implementation experiences as examples of good and bad practices are presented, while a list of additional experiences can be found in the annex. The paper concludes with some general recommendations for policy-makers and development agencies.

Main facts and figures and current knowledge about the issue

This chapter sketches the principal channels through which international migration affects employment and labour markets in developing countries. Some of these are related to the actions of the migrants themselves, including sending remittances and other activities of the diaspora (notably forging trade and investment links between countries of origin and destination). The migrants' return – whether temporary or permanent – can likewise generate benefits in their home countries' labour markets. Labour migration might have a negative impact on economic development when high-skilled migration leads to a substantial loss of human capital (brain drain) in strategic sectors like health care.

Gender aspects of migration

Women and girls have long accounted for a large proportion of all international migration. While the EU reflects the global trend of increased 'feminisation of international migration' (Lucas, 2005) with a portion of 52.4%, the proportion of female migration to the US is below 45% for most migrant groups.

Women's participation in migration differs among migrant groups and receiving countries. For example, within the Japanese or Filipino migrant groups in the US more than 60% are women, whereas in the Gulf States only about one-fifth of the South Asian non-national population are female. However the role of women in migration should not only be seen in the context of their situation in host countries, but also the responsibility they shoulder when only male family members migrate.

Emigration, wages and economic adjustment

In many, if not most, low-income countries open unemployment is relatively rare. This is partly due to the absence of adequate social safety nets that make it impossible to be 'unemployed' as defined by OECD countries. Generally most of the open unemployment in developing countries can be found in urban regions. In rural agricultural areas it is mostly hidden, as a subsistence economy functions as a kind of social safety net against poverty albeit a vulnerable and unproductive one.

Generally labour markets in many developing countries are marked by low wages and high rates of unemployment and underemployment among the low skilled. In contrast, studies mostly deal with the impact of high-skilled worker migration, which is expected to most affect the further development of sending countries.

When wages rise with economic development in sending countries this often leads to higher migration rates, as people need minimum assets to "afford" migration. If economic growth continues to be high in sending countries and income differences approximate, regional disparities will be significantly reduced and migration will decrease in the further course of development. This development is often described as a "migration hump". While this is important to decision-makers at policy level and in development cooperation, there is scarce empirical evidence to support this theory.

The impact of emigration in an environment of low wages and underemployment is complex. On the one hand, studies present unskilled migration as generating huge gains for migrants, their families and their country and is seen as a component of development policy. Unskilled migration may be an instrument to relax the labour market in the sending country and induce large amounts of remittances. Conversely, it is the emigration of skilled workers that deprives developing countries of one of their scarcest resources - human capital - thus hampering the progress of more productive industries and services.

For many reasons wages might not rise with emigration. The evidence from a number of countries (for example Sri Lanka) suggests that high emigration rates are not necessarily associated with rising wages or even declining unemployment (OECD, 2007). The first question is whether labour supply is reduced by emigration. Some of those who are left behind and have not been working before could enter the labour market (like women, older persons, the underemployed and the hidden unemployed). In the long run emigrant workers could be replaced by technology, by more skilled workers or by migrants from other regions of the country itself or from neighbouring states.

Additionally if an economy is well integrated in the global economy, wages may not change because traded goods can substitute reduced output. In some cases wages might even fall if for example, emigration numbers are so high that demand and output fall.

Over time, an economy undergoing significant emigration will adjust with consequences for labour markets. Historically many high emigration countries witnessed the mechanisation of agriculture following emigration. This was an adjustment to the reduced availability of low-skilled labour to work the fields. Generally, production techniques will change to use combinations of various levels of skilled labour and other factors of production (land, machinery and natural resources). This will change the wage structures and job characteristics.

Nevertheless emigration is sometimes accompanied by rising wages in some sectors in the country of origin. Evidence from Pakistan, Philippines, Mexico, Malawi, Mozambique and other economies supports this (OECD, 2007). Whether wages rise or unemployment or underemployment levels fall, this is good news for poorer workers who do not migrate. These wage-unemployment effects are potentially powerful ways for migration to reduce poverty via the labour market, even for non-migrants. They are not always discernible at the national level; wages will rise or underemployment will fall only in those local labour markets affected by high rates of emigration. Of course in the short term if wages rise, this will increase the cost for employers. The long-term effect of rising wages depends upon how the economy adjusts to emigration.

Brain drain and labour markets

With regard to the skill levels of migrants, the numbers differ between migration to Europe and North America (OECD and non-OECD countries). The majority of migrants to Europe are low skilled, while most migrants to North America possess higher qualifications (45%). Most of the low-skilled migrants who come to OECD member countries are originally from Latin America and the Caribbean, Asia, Eastern Europe and to a lesser extent, Africa.

Skilled migration can result in brain drain, (a decrease in human capital stock), which requires long-term efforts to be balanced by education and training. Brain drain can cripple the delivery of key services, especially in education or health care. It is estimated that 65 000 African-born physicians and 70 000 African-born professional nurses were working in a developed country in 2000. They accounted for one-fifth of African doctors and one-tenth of African nurses in the world (Michael *et al*., 2007). With the exodus of teachers, nurses, doctors and engineers the focus tends to be on the consequences for service delivery, which may be the most important consequence related to poverty reduction. Brain drain nevertheless has at least two labour market aspects which policy-makers should focus on.

First, one of the reasons why skilled workers emigrate is because they are dissatisfied with labour market options at home. This is not solely a matter of pay differentials between rich and poor countries, although those differences in earnings certainly influence skilled migrants. For example, evidence from Africa suggests that many emigrants trained as health care workers were not working in that sector at the time of their departure. They had emigrated from the health care sector before they emigrated from their countries. Their decision to leave the sector in which they were trained reflects dissatisfaction with working conditions, infrastructure and pay. To retain these skilled workers these labour market conditions must be addressed.

The second labour market effect might be called the "keystone worker" effect. This is slightly technical and deals with the interaction of high-skilled and low-skilled workers. The emigration of skilled workers might affect labour markets if work organisation or production technology for goods and services require a certain number of skilled workers in combination with low-skilled workers. If a key worker in a firm leaves, this could reduce the productivity of his former co-workers. They are “keystone” workers; without them some firms might reduce their scale of operations or fold. Eventually, the economy might re-adjust. This however will take time during which many low-skilled workers might see their working conditions (for example, nurses in an overstretched clinic where all the doctors have left) or earnings diminish.

Not all movements of high-skilled emigrants from developing to developed countries cause brain drain. It depends on the social, political and economic situation of the sending country how emigration has an impact on its labour market. If we take a look at remittances made by Filipino doctors, it seems that they more than compensate for the cost paid by the state for their education. The consequences of remittances on the sending country’s labour market are discussed in the next chapter.

Effects of remittances on the labour market

In 2006, the officially recorded remittances sent by migrants to developing countries amounted to nearly USD 200 billion, doubling over the last five years. If unrecorded flows are added to this, the total amount of remittances to developing countries is likely to be larger than foreign direct investment (FDI) and more than twice as large as official development assistance (ODA). However remittances and aid do not generally flow to the same developing countries. While sub-Saharan Africa receives more than USD 25 billion annually in aid, it receives only about USD 8 billion in remittances. Conversely countries that receive high remittance volumes (many of them middle-income countries) receive scant aid namely, Mexico, China and India.

Most policy interventions related to remittances have addressed two concerns: reducing the cost of transfers and attempting to channel these flows into a wider array of uses. Neither of these is directly related to labour markets though they may have an impact on employment.

Surveys on the use of remittances in many countries suggest that the migrants’ families use these resources primarily to finance consumption instead of investment. For poor households consumption can certainly improve their quality of life. Moreover many categories of consumption are in fact investments in these households’ futures and their human capital: for example, spending on health care, education, and consumer durables like refrigerators. The spending of remittances generally – whether for consumption or investment – will generate some job creation through local multiplier effects.

Remittances as a means for insurance purposes and private investment capital for people who cannot afford to migrate should not be overlooked. By serving as insurance for their families, migrants make up for the lack, or inadequacy of, local insurance systems in areas where incomes are highly variable, diseases are more common and severe, or where political, economic and/or social instability is greater. They also allow families to engage in activities that entail more risk but are potentially more profitable. This is especially the case in poor countries where capital market imperfections reduce the options available to members of low-income classes. The decline in the level of risk exposure, after the sending of remittances, may allow the household to undertake a risky – but profitable – investment project, thus contributing to economic growth. Here remittances will be relatively more productive in a distorted economic environment. This also means that altogether the share allocated to investment is relatively low. However as this is the reality in most developing countries it should be noted that migration and remittances can be associated with new insurance and investment possibilities for those who stayed home.

Who sends more remittances – high-skilled or low-skilled migrants? The existing literature on this point is not fully clear. However the volume of flows seems to be a function of the average skill levels of migrants, as noted above. Remittances from less qualified migrants reduce poverty more than those from high-skilled migrants. This is especially if the high-skilled migrants settle abroad permanently with their families. However in the case of the mainly educated and urban middle class Afghan diaspora in high-income countries, we see high commitment for many years. This could partly be due to its organisational strength and the persisting problems back home. Moreover the size of remittance flows depends on the duration of the migrant's stay: under this hypothesis, shorter-term migrants maintain a stronger link to the home economy and therefore send more money home, while second generation migrants tend to have weaker ties to their family back home.

Finally, remittance receipts have encouraged many households to reduce their labour supply and use remittances as a substitute for farm earnings. They are better off not working given the low productivity of other available options. From a macroeconomic perspective, policy-makers might want to consider the effects of this reduction in available labour supply. In most cases if better paying and more productive work were available for these members of migrants' families, they might prefer to work in addition to receiving remittances.

Diaspora networks and labour markets

In countries with a longer migration experience, diaspora networks (with low and highly qualified workers) may act as conduits of transnational linkages. These links include business investment – in both directions – between their home and host country. FDI and outsourcing of production financed by the overseas diaspora can generate employment prospects that might benefit the poor in the long run. Diaspora members also purchase land or houses in their country of origin, finance construction of schools, clinics or roads in their home villages and donate money for income-generating development projects. Moreover, diaspora networks between host and home countries can play a major role in sharing their skills, experience and knowledge with those who have remained at home.

There are mixed employment impacts of the diaspora networks' activities. China has benefited from ethnic Chinese entrepreneurs overseas who invested on a large scale within Chinese regions creating many jobs and expanding export performance. It is estimated that nearly half of the USD 41 billion FDI China received in 2 000 came from its diaspora. The Indian software industry benefited from a well placed diaspora in the US reducing reputation barriers to trade. It is easier to recruit additional skilled workers and it improves the general business relationship between US and Indian software firms. So the Chinese and Indian diasporas clearly have had a positive economic impact – including employment generation – on their respective home countries whereas the economically successful and well-organised Armenian diaspora has contributed less to developing its home country. The differences in these outcomes partly reflect the different attitudes of the local elite toward their counterparts in the diaspora: the domestic Armenian political and business elite have pushed for economic liberalisation and privatisation while keeping the major reform benefits mainly for themselves. The Chinese and Indian elite meanwhile have been more accommodating of investment finance from the diaspora.

Some policies have sought to encourage the use of the diaspora's resources for investments such as firm start-ups or community development. Their success will depend on the character of investments, though there are reasons to suspect that the overall impacts on employment will be modest. Start-up enterprises, many of which will be small scale, might primarily generate jobs for other family members. Community infrastructure investment is likely to be more labour intensive but such efforts will often call upon community members to donate their labour. Development projects initiated by migrants also contribute to the creation of income-generating activities on a small scale. The impact of diaspora involvement on the local level can nevertheless be important.

In situations where the overseas community is large or notably wealthy, the diaspora may retain significant influence on politics in their home country through absentee voting or lobbying. This indirect political influence may sometimes impact economic development. The consequences of these interventions are mixed. If it leads to violence or civil war the local economy is harmed. Several post-war countries however emphasise the migrants' contribution to local development and stabilisation. The Afghan diaspora in the USA and Europe for example, exerts great influence on political reforms and has played a significant role in private sector development. Successful attempts to promote democratisation to accelerate economic development often depend on the willingness of the ruling elite in the country of origin to interact with the diaspora. Liberia's government for example actively encourages remittances and volunteering of migrants for concrete development outcomes and even held a forum on diaspora engagement in 2008.[1]

Return migration and employment

The return of expatriates to their home country supports economic development and job creation when returnees bring capital and knowledge back with them. Studies suggest that return migrants often have better employment possibilities than those who stayed home. They are also more often self-employed thus potentially contributing to employment generation and economic growth. Meanwhile other migrants have seen their skills diminish while abroad and have problems re-integrating into their home country's labour market. This is the experience of skilled migrants whose qualifications are not recognised when they migrate. After a period of working in a low-skilled job, they may find upon their return home that they are unable to find employment even in the field in which they were employed. Central and Eastern Europe provide many such unfortunate examples (OECD, 2007). A general difficulty arises in interpreting the evidence for this link. The re-entry often involves a process of searching for the best opportunities in the domestic labour market. Until now, it is unclear how long returnees have to search for a new job. There is also a big difference between the home countries of returnees regarding the need for social networks to find new jobs.

Temporary and circular migration share the benefits expected from return migration especially regarding skill and capital accumulation and their use upon return. Return on a regular or occasional basis may encourage brisker economic activity. Migrants are more likely to return if the investment and employment climates improve. Policies that foster strong R&D environments and infrastructure are attractive, particularly to high-skilled workers (although low-skilled workers might also be lured back home by improved employment opportunities).

Key issues and debates

Practitioners and policy-makers need better information to reap the gains and limit the risks of international migration of workers in the developing world. This chapter highlights some of the gaps in understanding the links between migration and employment. Case study research of specific migration experiences provides critical answers.

Compared to OECD countries, definitions used in developing countries are often unclear. Statistics of unemployment or remittances for example, are handled differently in OECD and in developing countries. There is also knowledge and data lag because of irregular migration. The same applies to definitions of unemployment and underemployment.

Emigration, wages and economic adjustment

More statistical data and analysis is needed to better understand the impacts of migration on employment. We need to understand better the regional and country specific backgrounds of migrants, information on the size of high or low-skilled emigration, the length of stay, the migrants' skill level, educational and economic background, their employment status before emigration, and whether they worked in the formal or informal sector. This information helps determine what happens when circular migrants return. For example, do they enter or re-enter the informal economy?

Assessing specific effects that occur in a given labour market are of particular interest to policy-makers. The size of unemployment and underemployment and emigration varies among countries as do the impacts of migration regarding wage and relaxation of the labour market. One question is whether, and how, governments should facilitate internal labour mobility to adjust to emigration flows. This depends on how employers actively adjust to emigration pressures like labour scarcity and/or higher wages. Do they go into new areas of activity, invest in new techniques or move to new regions in the country? Policy-makers and employers alike need to determine the kind of skills and training initiatives needed for potential migrants and remaining workers in an economy strongly affected by emigration. Such measures also need to be part of the discussion on brain drain.

Brain drain and labour markets

To curb brain drain, countries need to know which sectors often lose highly-skilled workers. The departure of professionals influences the performance and capacity of a country in many ways (for example, in service delivery and productivity). One point that is overlooked is the incidence of sector emigration prior to actual physical emigration. If such correlations were studied, the findings would strongly influence the interpretation of the social costs of the brain drain. They would also bring us closer to understanding the labour market situation and to recognising which incentives or employment programmes are needed to retain highly qualified migrants.

Another case in point is the interrelation between education and migration: it needs to be analysed for each country whether highly skilled people leave their country to receive further education or whether education is a vehicle to exit a country with a lagging economy.

A number of studies propose the concepts of circular and temporary migration as potential tools to forestall the definitive loss of human capital. These concepts will need to consider that a temporary intention often leads to permanent stay. Overall, it is not clearly known the extent to which temporary migrants acquire new skills and financial assets and their impacts on employment. The countries of origin should analyse what highly skilled migrants think about such migration schemes and their potential to motivate return.

Effects of remittances on the labour-market

Remittances are one of the top themes of the positive effects of migration. However there is still no coherent definition of remittances or methods to measure their flow. Data on the share of remittances in GDP vary among different providers. Furthermore, many migrants use unofficial ways of transfer and the amount of such unregistered remittances can only be estimated.

The recipient households are most likely to use the transferred money for consumption and insurance compensation and to a lesser extent, for investment. To know the size of the multiplier effects arising from this, it is necessary to carefully map the job-creating potential of household spending in various categories (current consumption, household improvements, consumer durables, education, health and community investment). Apart from difficulties in measuring multiplier effects, sustainability depends on whether the increased demand for goods can be met by local production or requires imports.

Finally, more evidence is needed on the extent and the areas in which remittances contribute to the creation of enterprises and have effects on employment. Are start-ups financed by remittances usually part of the formal or informal sector? Do they have a wider employment scope beyond the family working unit and what should be done to encourage this?

Diaspora networks and labour markets

For sending countries it is of vital interest to not only tap the financial resources but also the human capital migrants acquire while abroad. In the past there have been several initiatives in this direction in the form of skills and information exchange networks. However it is unclear how to effectively leverage the migrants' expertise for a country's development. The countries of origin also need to know whether there are members within the diaspora matching professional vacancies back home. Opportunities to fill positions with diaspora members, particularly those with skills that are scarce in the country of origin, could be tapped through these networks.

Return migration and employment

Knowledge on the magnitude of return flows is not easily obtained partly because return can be both permanent and temporary.

A prime concern lies with the potential benefits return migrants bring to employment and the labour market. Where return migrants can raise sufficient capital, evidence suggests that they are more often self-employed compared to non-migrants (Mattoo and Amin, 2007). To measure the effects on the labour market it is important to examine whether migrant entrepreneurs can afford to employ non-family members as well (Wahba, 2003). Furthermore, research needs to look at which political, social and economic factors encourage return and company foundation.

Little is known about the returning migrants' experiences of re-entry into the labour market. Leading questions are, for example, in which sectors they are mostly employed and whether jobs are formal or informal. Another interesting point is to see if the new work relates to the job they were doing abroad and to what extent returnees can apply and benefit from the knowledge and experience they gained abroad.

Examples of good and bad practice

Emigration, wages and economic adjustment

The Canadian Seasonal Agricultural Worker Programme (SAWP)

A number of programmes aim at regulating the supply of labour for seasonal agricultural migration starting with the demands of the receiving country. The Canadian Seasonal Agricultural Worker Programme (SAWP) is widely viewed as a best practice model running for over forty years to facilitate labour migration between Canada and a number of Caribbean countries and Mexico. Key strengths include the involvement of all stakeholders in the process and close supervision of selection and evaluation, the protection of fundamental migrant rights and fair wages.

When employers have reported their request for labour, recruitment agencies in participating countries carry out the selection and screening of foreign workers. Costs arising from transportation, visa requirements, housing and health insurance coverage are partly borne by the employer. There is however a limit up to which costs may be deducted from a worker's paycheck. The wage is calculated according to the guidelines set on minimal wage and the wage for such agricultural work paid to Canadians. Migrants' rights and obligations are outlined in the contract but there are some flaws in their realisation. Given that contract renewal depends on the employer's approval, migrants may choose not to make full use of their rights in case of illness or long working hours. Furthermore, legal provisions and pressure from employers in some places make it difficult for migrant workers to organise in agricultural unions.

For labour migrants, the programme has proved effective since it opens access to seasonal migration and income remittances, without recruitment fees and the risks of unauthorised migration. Once in the labour pool, there are relatively good chances of being re-employed the next season, which might also be an explanation for the low rate of overstayers. More importantly, temporary migration with prospects of re-employment provides a relatively stable and predictable level of income and resources that may potentially be invested into productive activities back home.

The Philippines Overseas Employment Administration (POEA) and the Overseas Workers Welfare Administration (OWWA)

The Philippines has an interesting example of a government-driven policy to promote temporary labour migration which is regulated and implemented by the Philippines Overseas Employment Administration (POEA) and the Overseas Workers Welfare Administration (OWWA). According to the POEA, the main office serves an average of 3 000 potential migrants on a daily basis. The two government agencies provide services to facilitate overseas employment, including overseas work placement and the establishment of contracts, preparatory courses on social and work conditions abroad, and medical insurance and pension plans. They also maintain databases on skills and foreign employers hiring Filipino workers.

The provision of a credit card that allows cheaper and easier sending of remittances via private banks is another incentive to encourage labour migration through official channels and to reap the benefits. Repatriation assistance is provided to encourage return and there are a number of re-integration schemes like counselling, skills training, educational assistance, preferential access to business loans and investment advice.

Despite these efforts rates for undocumented and permanent migration are high and impacts on employment in the Philippines are mixed. Remittances and skills are rarely invested into business start-ups and employment at home. Additionally, a culture of migration seems to arise since return is only temporary and viewed as waiting time between the last and the next deployment abroad. Social costs in terms of family unity and income inequality between migration-affected households and non-migrant families also increase. Migration is increasingly viewed as a tool for social mobility, with potential implications for education becoming a vehicle for migration and brain drain.

Clearly, the Philippine government has managed to formulate a consistent and ambitious labour migration policy providing a wide range of services to facilitate and encourage temporary migration. However there is a need to better leverage the benefits expected from migration for the country’s employment and economic development (O’Neil, 2004).

H-2A Temporary Agricultural Worker Programme

To meet the critical shortage of domestic agricultural workers the US government launched the H-2A programme for seasonal labour. The reception and use of the programme by American growers has been very modest due to complex administrative requirements, delays and costs. Farmers complain that they have to cover workers’ housing, transportation, visas and other fees, which in the end makes the programme uncompetitive to undocumented farm workers who make the major share in agricultural jobs. One criticism is the slow processing of requests that often result in the serious undersupply of workers at harvest season. The H-2A programme also shows that complex bureaucratic procedures, for example regarding applications for re-entry or for multiple ‘unnamed’ farm workers, are unattractive (Los Angeles Times, 2007).

In the beginning of 2008, the US Department of Homeland Security which is also involved in managing the programme proposed several modifications to streamline the hiring process under the H-2A programme in a systematic and timely fashion.[2]

Brain drain and labour markets

TOKTEN UNDP Programme in Lebanon

The Lebanese people have been emigrating from their country since the 19th century. The outbreak of the war in 1975 caused a huge outflow of migrants. This massive emigration wave during the war included a high proportion of highly qualified persons. The incentives for Lebanese to emigrate remain high, particularly in view of the prevailing economic slowdown and high unemployment. In the absence of official statistics, estimates vary and the figure of outflows of more than 100 000 persons per year at the end of the 1990s is cited as conservative. Men constituted the majority of people who migrated during this period (85%), and emigration affected the skilled and better-educated segment of the population more.

The TOKTEN programme was launched in Lebanon to mobilise successful emigrants to undertake short-term consultancies in their countries of origin, with UN support. It added a dimension of technical cooperation that contributes to reducing the negative effects of brain drain. This programme supports positive contribution through the circulation of know-how and transfer of funds from abroad to the countries of origin, including the dissemination of skills and experience of diaspora members. The programme has set up a database of Lebanese professionals in various fields of specialisation and established links with Lebanese associations abroad as well as with university research centres.

Effects of remittances on the labour market

GeldtransFAIR.de

The GeldtransFAIR website was developed to allow migrants in Germany to better compare the various services for money transfers to their countries of origin. It provides migrants with information on services offered by banks and other money transfer institutions. This makes the remittance market more transparent and increases competition. The goal is to shorten the time taken for transfers and to reduce fees. This way, money transfer via formal channels will become more attractive and more money will be sent safely to the migrants' families.

Initially the website focused on money transfers from Germany to Albania, Ghana, Morocco, Serbia, Turkey and Vietnam. Today the website offers information on 26 countries regarding prices and the time required to complete a transfer with different providers (banks and money transfer operators), ways to transfer money (electronic or cash transfers) and other aspects of sending money abroad.

The German website was developed under the provisions of a joint project between the Frankfurt School of Finance & Management and the German Technical Cooperation (GTZ), commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). The website was launched in November 2007 (*www.geldtransfair.de*). Several other European countries (for example France, Netherlands, Norway, Spain and the United Kingdom) have developed similar websites.

The connection between remittances and financial services and the development of specific financial products

The Mexican government promotes the coalition of rural credit cooperatives and savings banks that are affiliated to a transfer network comprising 20 money transfer companies. This allows receiving households in rural areas to open up savings accounts and to better access micro-credit schemes, thus improving their ‘financial literacy’. Moreover the additional funds in the rural banking system provide more resources for micro-credit.

The Ecuadorian Banco Solidario has developed special financial products and services for migrants and their families. The programme ‘My family, my country, my return’ offers loans to settle debts and to finance small businesses from abroad as well as home loans and foreign currency accounts. Another key element is the bank’s arrangement with three major banks in Spain and one in Italy that allow migrants to access micro-credits in the host country and to send remittances at special rates. The Bank also works with cooperatives in rural Ecuador to ensure that families in the villages can obtain remittances.

There are special saving products where migrants place investments at a fixed interest rate during their time being abroad while the capital is used to finance micro-credits in their home country. The Economic Resource Centre for Overseas Filipinos (ERCOF) in the Philippines promotes one such example.

Migration and local and regional economic development in Honduras (BMZ/GTZ-IOM co-operation)

In early 2007 following first initiatives on remittances GTZ launched the “Transnational Bridge” pilot project in cooperation with the International Organisation for Migration (IOM) in the region of Intibucá (Honduras). This was within the scope of a programme on income and employment promotion commissioned by BMZ. Besides a study that underscored the relevance of migration to the sustainable development of the local economy, the Honduran partners’ enthusiasm led to activities promoting the integration of migrants into local development.

Among others, the activities concentrated on the formalisation of financial transfers through the bancarisation of migrants and their families. Another key element was the consultation process to the Honduran government regarding the introduction of a pilot programme promoting collective remittances by migrant associations for infrastructure investments in Intibucá.

Diaspora networks

South African Network of Skills Abroad (SANSA)

One way to deal with “brain drain” is through the so-called diaspora option. This strategy is attractive to developing countries that cannot afford to offer the salaries and other incentives needed to attract their highly skilled expatriates home. The aim is to encourage highly skilled expatriates to contribute their experience to the development of their home country without necessarily returning home. As a strategy to limit the effects of brain drain and make use of the presumably lost human capital, governments, organisations and members of the diaspora cooperate in networks. Such networks may focus on particular skills, knowledge or branches but they are all united by the goal to systematically use the expatriate experts, scientists and engineers for development at home.

The South African Network of Skills Abroad (SANSA) demonstrates what can be achieved with such an approach. As a virtual Community of Practice, SANSA's main objective is to facilitate the development and utilisation of networks for knowledge sharing, learning and transfer between their members and the wider South African community. As of March 2002, SANSA had 2 259 members (58% were South African citizens), in more than 60 different countries. While the SANSA network has not generated many projects (in May 2003), there have been some exciting developments. For example, the SANSA database is now linked to the NEXUS database which contains information on current and completed research projects in South Africa, research organisations, professional associations, profiles of researchers in South Africa and forthcoming conferences. The SANSA database is also useful for research purposes, such as a study by the World Health Organisation on the migration of skilled health personnel in South Africa.

Besides knowledge networks where mostly high-skilled members of the diaspora share and transfer expertise and skills for the benefit of their home countries (see previous sections), there is another type of diaspora commitment organised in networks. Migrants pool financial and sometimes material resources to fund collective non-profit initiatives and improve the living standard in home countries. Members often originate from the same geographical region (hometown associations) and maintain strong ties with families back home.

GTZ pilot programme commissioned by BMZ for projects of migrant associations in their countries of origin

Commissioned by BMZ the GTZ sector programme Migration and Development has been supporting diaspora association projects in developing countries since mid-2007.

Example: Employment perspectives through vocational training for young people in Senegal

The project's goal was to expand the capacities of a vocational training centre in the migrants' region of origin, Waoundé, so that more youths could have the chance for a sound craftsman apprenticeship. The region has high emigration rates due to increasing aridity that reduces agricultural perspectives. However, there is a need for qualified craftsmen.

The migrant association's project that was co-financed by GTZ increased the number of apprentices from 40 in the school year 2006/2007 to 110 the following year. The Senegalese Ministry of Education doubled the number of teaching staff following the expansion of the school centre's equipment. A third apprenticeship programme now supplements the training course. Besides wood and metal processing, electrical engineering is taught as well. Today the vocational school centre attracts qualified teaching staff. Local enterprises cooperate with the centre by making use of its machines.

Return migration

Hsinchu Science Park, Taiwan

The Hsinchu Science Park, a government-led initiative established in December 1980, is a successful effort to bring scientists and researchers home. The government has invested USD 1 679 million in park infrastructure and facilities. The Park had 115 477 employees by the end of 2004, including over 4 500 Taiwanese scholars who returned from abroad. These returnees directly contributed to the park's success by establishing 116 companies in the park (384 companies in total). They have also been involved in further development by introducing technologies and management skills.

Returning Experts Programme, BMZ (Germany)

The Returning Experts Programme commissioned by the Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the Centre for International Migration (CIM) advises and supports junior and senior experts wishing to return to their country of origin. Through professional re-integration and technical networking of returning professionals, the programme advances the sustainable transfer of know-how in sectors relevant to development. This helps counter brain drain and may have further positive effects on employment.

Advisory and placement services are offered to potential returnees and also to employers in developing and emergent countries who need employees with special qualifications. In 2007, about 5 000 potential returnees made use of the advisory services in Germany. This proves there is demand for, and potential in effectively applying the returning experts' know-how and skills towards achieving their country's development goals. There is temporary financial support for positions that are important to the development goals but whose 'normal' domestic pay is not attractive enough to expert returnees.

The current directive only supports the permanent return of experts. As such the potential of well-integrated, professionally experienced foreign experts is not optimally used for development cooperation. There are views that the programme should be open to circular migration processes and should be further developed in a country-specific manner.

Example: Returning Experts as Starting Points for Bilateral Economic Relations in Morocco

After completing his studies in computer science Abderrahmane El Kacemi worked as a software engineer with German companies for six years. However, in the long-term he saw his future in Morocco. During a counselling session at CIM he got to know about the returning experts programme and about the core theme in German development cooperation in Morocco "*Mise à Niveau*" which promotes the country's economic competitiveness. On his own initiative El Kacemi found a position in Morocco with a producer of plastic tubes. With his international professional experience the returnee now prepares medium-sized businesses for the planned EU-Mediterranean free trade area. By deploying new quality standards, automatised controlling instruments and training co-workers in IT, El Kacemi strengthens the company's innovative power. Based on his knowledge of the market and his connection to Germany the company has German clients and is buying an entire line of machines from a German company. Through the advisor for returning experts, he is involved in economic-related events of the Foreign Chamber of Commerce and of development cooperation.

Policy recommendations for donors

General policy recommendations

It has been shown that migration and employment deserve stronger integration into development policy issues. In OECD countries migration should not only be seen as an internal policy challenge but as a means to complete development policy. Developing countries can use the potential of migration to increase the employment effects of their developing process while trying to control the challenges of migration.

To achieve more efficient migration and employment policies, relevant statistics in developing countries need to be improved. This essentially means developing tools to identify the effects of migration on labour markets and employment. It also concerns data collection, statistical capacity building, effective harmonisation and data sharing across countries in these policy fields.

More accurate and reliable data is also a prerequisite for employment strategies which could cover developing and developed countries, especially those that are closely interlinked by migration flows and whose labour markets show dependencies to different extents. Here, bilateral agreements would seem more likely to succeed as they tackle the relevant issues compared to regional or multilateral agreements. This can also include partnership agreements between trade unions in the countries of origin and destination (see Box 14 and Annex 2). This way policy coherence between the sending and receiving countries can be improved with potential gains on each side.

Box 14. Example: Partnership agreement on migrant labour between trade union organisations in Malaysia (MTUC) and Indonesia (ITUC)

There are thousands of Indonesian migrant workers in Malaysia. Most of them are women performing domestic service work. Migrant workers are often exploited by recruiting agents and employers, and have to endure poor working and living conditions. By and large, they remain outside the trade union movement. Although the law does not prevent them from explicitly joining a trade union, most of the contracts offered by agencies establish clauses stating that workers cannot unionise. If they do, they risk being sent back or fired. Besides, cross border migration is likely to increase in the near future. The partnership agreement on migrant labour between the Malaysian Trade Union Congress (MTUC) and the Indonesian Trade Union Congress (ITUC/KSPI) is an important part of bilateral cooperation in South-East Asia. To harmonise working and living conditions, it is also necessary to inform the workers of the positive contributions of migrant labour towards the development of both receiving and sending countries. One of the reasons for the agreement is to contribute to this harmonisation. It also aims to explore trade union solidarity and to strengthen cooperation between both organisations by regularly exchanging information on the situation of both labour markets, by exchanging experts on different issues and by taking immediate actions and finding solutions to migration problems. Moreover, the agreement aims to improve participation and consultation of the social partners at all levels and to establish better cooperation with the employers' organisations. The cooperation between the MTUC and the ITUC will include mutual visits, bilateral talks and consultations on these issues, seminars and conferences on specific topics concerning migrant labour and exchange of knowledge, experience and experts between trade unions at all levels.

Areas where multilateral cooperation might also succeed and where it is indispensable include the exchange of information and analyses on migration and employment policies and country experiences as well as the development and implementation of a code of conduct at EU-level for the ethical recruitment of high-skilled migrants.

Policy coherence also plays an important role when coordinating migration and employment policies at national level within a country. In cases of open economies these policies should not be conceived without taking into account trading and migration partners. They should also be consistent with the country's other national policies. This mainly concerns the coordination of (vocational) education policy, labour market and economic promotion policy regarding the target group of potential migrants. This can, among others, counterbalance the negative effects of brain drain.

Regarding brain drain

Although a limited but positive rate of skilled migration is very likely to be beneficial for both sending and receiving countries, many poor regions such as sub-Saharan Africa and Central America are well above that 'optimal' threshold. A number of steps should be considered to manage flows of highly skilled migrants more effectively and limit the negative impacts on sending countries. Sectors affected by brain drain should be identified and monitored, and there should be an effective regime to enforce ethical recruitment especially among doctors and nurses.

Development assistance to replenish key workers must be closely linked to recruitment efforts. The capacity of the brain drain-affected health and education sectors in developing countries to replenish or retain workers can be substantially improved through donor commitment in strengthening service delivery systems, continuous training of personnel and better working conditions. For example, temporary recruitment of personnel can be combined with on-the-job training programmes and skill-replenishment schemes.

In areas with a high emigration rate, labour market conditions and remuneration are decisive factors. The success of aid-for-migration policies depend on the volume of aid, how effectively it is utilised, the quality of jobs created and the commitments from both governments. Finally, if migration is to be managed successfully, there must be a comprehensive programme to educate or create awareness among citizens of sending countries about the benefits and the challenges of migration, especially irregular migration.

Regarding remittances

On an aggregate empirical level, skilled migrants remit less, so that the negative impact of brain drain on the sending countries cannot be counterbalanced by higher remittances. This does not mean that remittances by skilled migrants are negligible. This is especially if the proportion of temporary migrants increases, as the volume of remittances is negatively related with the duration of migration. Also, a low percentage of skilled migrants' income might be reasonably high in absolute terms.

Generally remittances have a strong impact on poverty reduction and economic activity, with an indirect impact on employment. Governments can offer incentives to increase the volume of remittances and to influence their allocation in home countries. It should be emphasised however that attempts to do so without recognising the primacy of individual choice have failed repeatedly. Success is based on relations of trust and on the networks forged both abroad and in the migrants' home countries. There is no substitute for sound macroeconomic policy, good governance, a reliable banking system, respect for property rights and a strategy aimed at fostering trade and attracting foreign direct investment (FDI). Migrants are not responsible for development and remittances are no substitutes for aid or FDI flows.

Policy-makers can seek to facilitate transfers, for example by reducing their cost, and by increasing access to financial institutions in rural and remote areas. They can also encourage the creation of new financial instruments to favour economic initiatives. Similarly, foreign aid can be used to co-finance collective investments undertaken by migrants in their home countries.

Example: *Tres Por Uno* in Mexico

Bearing in mind the danger that new money flows create new dependencies, the Mexican district of Zacatecas started the programme called "*tres por uno*" (three for one) in 1986. This means that for every dollar sent from the hometown associations to the country of origin, the state, federal governments and municipalities also contribute a dollar each. This money is inter alia used for employment-oriented projects and the advancement of infrastructure. In 2001 the 3x1 Programme became a federal level programme under the *Secretaría de Desarrollo Social*.

One of the positive aspects is that local governments and hometown associations work closely together. The effects on the labour market are not quite clear. But in 2006, empirical studies showed that every dollar of remittances sent to Mexico allowed the Mexican economy to grow between USD 2.69 and USD 3.17. Smaller firms in urban Mexican areas take about 20% of their invested money from remittances.

In conclusion, projects based on networks and organised diaspora communities, like the hometown associations, seem to be more successful in having a positive impact on the economy and the labour market than projects that focus on individual transfers.

Regarding diaspora networks

There are three key characteristics of diaspora networks that are interesting to development policy-makers: (*i)* they can be information intermediaries*; (ii)* they have access to "inside information" about their members; and (*iii)* they have recourse to contract enforcement mechanisms not available to outsiders.

Diaspora networks can increase the contribution of migration to labour market efficiency. Their role as information intermediaries certainly works as they communicate labour market information about the most remunerative job opportunities to would-be migrants. If migrants' associations are active in labour market integration, they also help in social integration.

Diaspora networks can reduce the costs of brain drain to developing countries. If diaspora networks can be encouraged to facilitate "virtual return", they can reduce the cost of the loss of skilled workers for sending countries. Circular migration regimes that facilitate temporary movement of such workers, including the acquisition of new skills and practice, will complement the activities of networks and allow people in sending and receiving countries to participate in transnational networks. Proposals to pool remittances for investment in educational and community development are a concrete example of diaspora contribution to local development.

National migration policies should include diaspora policy, such as encouraging and mobilising migrants' organisations and diaspora networks as partners in co-development initiatives. Furthermore, international donors can facilitate networking and communication of diaspora communities.

Regarding return migration

It is well known that restrictions on temporary migration to northern countries often lead to migrants overstaying their visas once they have crossed the border to the north. Yet temporary or return migration could potentially be conducive to the development of the migrants' regions of origin, and an increase in such migration could thus be positive for development.

However in terms of control of migratory flows, it is very difficult to distinguish between genuine temporary migration and entry for permanent settlement. Migrants would have a greater incentive to return when their contract period ends because of the likelihood of repeat migration and because governments have detailed information about them (which is a fundamental difference to irregular migrants). Cooperation on screening would be more difficult at the regional level and most likely unfeasible at the multilateral level.

Successful temporary programmes avoid the shortcomings of the well-known guest-worker schemes through flexible working arrangements, close supervision of recruitment procedures, clear admission criteria and protection of fundamental rights. Multiple-entry visas raise the likelihood that migrants will return to their home countries and they encourage circularity by reducing the uncertainty surrounding re-entry into a particular OECD country. Mechanisms to transfer pension or social security contributions to an account in the home country to be collected by the migrant only upon return will likewise encourage circular movement.

Another element of effective management of temporary migration is active recruitment. Repeat contracting with agents, with a good record of transparency, reliability and treatment of workers, could provide incentives for agents to maintain core standards.

For example, the African Human Resource Programme (AHRP) touted by the Global Commission on International Migration (GCIM) seeks to create a database of African teachers in universities and high schools in Europe, the United States, Canada and elsewhere. It will be available to African states and other stakeholders active in education and teaching in Africa. Given the success of similar university programmes this idea could be productive.

Notes

1 Diaspora Engagement Stakeholders' Consultative Forum, Monrovia, 01.08.2008, *www.emansion.gov.lr/press.php?news_id=810*

2 Fact Sheet: H-2A Temporary Agricultural Worker Program, 2008, Office of the Press Secretary, Department of Homeland Security, United States of America; accessible at *www.dhs.gov/xnews/releases/pr_1202308216365.shtm*

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Annex 1

Further Implementation Experiences

Emigration, wages and economic adjustment

1. **Bilateral agreements between sending and receiving countries**: For instance, Mali and France have established the Mali-France Consultation on Migration, an annual bilateral discussion at the ministerial level dealing with three issues: a) the integration of Malians who want to remain in France; b) co-management of migration flows; and c) cooperative development in emigration areas of Mali. Another example: the Portugal-Cape Verde joint commission on migration.
2. ***Agence Nationale pour la Promotion de l'Emploi et des Compétences* (ANAPEC)**: This government agency facilitates seasonal employment of Moroccan workers in Europe (especially for agricultural work in Spain) and in Arab countries.
3. **Mainstreaming migration into Poverty Reduction Papers (PRSPs) and National Development Strategies**: Migration and its potential positive impacts are integrated into policies for growth and poverty reduction in countries, where emigration is high and remittances play an important role as a family resource and as an investment base. The Philippines arguably has pursued this. Discussions are underway in other countries, including Ghana and Kenya.
4. **Seasonal Agriculture Workers Scheme (UK)**: Full-time students (aged 18-25) not living in countries of the European Economic Area are allowed to work in agriculture and horticulture in the UK. This gives them the opportunity to learn new methodologies and technologies and apply them upon returning home.

Effects of remittances on the labour market

1. Diaspora bonds are managed as a debt instrument issued by a country (or potentially, a sub-sovereign entity or a private corporation) to raise financing from its overseas diaspora. This finances development in the form of public sector projects (housing, communication or infrastructure). Israel and India for instance, have raised USD 35-40 billion using these bonds.

Diaspora networks and the labour market

- **The Silicon Valley Indian Professionals Association (SIPA)**: A platform that focuses on creating value of information for its members and knowledge that engenders in the meeting of corporate leaders, workforce, consultants, and service providers. A further aim is to develop cooperation and exchange between high-skilled Indian expatriates, and between India and the U.S. in areas of high technology. *www.sipa.org.*

2. **The Indus Entrepreneurs (TiE)**: The Indus Entrepreneur group has more than 12,000 members in 11 countries. Entrepreneurs and professionals with roots in the Indus region founded the group in the Silicon Valley in 1992. *www.tie.org.*

3. **Brain Gain Network (BGN)**: An online networking and productivity tool started in 1992, which connects professionals and students interested in helping to increase the global competitiveness of the Philippine high-technology economy. *www.bgn.org/bgn.*

Annex 2

Examples of transnational cooperation between trade unions

Cooperation agreement between trade union organizations in Costa Rica (CTRN)[1] and Nicaragua (CST)[2] to establish a trade union support centre for migrants

There is a high level of migration between Costa Rica and Nicaragua. However the trade union movement has had difficulties in tackling the issue of migration in an effective manner. There can be no progress in defending migrant workers' rights unless bilateral relations and international solidarity are strengthened. The "Confederation of Workers Rerum Novarum" of Costa Rica (CTRN) and the "Central Sandinista de Trabajadores" of Nicaragua (CST) have therefore signed a cooperation agreement to defend the rights of migrant workers in the region. Both organizations agree that the situation facing migrant workers needs to be addressed from the perspective of broad trade union solidarity and gender equality since migrant women workers suffer the worst marginalisation due to their unequal position in society. They have also agreed to develop good practices on trade union cooperation to support migrant workers. The project will run for two years focusing on the establishment of a trade union support centre for migrants to be based in Costa Rica. In addition, both organisations intend to develop efforts to raise awareness on combating racism and xenophobia by providing trade unions and the general public with information on the positive contribution that migrant workers can make to the economy of the host country. They have also included in their general programmes, the organisation of seminars and conferences on specific issues linked to migration. They will also actively promote the ratification and effective application of the relevant ILO conventions, *i.e.* numbers 97 (on migrant workers) and 143 (on migrants in abusive conditions and the promotion of equal opportunity and treatment of migrant workers) and the adoption of the ILO's multilateral framework on labour migration.

Partnership agreement between trade union organisations in Senegal (CNTS)[3] and Mauritania (CGTM)[4]

Mauritania and Senegal are both transit countries for migrant workers. The "Confédération Nationale des Travailleurs du Sénégal" (CNTS) and the "Confédération Générale des Travailleurs de Mauritanie" (CGTM) have developed a partnership agreement enabling them to play a role in the management of migratory flows and the clandestine immigration of workers between the two countries or across their borders. The objective is to help trade union organisations in their work related to migrant workers in both the source and destination countries, to promote, protect and defend the rights of migrant workers, and secure equal rights for women and migrant workers focusing on the specific problems they face. Both organisations will exchange information regularly on the labour market situation in the two countries, help promote social partnership at all levels, establish better cooperation with employers' organisations, harmonise working conditions to combat the exploitation of migrant workers, initiate national level tripartite consultations in the countries and actively promote the ratification and effective application of the relevant ILO conventions, *i.e.* numbers 97 (on migrant workers) and 143 (on migrants in abusive conditions and the promotion of equality of opportunity and treatment of migrant workers), and the adoption of the ILO's multilateral framework on labour migration. Furthermore, they will organise visits to each other's countries and they will equally promote the establishment of information centres on immigration in the two countries.

Notes

1 The CTRN is the second biggest national trade union centre in Costa Rica and has approximately 30000 members.

2 The CST is the second biggest national trade union centre in Nicaragua and has approximately 40000 members.

3 The CNTS is the biggest national trade union centre in Senegal and has approximately 60000 members.

4 The CGTM is the third biggest national trade union centre in Mauritania and has approximately 25000 members.

Social Cash Transfers and Employment
A note on empirical linkages in developing countries*

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- Empirical evidence from South Africa indicates that social cash transfers
  - provide critical resources funding job search, particularly for rural women who migrate to look for work;
  - enable the poorest households to better manage social risk and increase their labour market participation;
  - increase the resilience of agricultural smallholders in maintaining production;
  - promote human capital development, reinforcing long-run employment impacts.
- While the measured direct effects on employment are modest, they are positive and statistically significant, refuting the notion that social cash transfers create disincentives for employment and economic growth.
- Further research into linkages between social cash transfers and employment will more effectively support policy development.

Introduction

Social cash transfers and employment interlink in many important ways. For many households decent employment is the best path out of poverty and the most effective instrument of social protection. Social cash transfers can also promote employment - certainly in the long run by nurturing the human capital accumulation of poor households. A more contentious issue is the shorter run question of how social cash transfers interact with households' labour market behaviour.

The employment impact of social cash transfers can be tested in terms of both labour supply and labour demand effects. Labour supply impacts can be negative - in terms of income and incentive effects - or positive - in terms of enabling poor workers to more effectively participate in the labour market. Demand effects potentially exert an impact on labour productivity, which would raise employers' demand for these workers. In addition, social transfers may stimulate local economies and produce employment - or directly create jobs through their core operations.

* 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.

Certain types of social transfer programmes - particularly public works schemes - explicitly aim to promote labour market participation and employment. Numerous studies document the direct impact of public works in terms of providing short term jobs and reducing immediate unemployment—in India, Bangladesh, Malawi, South Africa and many other countries (Chirwa *et al.,* 2004, Devereux *et al.,* 2006, McCord 2004 and 2005). A more contentious question is the long term impact—whether or not public works programmes enable workers to exit public works and engage in sustainable livelihoods and employment. Argentina's *Jefes y Jefas de Hogar* public works programme, for example, provided effective social protection and increased the short-term propensity of workers to participate in the labour force and to find a job in the formal sector, particularly for women (Ronconi *et al.,* 2006, Devereux and Solomon 2006).

Other programmes, however, yield different results. Slater and Farrington (2006) warn that households participating in Ethiopia's *Productive Safety Net Programme* may find the work requirement reduces their ability to pursue successful alternative livelihood activities. McCord (2009) provides a critical review of the potentially counter-protective impacts of public works programmes, and a thorough analysis of the relationship between labour markets and social protection for public works programmes.

Another set of issues arises with social transfer programmes not directly linked to employment—such as social pensions, child support grants, disability benefits and other types of transfers. Tembo and Schüring *et al.* (2008) find that participants in Zambia's cash pilot scheme use a significant proportion of the benefits to hire labour, for example in order to cultivate the land around their homes and consequently multiply the value of the social transfers while creating employment for local youth. Barrientos and Sabates-Wheeler (2006) find that Mexico's *Progresa* (now *Oportunidades*) social transfer programme is associated with local economy impacts that improve consumption, asset accumulation and employment broadly within communities—for both programme participants and non-participants. Gertler *et al.* (2005) find that participants in *Progresa* invest a portion of their social transfers in productive assets and are more likely to engage in entrepreneurial activities, improving their potential for sustainable self-sufficiency. Harnett and Cromwell (2000) found that participants in one of Malawi's social transfer programmes were empowered by the resources to invest in their own farms during the planting season rather than rely on dead-end casual employment for their immediate survival. In South Africa, a wide-ranging debate has explored many dimensions of the impact of social grants on employment and household labour market behaviour.

Evidence from South Africa

The first wave of debates over the linkages between social cash transfers and employment in South Africa focused narrowly on income and incentive effects associated with the system of social grants. Bertrand, Miller, and Mullainathan's (2000) study of workers in three-generation households (which include children, older people and other adults) documented a drop in the labour force participation rates of the other adult men when an older person reached the age that qualifies for the social pension. They interpreted this partly as resulting from the negative income effect, based on the theoretical rationale that as household income rises, the additional benefit to the household from working for further income falls, and so work incentives are dampened. Case and Deaton (1998) document how social pensions are pooled with other household income, and thus potentially affect the labour market decisions of all workers within the household. Bertrand *et al.* also conclude the effect results from labour income's impact on intra-household allocation of grant resources, but point out that women's labour force participation was unaffected.

Dinkelman (2004) found similar results with better panel data, but documents how an older women's receipt of a social pension has a strong positive impact on other women's labour force participation. Samson *et al.* (2000, 2001, 2002 and 2004) disputed Bertrand *et al.*'s results using more recent Labour Force Survey data (Statistics South Africa 2000 and 2001) and a methodology that differed from Bertrand *et al.*'s work in that it explicitly tested the labour market responses of the poorest households. For the workers in the lowest income households, social grants had a positive and significant impact on labour market participation and the probability of finding employment. All these econometric studies focused on income and incentive effects, and relied heavily on cross-sectional econometric analysis that suffered from potentially significant econometric biases, particularly those resulting from unobserved heterogeneity.

The second wave of debates explored the deeper realms of sociological behaviour, examining household formation dynamics and the poor's response to risk and vulnerability. Klasen and Woolard (2005) argue that "the unemployed get stuck in rural households in order to get support from pensions and remittances and thereby reduce their search and unemployment prospects." Keller (2004) finds similar results, but argues that the effect is primarily due to young workers delaying leaving grant-receiving households. Posel, Fairburn, and Lund (2006) explicitly addressed Bertrand *et al.*'s earlier analysis of the 1993 household living standards data, but employ a more rigorous methodology that incorporates migrant workers, an important factor in South Africa's labour markets. They refute Bertrand *et al.*'s results, finding no work disincentives from social pensions but rather positive and significant impacts for female labour migrants. They conclude that social grants help finance women's migration for job search and assist older people in caring for the workers' children. These results corroborate earlier studies that interpreted positive labour market impacts as suggestive that social grants provide critical resources funding job search. (Samson *et al.*, 2004 and Kingdon and Knight 2000). These results are consistent with Shoër and Leibbrandt's (2006) findings that domestic duties constrain those wish to work from more active job search.

One of the most important ways in which social grants may affect employment decisions is through the improved management of social risk. Social grants reduce the downside risk and also relax liquidity constraints. (Ravallion, 2003, Devereux and Sabates-Wheeler ,2004, and Samson *et al.,* 2002, 2004). Social grants enable workers to invest in more productive job search, providing the critical support to look for decent work and not attach themselves to the worst forms of labour out of desperation (Wittenberg 2002). Social cash transfers may reduce the impact of shocks on livelihoods and employment at a macro-economic level by stimulating overall economic activity, and they protect households by reducing the impact of shocks on productive assets. For example, economic shocks are less likely to force poor households to sell their livestock - often their only productive asset – if social cash transfers help them cope with the loss of income.

At the household-level transfers reduce risk by providing the security of a guaranteed minimum level of income. This better enables poor households to send children to school because they can afford for them not to be working, as well as afford fees, uniforms and other school expenses. The unemployed and lowest paid workers can take a chance on riskier ventures that are likely to result in a higher income, or acquire human capital such as education in order to find higher wage employment. The time and travel costs of job search – with its unpredictable outcomes – can lock vulnerable workers into poverty traps. Social cash transfers provide a coping mechanism for the least fortunate, supporting a minimal level of subsistence and allowing them to invest time and money to improve their chances of getting better employment. Adamchak (1995) finds similar results in Namibia with the social pension.

Keswell (2004) uses panel data from one of South Africa's poorest provinces to evaluate the risk management properties of social pensions, finding that it enables the poorest households to avoid less efficient insurance mechanisms and improves employment prospects by reducing the risk and cost of job search. Social transfers may also support other forms of livelihoods besides employment. Lund (2002), Ardington and Lund (1995) and Cross and Luckin (1993) document the role of social pensions in backing credit, renting capital equipment and buying the necessary inputs for agricultural activities. Social grants also directly support nutrition, access to transportation services, and other short run productivity-enhancing expenditures. Over the longer term, social grants have documented positive impacts on nutrition, health, education and training. Shoër and Leibbrandt's study of labour markets in South Africa finds hunger negatively affected a quarter of job-seekers, while health problems had negative impacts on 13% of them.

The third wave of debates is currently in progress, relying on improving data sets and natural policy experiments to more explicitly test the direct impact of social transfers on worker's labour force participation decisions and outcomes in terms of success in finding employment. Samson *et al*. (2004) linked Labour Force Surveys together to construct panel data to better explore the short run labour market impacts of social grants, finding generally positive impacts. More recent studies take advantage of the natural policy experiment resulting from South Africa's rapid increase in the scope and take-up of the Child Support Grant from 2002 to 2005. These studies find a significant and positive impact of the Child Support Grant on labour force participation in grant-receiving households. (Samson *et al.*, 2004 and 2008, Williams, 2007, Samson and Williams, 2007).

More recent data confirms the result that working age adults in poor households that receive a social pension are more likely to look for work and more likely to find employment than comparable adults in households that do not receive the social pension. Matching the September 2004 Labour Force Survey to the March 2005 survey and correcting for mismatched individuals provides a dynamic picture of how labour force participation changes for households receiving and not receiving the social pension.[1]

The table below compares the change in labour market participation for out-of-the-labour-force working age adults (those older than 16 years) in households with no employed individuals in September 2004 but including at least one older person (defined in terms of age eligibility for South Africa's older person's pension). The first row of data shows the proportion of these adults who were employed in March 2005, broken down by status in terms of household receipt of the social pension. The second row shows the proportion of adults who were actively looking for work but not employed. (None of the adults in this sample were employed in September 2004 or looking for work.). The third row shows the proportion of adults with an unchanged status - those who were not participating in the labour force (out-of-the-labour-force).[2]

This methodology follows a standard approach employed to identify the probability that an individual will "transition" from one labour market state to another - for example, to make the transition from unemployment to employment, or from non-participation in the labour market to active participation.[3] The "probabilities" refer to the proportion of individuals in each category during September 2000 that made the transition to each respective category in February 2001.[4] For example, of those out-of-the-labour force adults in households receiving a social pension in September 2004, 9% had found employment by March 2005 (see Table 6). This 9% figure is interpreted as the simple probability that an out-of-the-labour-force adult in September 2004 living in a household that receives a social pension would find a job and be employed in March 2005. The other entries in the table can be similarly interpreted. For example, of those out-of-the-labour force adults in households that did not receive a social pension in September 2004, only 7% had found employment by March 2005. This 7% probability is lower than that associated with a similar individual in a household receiving a social pension. In this sense, the probability that an out-of-the-labour-force adult finds employment over the time period is greater if the person lives in a household receiving a social pension. Likewise, the probability of beginning to actively look for work is greater if the person lives in a household receiving a social pension.

Table 6. Impact of the social pension on labour force participation

Corrected data	Household receives social pension in 2004	Household does not receive social pension in 2004	Improvement associated with social pension
Probability that a poor working age adult will:			
Find employment in 2005	9%	7%	2%
Be actively looking for work in 2005	15%	13%	2%
Not participate in the labour force in 2005	76%	80%	4%
NOTE: Sample includes working age adults (older than 16) in households in the lowest income quintile with older people but with no working individuals in September 2004.			

Source: Statistics South Africa Labour Force Surveys and EPRIS calculations

In households that received the social pension, 9% of adults were employed in March 2005 and another 15% were actively looking for work. In households that did not receive the pension, only 7% were employed and another 13% were actively looking for work. Receipt of the social pension was associated with a 2% higher probability of finding employment and a 2% higher probability of actively looking for work. Alternatively, receipt of the social pension was associated with a 4% lower probability of not participating in the labour force.

The child support grant demonstrates a similar effect. Working age adults that were not participating in the labour force - particularly women - in poor households that receive a child support grant are more likely to look for work and more likely to find employment than comparable adults in households that do not receive the child support grant. The matched Labour Force Survey similarly provides a dynamic picture of how labour force participation changes for households receiving and not receiving the child support grant.

The tables below compare the changes in labour market participation for working age adults and working age women in households with no employed individuals in September

2004. The rows follow the format of the table above, with the first row showing the proportion of adults who were employed in March 2005, broken down by status in terms of household receipt of the child support grant. The second row shows the proportion of adults who were actively looking for work but not employed, while the third row shows the proportion of adults who were not participating in the labour force.

Table 7. Impact of the child support grant on labour force participation

Corrected data	Household receives child support grant	Household does not receive child support grant	Improvement associated with child support grant
Probability that a poor working age adult will:			
Find employment in 2005	15%	13%	2%
Be actively looking for work in 2005	20%	17%	3%
Not participate in the labour force in 2005	65%	70%	5%
NOTE: Sample includes working age adults (older than 16) in households in the lowest income quintile but with no working individuals in September 2004.			

Source: Statistics South Africa Labour Force Surveys and EPRI calculations

In households that received the child support grant, 15% of adults were employed in March 2005 and another 20% were actively looking for work (see Table 7). In households that did not receive the child support grant, only 13% were employed and another 17% were actively looking for work. Receipt of the social pension was associated with a 2% higher probability of finding employment and a 3% higher probability of actively looking for work. Alternatively, receipt of the child support grant was associated with a 5% lower probability of not participating in the labour force.

The effects are even stronger for women, as documented in Table 8 below. In households that received the child support grant, 15% of adults were employed in March 2005 and another 20% were actively looking for work - the same proportions as for all adults. In households that did not receive the child support grant, only 12% were employed and another 14% were actively looking for work. Receipt of the social pension was associated with a 3% higher probability of finding employment and a 6% higher probability of actively looking for work. Alternatively, receipt of the child support grant was associated with a 9% lower probability of not participating in the labour force.

Table 8. Impact of the child support grant on female labour force participation

Corrected data	Household receives social child support grant	Household does not receive child support grant	Improvement associated with child support grant
Probability that a poor working age woman will:			
Find employment in 2005	15%	13%	2%
Be actively looking for work in 2005	20%	17%	3%
Not participate in the labour force in 2005	65%	70%	5%
NOTE: Sample includes working age women (older than 16) in households in the lowest income but with no working individuals in September 2004.			

Source: Statistics South Africa Labour Force Surveys and EPRI calculations

While the magnitudes of these effects are relatively small, it is important to emphasise that social transfers are not intended as employment generating schemes. Their major impact is social protection - with support of labour market participation an ancillary outcome. Nevertheless, this evidence contradicts the misplaced notion that social grants create dependency. On the contrary, social grants support households to participate more actively and successfully in the labour market, assisting workers to break the poverty trap. A more detailed policy discussion and rigorous treatment of the methodology is provided in Samson *et al*. (2007), Samson and Williams (2007) and Williams (2007), including the econometric models that demonstrate the positive and significant impact of social grant receipt on labour force participation used pooled cross-sectional analysis.

Social cash transfers and agricultural resilience in South Africa

South Africa's Child Support Grant (CSG) likewise is associated with improved resilience for agricultural smallholders. A non-experimental panel study evaluation of the CSG impact assessed the linkages between grant receipt and household agricultural activities (Samson *et al.*, 2008). The study employed a propensity score matching approach which tested several alternative methodologies. Using a panel of data from 2002 to 2004 constructed from Statistics South Africa's General Household Survey, the study found that grants improve household resilience in terms of maintaining agricultural cultivation.

From 2002 to 2004, the number of poor households in South Africa cultivating land fell. Yet, the proportion of households with children receiving the CSG that stopped farming activities was statistically significantly lower than the proportion of those not receiving the CSG, and this result was consistent across the matching techniques. In other words, households receiving the CSG are significantly more likely to continue farming activities. This evidence suggests that the Child Support Grant may have improved household resilience in maintaining agricultural production in the face of an overall downward trend.

This result is consistent with the risk management results found for cash transfers in the Social Cash Transfers Good Practice Note (EPRI, 2009). Agricultural shocks are increasing the overall riskiness of agriculture in South Africa, perhaps in part due to climate change. In the absence of social cash transfers, poor households may find it optimal to shift out of agriculture in the face of the increased risk - and into potentially lower return but less risky activities. Social cash transfers help to address the increased risk agricultural households face - and improve their resilience in maintaining production.

Employment and social cash transfers: A potential virtuous circle

The emerging evidence base on the linkages between employment and social cash transfers suggests the potential of a virtuous circle. Decent work provides one of the best paths out of poverty for many of the poorest and most vulnerable. Better employment options reduce poverty for those able to work while fostering economic growth, expanding the resource base for social policy. In turn, social cash transfers help the poor and vulnerable to manage risk, enabling them to better invest in high-risk high-return job search. In addition, the transfers can directly support engagement in labour markets - in the short term by funding nutrition and transportation, and in the longer term by promoting investment in human capital.

Policy implications

Research into linkages between employment and social cash transfers does not suggest a competition across policy options but rather important complementarities. Decent work is a critical ingredient for pro-poor growth. Social cash transfers do not necessarily create work disincentives - but in some cases may actually promote engagement in labour markets. While the emerging evidence base suggests the short term effects may be relatively small - and certainly not a substitute for more pro-active employment policies - the longer term human capital impacts may prove a substantial complement.

Suggestions for further research

Most of the direct rigorous evidence on linkages between employment and social cash transfers is limited a few middle-income countries, particularly South Africa. While anecdotal and indirect evidence exists for several other countries, additional credible evidence will more effectively support policy development. Three areas may prove fruitful:

- An extension of existing employment research approaches for South Africa to other countries, particularly Brazil and Mexico (where social transfers are likely to be large enough and implemented over a sufficiently extended time frame to have observed impacts measured in Labour Force Surveys) as well as further research for South Africa.
- More refined research that focuses on other aspects of livelihoods, other than formal employment. These would be particularly important in low-income countries where targeting mechanisms reach the very poorest - for whom a broader range of livelihoods strategies may be more important.
- Research into the linkages between social cash transfers and smallholder agriculture activity, particularly in the context of adaptation to climate change. In many developing countries, climate change is increasing the overall risk associated with smallholder production.

Notes

1. The results from the uncorrected data are not materially different. After September 2004 Statistics South Africa ceased to track social grant status in its Labour Force Survey.

2 The matching methodology utilised for the analysis in this paper corrects a commonly cited problem with South Africa's Labour Force Survey, in which individual households are not properly linkable with the identifiers reported by Statistics South Africa. The results reported, however, are not sensitive to the specific approach taken to match the records. While there are small differences between these figures and those resulting from the uncorrected data, the magnitudes of the associated improvements are virtually the same with either approach.

3 For example, see Agüero, Carter and May (2006).

4 Baulch and McCulloch (1998) provide a clear explanation of the relationship between transition matrices and probabilities (in the context of poverty): "A poverty transition matrix shows the number of households in and out of poverty in a particular period, broken down by their poverty status in a previous period. Thus it is easy to see the number of households who have been poor or non-poor in both periods along with the number who have escaped poverty and those who have entered poverty. This approach has been used in a number of studies in both industrialised and developing countries. From any poverty transition matrix it is straightforward to calculate simple probabilities of entering and exiting poverty between the two periods. For example the simple probability of exiting poverty is simply the number of households exiting poverty divided by the number of households who were poor in the previous period." Labour market transition matrices work exactly the same way - except that the states are non-participation in the labour market, unemployment and employment rather than "poor" and "non-poor".

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Promoting Pro-Poor Growth

EMPLOYMENT

Employment is the main route out of poverty for poor people in developing countries. To make stronger progress towards the poverty reduction target of the Millennium Development Goals, policies of developing countries and aid donors need to recognise that most poor women and men earn their livelihoods in the informal economy and support the generation of more productive employment and decent work opportunities in both the informal as well as the formal economy. Increasing the employability of poor people, and particularly of women and youths, unlocks their potential to contribute to and benefit from economic growth. Actions in these areas are of ongoing importance, but never more so than in the present global recession.

This report by the DAC Network on Poverty Reduction (POVNET) invites donors to support more fully developing country's employment objectives and to pay more attention to the employment consequences of their aid expenditures. Based on evidence from developing countries and good practices in donor-partner country co-operation, the report identifies a number of key areas for action to improve the impact of their aid programmes on employment.

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