MAKING ECONOMIC GROWTH MORE PRO-POOR: THE ROLE OF EMPLOYMENT AND SOCIAL PROTECTION

Draft Policy Statement

DAC Senior Level Meeting, 9 (p.m.) and 10 (a.m.) December 2008

SLM participants are invited (item 7 of DCD/DAC/A(2008)15/REV3) to consider topics for the 2009 HLM. One of these concerns “Making Economic Growth more Pro-Poor: the Role of Employment and Social Protection”. POVNET is preparing a policy statement on this theme, a draft of which is presented for information in this Room Document. This is still very much “work in progress” and subject to amendment by POVNET and DAC. Nevertheless, it is felt useful to share the present draft with SLM participants for the purposes of the discussion in item 7 on 2009 HLM topics.

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THE ROLE OF EMPLOYMENT AND SOCIAL PROTECTION

DRAFT POLICY STATEMENT

1. 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 people and their jobs and livelihoods. The current economic crisis, and the on-going challenges of population growth, price volatility and climate change, highlights 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 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 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.

2. Actions in these two areas are mutually reinforcing and promote pro-poor growth. Better 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.

Implications for development partners

3. 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 programmes. As development partners, we need to respond positively to this demand:

- We need to provide adequate, long-term and predictable financial assistance to help partner governments expand social protection programmes and create the conditions for them to be politically and financially sustainable. This is especially important in the current situation of contracting fiscal space and declining financial inflows.

- Increasing productive employment and promoting decent work for poor people needs to be a key objective for development co-operation. Our support must address the informal as well as the formal economy, promote entrepreneurship and employment and give high priority to more and better jobs for women and young people.

- Our actions in these areas must be harmonised and aligned with national policy. 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.
Social protection

4. 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.

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

5. 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.

6. Social protection makes growth more pro-poor by increasing 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 safeguarding future livelihoods. This allows households to invest in more productive but riskier livelihood strategies.

7. 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.

8. 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.

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

b) Social protection programmes can be affordable, including for the poorest countries, and represent good value for money

10. The costs of social protection measures can be kept relatively low and manageable by starting small and building up over several years. Context-specific targeting and delivery are critical design and capacity issues which influence costs and the ability to reach the poor and achieve desired outcomes. Evidence shows that even small programmes bring benefits.

11. 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 policymakers.

12. 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 the national social policy framework. 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

13. The MDG1 target on productive employment and decent work for all emphasises the importance of employment for reducing poverty. Most poor people work, but employment conditions are frequently poor, productivity low and incomes inadequate.

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

14. Most poor people 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.

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

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

16. Promoting the employment of women and young people makes sound economic, social and political sense. Women and young people 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 constraints and also by giving particular attention to activities where they have high labour market participation.

17. The productivity and employability of poor women and men can 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.

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

18. A sound understanding of how labour markets are structured and work is needed for policy making. Developing country efforts should be supported that improve knowledge and statistics to strengthen evidence-based policy making and involve other stakeholders in that process. A multi-stakeholder approach is crucial to establishing socially responsible employment practices and regulating labour markets in ways that deliver state, employer and employee objectives.

19. International migration due to labour market imbalances needs to be better managed through a stronger partnership between origin and destination countries. Making the best of migration requires more research and sharing of good practices, including how to manage the impacts of brain-drain, reduce the transfer cost of remittances and strengthen co-operation with diaspora communities.

20. Employment contributes towards stability, economic recovery and growth in fragile situations. Short-term employment creation is an essential component of post-conflict strategies alongside longer-term investment in the enabling environment for the private sector.
What development partners need to do

21. Development partners’ support for social protection programmes should provide adequate, long term and predictable financial assistance to help partner governments establish social protection programmes and create the conditions for them to be politically and financially sustainable. 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.

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

- Targeting 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.
- Strengthening measures to improve access to demand driven vocational training and taking specific steps to increase the participation of women and young people in the labour market.
- Supporting developing country efforts to improve knowledge and statistics to strengthen evidence based policy making and involving other stakeholders in that process.