



SECOND ITEM ON THE AGENDA

Productive employment for poverty reduction and development**I. Background and context**

1. When the Committee on Employment and Social Policy (ESP) of the Governing Body, in its March 2003 session, endorsed the Global Employment Agenda (GEA) as the employment arm of the decent work programme, it also asked for detailed discussions on each of the ten core elements of the Agenda, selecting one or two items for each subsequent session. One of the two items selected for discussion at the March 2004 session is “Productive employment for poverty reduction and development” (core element 10). The present paper has been prepared by the Office to facilitate this discussion.
2. Persistence of poverty¹ at high levels and the slow rate of poverty reduction pose major challenges for world leaders, governments, policy-makers and development practitioners. While some projections (e.g. those by the World Bank²), indicate that the Millennium Development Goal of reducing poverty by half by 2015 (from the benchmark level of 1990) would be attained at the global level, doubts remain about certain regions (e.g. sub-Saharan Africa) and countries. In sub-Saharan Africa, for example, the percentage of people living on less than US\$1 per day increased from 47.4 per cent in 1990 to 49 per cent in 2000, and is projected to decline only to 42.3 per cent by 2015. And, if China is excluded, the percentage of the population below the poverty line for the rest of the world is projected to decline from 27.2 per cent in 1990 to 15.4 per cent by 2015.³
3. The challenge of poverty reduction is made tougher by crises of various types (e.g. those resulting from economic turmoil, armed conflicts or natural calamities). Examples are provided by the severe adverse social effects of the economic crisis in Asia during

¹ Poverty has different dimensions – income and non-income. Although measures based on income are more easily available, non-income dimensions, e.g. health, education, are extremely important. The concept of human development – originally developed by UNDP – is often used as an indicator of non-income dimensions of development.

² World Bank: *Global economic prospects*, Washington, DC, 2004.

³ *ibid.*

1997-98, the more recent crisis in Argentina, the impact of prolonged armed conflicts in a number of African and Asian countries, and the destructive effects of natural calamities that hit a number of countries in recent years. Different types of crises hit the poor in different ways; and the poor, because of their vulnerability, are often the worst hit.

4. An important aspect of poverty is its gender dimension. While it is difficult to come by data disaggregated by gender on poverty, available data indicate the following: (i) women are disproportionately represented among the poor; (ii) both the number and proportion of women among the poor have been increasing; and (iii) woman-headed households are more vulnerable to poverty, and the percentage of households headed or maintained by women appears to be increasing. Women's participation in the labour force has increased; but it has not been matched by a corresponding improvement in the quality of jobs they have access to. In addressing these issues, a comprehensive approach is needed, focusing on economic, social, cultural and political dimensions.
5. Although employment is widely regarded as one of the best routes out of poverty, the poor in developing countries, in most cases, are not unemployed. Poverty is not due so much to open unemployment, but more to the inability of many jobs to ensure decent levels of income and living. This becomes clear if one notes that while there are nearly 1.1 billion poor people in the world, the number of openly unemployed is 185 million. According to one estimate,⁴ the number of people who are working, but poor (the so-called "working poor") was 534 million in 1997.
6. The experience of countries that have succeeded in reducing poverty significantly indicates the importance of sustained high growth in achieving that result. But, high growth alone is not enough; the pattern and sources of growth are extremely important from the point of view of raising the incomes of the poor. In that context, productive employment plays a key role in linking growth with poverty.⁵ But, in addition to raising the productivity and earnings of the poor, it would be necessary to provide them with protection (e.g. in situations of illness or disability or when they are unable to work because of old age), voice and rights at work, and opportunities for dialogue as a means of advancing their interests. In other words, decent work encompassing the promotion of productive employment, rights, representation and protection is at the heart of successful policies to reduce poverty.⁶ Productive employment as a route out of poverty has to be looked at as part of the overall approach of decent work as the foundation for poverty reduction.

II. The poor and the informal economy

7. Effective strategies for productive employment for poverty reduction can be formulated only on the basis of a clear understanding of who the poor are and where they work (as mentioned above, most of the poor actually work). In developing countries, nearly three-quarters of the poor live in rural areas and engage in activities which, for the most part, lie outside the bounds of the formal or organized economy, whether in agriculture or

⁴ N. Majid: "The working poor in developing countries", in *International Labour Review*, 2001/3. The ILO's *Global Employment Trends 2004* estimates that by 2003 this had risen to 550 million.

⁵ For a detailed analysis of this linkage with illustrations from a number of country experiences, see R. Islam: "The nexus of economic growth, employment and poverty reduction: An empirical analysis", mimeo, ILO, Geneva, 2003.

⁶ ILO: *Working out of poverty*. Report of the Director-General, ILC, 91st Session, 2003, ILO, Geneva.

in rural non-farm activities.⁷ The poor in the urban areas are also engaged, by and large, in a range of activities in the informal economy. Thus, strategies for poverty reduction cannot ignore agriculture, rural non-farm activities and the urban informal economy.

8. The above, however, should not be interpreted to equate the informal economy with poverty. Although poverty is one of the underlying factors responsible for the growth of the informal economy (especially in the rural non-farm and the urban informal sectors), many in this segment earn decent incomes. What is, therefore, important is to identify the segments of the informal economy where the poor are engaged. The pattern to note from that point of view is the following. In agriculture, landless labourers and marginal farmers have the highest incidence of poverty. Outside agriculture, informal incomes decline along the range of employment status – from employer to self-employed and own-account workers, to informal and casual wage workers, to industrial outworkers or homeworkers. Also, the link between working in the informal economy and being poor is stronger for women than for men. Not only do a higher percentage of women than men work in the informal economy, women are concentrated in the lower income segments, working in survival activities or as casual wage workers or homeworkers.⁸
9. Given the above characterization of poverty, strategies for reducing poverty will need to focus on boosting economic growth of a pattern that will result in higher productivity jobs where the poor, especially women, can move.

III. Strategies: An employment-focused development agenda for poverty reduction

10. A development strategy aimed at poverty reduction will need to have three basic pillars.
 - First, an economy must attain high rates of growth on a sustained basis. This calls for comprehensive policies encompassing incentives for domestic capital accumulation and investment from abroad, policies for effective deployment of investment resources in productive sectors, and institutions conducive to the pursuit of efficiency.
 - Second, growth must be employment intensive in the given context of resource endowment, without, of course, sacrificing productivity and efficiency considerations.
 - Third, it is important for the poor to have the means (e.g. necessary education, skills, and access to productive assets and finance) to utilize the economic opportunities that may be available.
11. The policy regime needed to strengthen the three pillars will have to be tailored to specific situations faced by the respective developing countries; and this remark applies particularly to countries facing crises of one type or another. The formulation of policies at the national level will need to be preceded by a diagnosis of the barriers to job creation in the country concerned. This would involve identification of sectors with growth and employment potential and an integrated policy framework containing economic, social and political elements.

⁷ ILO: *Decent work and the informal economy*, ILC, 90th Session, 2002, ILO, Geneva.

⁸ *ibid.*

A macroeconomic framework for growth, employment and poverty reduction

12. The conventional role of macroeconomic policy is to ensure stability (in terms of prices, fiscal balance and external accounts balance) and allocative efficiency in an economy with the ultimate goal of ensuring a conducive environment for growth. However, a single-minded pursuit of stability in terms of fixed targets for inflation and fiscal balance is often not very helpful, especially in developing countries. Given the lack of, or slow growth of, output and formal sector jobs in many developing countries, a critical challenge is to balance the considerations of stability and allocative efficiency, on the one hand, and the need for incentives for increased investments, higher growth and employment, on the other. In order to accommodate the goal of poverty reduction through higher productivity and growth in employment-intensive sectors, it would be necessary to look at possible alternative macroeconomic measures involving greater flexibility in the standards of stability.⁹ Appropriate macroeconomic policies and reforms can also be critical in boosting the growth of sectors (e.g. agriculture) where the poor are concentrated.
13. There are examples of the use of counter-cyclical fiscal and monetary policies by a number of developing countries during the global economic slowdown (in 2001). For example, the Republic of Korea, Malaysia, Philippines and Singapore used both fiscal and monetary policies, while Bangladesh, India and Thailand used one or the other.¹⁰ Good experiences of how conducive macroeconomic policies helped the growth of the agricultural sector (where many of the poor are concentrated), are provided by Indonesia, Uganda and Viet Nam.¹¹

Boosting growth with rising employment and productivity

14. As three-quarters of the working poor in developing countries live in rural areas, a major challenge is to increase incomes, productivity and labour absorption in both farm and non-farm sectors. Agriculture still accounts for a major portion of the developing world's labour force; and some 40 per cent (450 million) of the agricultural labour force are in wage employment. Women account for nearly a quarter of them; and many of the wage workers are temporary/casual and migrant workers. While the wage employed are particularly vulnerable to poverty, a large number of the small and marginal farmers are also poor or vulnerable to episodes of poverty. Likewise, wage workers and the self-employed in low productivity non-farm activities often live below the poverty threshold. Therefore strategies to reduce poverty must focus on raising productivity and incomes in agriculture as well as non-farm activities.

⁹ For persuasive arguments in support of this approach, see M. Muqtada: "Macroeconomic stability, growth and employment: Issues and considerations beyond the Washington Consensus", Employment Paper, 2003/48, Employment Sector, ILO, Geneva, 2003.

¹⁰ For details, see R. Islam: "Employment implications of the global slowdown 2001: Responding with a social focus". Issues in Employment and Poverty, Discussion Paper 2, Recovery and Reconstruction Department, ILO, Geneva, 2001.

¹¹ R. Islam: "Rural poverty, growth and macroeconomic policies: The Asian experience", in *International Labour Review*, Vol. 129, No. 6. Huong et al.: "Employment poverty linkages and policies for pro-poor growth in Viet Nam". Issues in Employment and Poverty, Discussion Paper 9, ILO, Geneva, 2003.

15. A variety of factors are responsible for the low productivity, wages, and earnings in agriculture and rural non-farm activities; they range from the type of market and demand for the products, relative prices of inputs and outputs, technologies used, marketing arrangements that exist, education and skills of workers, the bargaining power of workers and small producers, etc. Constraints are also posed by poor infrastructure. Access to productive assets and finance can be critical. While land reform is one way of providing the poor with access to productive assets, microfinance can also play a useful role in helping the poor build-up assets. Policies and action to fight against poverty need to be based on a clear understanding of such varied factors. Accordingly, required action could range from policy reforms for ensuring a price structure that would provide necessary incentives to programmes for introducing yield-raising technology, marketing facilities, raising the levels of skills, and strengthening the bargaining power of workers as well as small producers. A similar set of actions would be relevant for raising productivity in the urban informal economy as well. Tax policies and minimum wages can also be mechanisms for poverty reduction.
16. While talking about growth of economic activities from which the poor could benefit, it is also important to consider the international dimensions of growth and development. For example, growth of agriculture and labour-intensive manufactures can hinge critically on access to markets which, in turn, can be influenced by a variety of factors in the area of international trade (e.g. tariffs, subsidies and non-tariff barriers). These issues have already been raised in the context of core element 1 (promoting trade and investment for productive employment and market access for developing countries) of the Global Employment Agenda (GB.286/ESP/1(Rev.)); and it would be important to look at them in the context of poverty reduction when a fuller debate on that item takes place within the ESP Committee in future.

**Labour-based approaches in infrastructure:
A policy that can contribute to economic
growth as well as job creation**

17. The critical importance of infrastructure in catalyzing development is well known. Also, by opening up and linking hitherto isolated rural areas, roads and improved transport can play a critical role in facilitating the growth of poverty-reducing non-farm activities. From the point of view of poverty reduction, there are at least two more reasons for providing particular attention to investment in this sector. The first relates to the weight of this sector in a typical developing country economy, and the second to options available in terms of choice of technology. In fact, labour-based approaches could also be applied in urban situations where they would contribute simultaneously to an improvement in conditions of living of the urban poor and improvements in urban environment. Upgrading urban slums (through clearing and paving of roads, improving drainage, etc.), and management of solid wastes are examples of such activities.
18. The macroeconomic case for using labour-based, as opposed to equipment-intensive, technology in the infrastructure and construction sectors has been made in many developing countries on the grounds of lower unit costs, increased employment generation, higher contribution to GDP, higher multiplier effects, higher levels of household income and consumption, reduced foreign exchange requirements and, hence, reduced import dependency. These conclusions apply to countries characterized by surplus labour, low

wages and weak local industrial capacity (in tools and equipment production).¹² The labour-based approach should thus be seen as a strategy for the short and medium term. When a country achieves a certain level of development and the surplus labour becomes exhausted, such an approach should no longer be required.

19. Though more comprehensive and longer term analysis of the impact on poverty of employment-based investments is required,¹³ macroeconomic comparative analyses¹⁴ of labour versus equipment-based investments clearly show that for a given investment, the labour-based approach yields better results on household income and consumption (which increases by at least twice as much), reaches low-income groups (through at least three times more employment for unskilled labour), spends about 50 per cent more on local resources and at least twice as much on local wages, generates about twice as much indirect employment – basically through the increased use of local resources and hence strengthened intersectoral linkages. Concrete investment-employment-poverty linkages hence achieve much higher multiplier effects on the whole economy, and in particular on the poor and low-income groups,¹⁵ than policies that do not address these linkages explicitly.

Employment-focused reconstruction in crisis-affected countries

20. As mentioned already, strategies for employment and poverty reduction will need to be adapted to the specific situations of crisis-affected countries. Different types of crises produce different effects, and hence the need for tailoring the reconstruction programmes accordingly.¹⁶ For example, an economic crisis caused by severe economic downturn would normally result in output contraction with possible negative effects on wages as well as earnings from self-employment. The usual response in such situations would include counter-cyclical macroeconomic policies, active labour market policies to support employment and incomes, and safety nets for the poor. A severe natural calamity, on the other hand, could not only disrupt immediate production and income but, by damaging assets, capital stock and physical infrastructure, could adversely affect future production and income prospects as well. In such situations, reconstruction would have to include, in addition to immediate support, a programme for repairs of infrastructure and rebuilding assets and capital. In countries emerging from prolonged armed conflicts, the situation may

¹² See data on Ghana, Senegal, Madagascar, Lesotho, Zimbabwe and Rwanda in R. Islam and J. Majeres: "Employment-intensive growth for poverty reduction: What can labour-based technology in infrastructure contribute?", in *Work 2001, Proceedings of the International Conference on Employment Creation in Development*, University of Witwatersrand, Johannesburg, 2001. Comparative data on unit costs, employment generation, and foreign exchange requirements were presented in GB.286/TC/1 (March 2003 session).

¹³ And has indeed been requested in GB.286/17, March 2003.

¹⁴ These studies cover Nepal, Nicaragua, Rwanda and Uganda, and are available at EMP/INVEST, ILO, Geneva.

¹⁵ A country analysis of about 100 public investment programmes in South Africa demonstrated the superior efficiency of labour-based approaches in reaching the poor, as compared to other income transfer mechanisms. See L. Haddad and M. Adato: "Maximizing benefit transfers to the poor: Evidence from South African employment programmes", in *International Labour Review*, Vol. 141, No. 3, Geneva, 2002/3, pp. 203-223.

¹⁶ See also ILO (IFP/CRISIS): *ILO generic crisis response modules*, ILO, Geneva, 2001.

be much worse than that outlined above. In addition to a disrupted economy, and damaged/ruined infrastructure and capital, such countries may face widespread disruptions, for example in terms of loss of skills and human capital (due to disruption in the education and training systems), a breakdown of institutions, and even absence of basic data/information needed to formulate strategies and action programmes. Reconstruction programmes in such situations will naturally have to be much more broad based than in other crisis situations – although the basic focus has to be rebuilding livelihoods, especially of the poor.¹⁷

Employment for poverty reduction in transition economies

21. Although the present paper focuses mainly on developing countries where productive employment plays an important role in reducing poverty, the problem of poverty is not confined to such countries. A number of countries with economies in transition from a socialist to a market-based system are facing the problem of poverty. Studies on transition economies¹⁸ indicate that, while the problem of poverty often emerged as a result of severe economic contraction and associated structural changes, a revival of economic growth does not readily lead to a reversal of the poverty trend. A recovery in the employment and labour market situation is critical from the point of poverty reduction. Hence, it would appear that the strategy of an employment-focused development agenda for poverty reduction as outlined in paragraph 10 may have some relevance for the transition economies (especially those at lower levels of development) as well – although it should be mentioned that all approaches to employment promotion may not be applicable in such cases. Clearly, it is important to examine the specific situations in such countries before appropriate strategies for poverty reduction can be formulated.

IV. ILO work in support of an employment agenda for poverty reduction

22. There is a long history of ILO work on employment as an instrument in the fight against poverty; and it has evolved over time.¹⁹ In the course of that evolution, the focus of work has also undergone a change. During the 1970s and the 1980s, a good deal of analytical and policy-oriented work was done on development strategies in general and on rural and urban informal sector employment in particular. This was complemented by technical cooperation work on promoting productive employment – especially focusing on rural non-farm employment, the urban informal sector, and labour-intensive infrastructure. Current work follows several lines. At the policy level, advisory and research work is done as part of the ILO's activities on employment policy support at the country and regional

¹⁷ E. Date-Bah: *Jobs after war*, ILO, Geneva, 2003.

¹⁸ See, for example, N. Torm: *The nexus of economic growth, employment and poverty during economic transition: An analysis of Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan*, Issues in Employment and Poverty, Discussion Paper 13, Recovery and Reconstruction Department, ILO, Geneva, 2003.

¹⁹ A good description of this history and the evolution is available in G. Rodgers (ed.), *New approaches to poverty analysis and policy – I*, ILO, Geneva, 1995.

levels²⁰ (the latter, for example, through the Jobs in Africa programme). At the programme level, there is a range of activities in support of efforts at boosting employment and raising productivity – with particular focus on the informal economy. Examples of such work include activities to promote labour-based approaches in infrastructure, cooperatives, and upgrading job quality in micro-enterprises and the informal economy. Third, there is work on strengthening the ability of the poor to better integrate into the growing economies and benefit from economic opportunities; work in the areas of skill development and finance comes into this category. Finally, particular attention is given to crisis-affected countries in the work on reconstruction.

23. The policy-level work mentioned above is covered in other papers submitted to the ESP. These include the regular updates on the implementation of the Global Employment Agenda,²¹ and the papers on PRSPs.²² The present paper, therefore, focuses on the other lines of work.

Upgrading the informal economy

24. As part of the ILO's efforts to implement an integrated decent work strategy, a cross-Office shared project has been launched to follow up the conclusions on decent work and the informal economy adopted by the International Labour Conference in 2002. The project builds on earlier and ongoing work at headquarters and in the field (for instance, under the Decent Work Pilot Programme in Ghana and the Philippines, and in a new technical cooperation project being initiated in India). The shared project marshals existing resources so as to orient ILO work more to informal economy issues, and is in addition seeking extra budgetary funds. Using a results-based framework, the project is identifying products and activities that can respond in a coherent manner to the Governing Body's call for follow-up to the ILC conclusions.²³ A knowledge-sharing network has been set up to highlight good practices in relation to the informal economy issues of governance and macro policy, market access and productivity, representation and voice, and addressing vulnerabilities. The shared project on decent work and the informal economy is being pursued in close coordination with the support for poverty reduction strategies that is being provided to field and headquarters units by the Policy Integration Department. In addition, the Seventeenth International Conference of Labour Statisticians (ICLS) (24 November-3 December 2003) adopted guidelines on the statistical measurement of employment in the informal economy.²⁴

²⁰ Policy-level work includes the ILO's work on PRSPs in a number of countries. Furthermore, tripartite national consultations have been held in 13 African countries in order to discuss possible action to follow up on the Director-General's Report *Working out of poverty*.

²¹ GB.288/ESP/1 and the update paper on the GEA to be presented at the March 2004 session.

²² GB.285/ESP/2 and GB.282/9.

²³ See GB.285/7/2 (Nov. 2002) and the minutes of the Governing Body discussion.

²⁴ These are reproduced as an appendix to the report of the meeting (GB.289/STM/6).

Employment, poverty and women in the informal economy

Poverty reduction is one of the underlying features of the National Action Plans for More and Better Jobs for Women – a programme of the Gender Promotion Programme (GENPROM) of the Employment Sector. The action plans are part and parcel of a country's poverty reduction effort – with target groups of intended women beneficiaries selected from among the poorest and most vulnerable or socially excluded communities. Notable examples of these projects are: Estonia (employment for women in poor rural areas), Mexico (promoting decent employment and labour rights for vulnerable groups of women), India (promoting alternative income-earning opportunities for women *beedi* workers, and promoting employability of women in the informal economy), Bangladesh (empowerment of women and promoting employment), and a global programme on improving market access for women in the informal economy. More details on these and other such projects – including their impact and lessons learned – can be obtained from GENPROM.

Cooperatives and productivity

For more than 150 years, small farmers have turned to cooperatives to achieve economies of scale in buying supplies and in processing and marketing their products. More recently, small business owners have also turned to cooperative purchasing, branding and marketing. Such cooperatives produce economies of scale, and thus enhance the productivity of their members, in at least five different areas: (i) joint purchasing of inputs and supplies; (ii) joint marketing of products; (iii) joint financing; (iv) branding activities; and (v) joint innovation through the exchange of knowledge and experience among members. In 2002, the ILC adopted a new Recommendation (No. 193) on the promotion of cooperatives and subsequently expanded its work in this field. The ILO's cooperative promotion programme includes activities at four levels, which are interlinked and mutually reinforcing:

- at the international level, the ILO collaborates with the International Cooperative Alliance (ICA) and many other international and bilateral agencies to further the cooperative concept of poverty reduction and job creation through self-help;
- at the national level, the ILO advises member States on issues related to cooperative policy and legislation;
- at the meso level, the ILO supports capacity-building efforts through the production of training material and technical advice to training institutions; and
- at the local (micro) level, the ILO promotes the establishment and growth of cooperatives in different economic and social sectors, for different target groups, and in both rural and urban areas.

The programme includes partnerships with workers' organizations for the promotion of cooperatives by informal economy workers, and with employers' organizations for the promotion of small business cooperatives which enhance the productivity and competitiveness of the member enterprises.

Boosting productive employment through labour-based approaches in infrastructure

25. The ILO has long demonstrated how employment-intensive and pro-poor growth strategies can be applied in *public* investment, particularly in the infrastructure and construction sectors. The Employment-Intensive Investment Programme (EIIP) has developed an operational strategy to simultaneously promote job creation and decent working conditions in the construction sector. It aims at: (i) private sector development and capacity building to improve access of SMEs to public tenders; (ii) job creation through employment-intensive investments implemented by qualified labour-based SMEs; (iii) introducing relevant labour standards in the contract documents and facilitating their enforcement; and (iv) expanding the approach through community contracting, based on promoting the principles of organization and negotiation in the hitherto unorganized informal urban and rural sectors.

26. In addition to job creation, attention is also paid to the quality of jobs. The approach actually provides an opportunity for the introduction of the ILO's fundamental and other standards in national programmes and projects through the introduction of appropriate clauses into contract documentation regarding minimum wage, minimum age, non-discrimination, elimination of child and forced labour, safety and health, and work injury insurance. The decent work aspects mentioned above are incorporated through an incentive structure for small contractors whereby contracting and bidding procedures are adapted to provide them with access to public markets, make the bidding process more conducive to their participation, make the payment system more effective, and cover the costs of social improvements in the bid. The programme thus provides an example of operationalizing decent work.

Impact of labour-based approaches in infrastructure on job creation and poverty reduction

The contribution of labour-based approaches in infrastructure towards job creation and poverty reduction can be illustrated using concrete examples. The programme implemented in Ghana during 1989-96 created 4.4 million workdays of jobs (roughly equivalent to 20,000 jobs). In the feeder roads programme in Mozambique, implemented since 1993, nearly 8 million workdays of employment were created – benefiting more than 40,000 people. In Madagascar, 3.5 million workdays of jobs were created in 1995. In Cambodia, during 1993-97, 2.7 million workdays (equivalent to 14,000 jobs) were created through the programme of rehabilitation of secondary roads and irrigation canals, and the clean-up and maintenance of the World Heritage Site of Angkor. These programmes also included the training of small construction companies.

It is not easy to estimate the cost of creating the jobs mentioned above. Estimates based on simulation indicate the cost per job to be in the range of \$540 (in Uganda) to \$760 (Madagascar).

Jobs created through infrastructure programmes of the type mentioned above contributed to poverty reduction. The thematic evaluation report presented at the Committee on Technical Cooperation in March 2003 (GB.286/TC/1) noted that there has been a "sizeable income transfer which lifts many households above the poverty line". It also notes that: "The potential of the labour-based approach to be cost-effective and at the same time generate employment and reduce poverty has been widely established and accepted" (paragraphs 31 and 34).

27. While pilot programmes have demonstrated not only the employment and other macroeconomic gains associated with the adoption of labour-based approaches, but also their contribution to poverty reduction, from the point of view of scaling up the actual effects, it is necessary to adopt this approach on a larger scale (preferably at the national level). The issue of mainstreaming the approach into public investment programmes is important in that regard. Another way of scaling up the actual impact on employment and poverty reduction is to have the approach integrated into large-scale infrastructure programmes (e.g. those funded by development finance institutions and other donors).
28. At the upstream policy level, with a view to mainstreaming the employment objective in the macroeconomic framework and, particularly, in public investment policy, the ILO has assisted governments in their efforts to institutionalize employment-intensive investment policies. For several countries (Guinea, Madagascar, Mali, Mauritania, Senegal, Togo and Uganda), the role and functions of employment and investment policy units (at the level of finance and labour ministries, or included in PRSP programming units) as well as of tripartite steering committees have been defined; these are aimed at adapting programming and budgeting procedures and resource allocation criteria used by governments for the selection of investment programmes submitted by technical line ministries. To date, submissions by these ministries – even in countries which have recently adopted PRSPs²⁵ – have remained basically technical, without any explicit integration of the poverty-reducing or employment-generating policy goals.

²⁵ Such as ILO missions to Nepal, Burkina Faso, Honduras.

29. With the exception of Uganda, no such policy units have so far been set up, in spite of repeated declarations of intent by the governments. A variety of hurdles – ranging from technical to procedural and legal – are responsible for this. However, the EIIP is continuing its efforts in close collaboration with other agencies, and certain encouraging signals are being received from, for example, Burkina Faso and Mauritania, where collaboration with UN-DESA and UNDP may result in the creation of such policy focal points in the framework of PRSP technical secretariats; and from Ghana, where recent collaboration with the World Bank is resulting in a proposal to create such a policy unit.
30. The global planning and programming framework for poverty reduction, i.e. the PRSPs recently adopted by several developing countries, is seen by the ILO as a potentially encouraging tool with which to formulate and implement economic and social policies that are conducive to growth with poverty reduction. The ILO still expects that those countries that are now well advanced in their PRSPs, but have yet to pursue a strategy of growth-employment-poverty linkages, will formally recognize the crucial importance of employment for the reduction of poverty by mainstreaming the issue of employment into investment policy. Unfortunately, too few have so far done so.
31. In integrating labour-based approaches into large-scale infrastructure programmes, collaboration between the ILO and the World Bank, the Asian Development Bank, as well as with bilateral donor agencies such as CIDA (Canada), SIDA (Sweden) and NORAD (Norway), is producing encouraging initial results in several countries (Afghanistan, Cambodia, Congo, Indonesia, Lao Peoples' Democratic Republic, Madagascar, Rwanda). Collaboration with regional development banks in Africa and Latin America as well as with the European Union is also envisaged.

Enabling the poor to benefit from economic opportunities

32. Factors that are important for raising the ability of the poor to benefit from economic opportunities and integrate better into the growth process include their education and skills and access to productive assets, and finance.

Skills

33. Low levels of literacy, education and skills are among major constraints to gaining employment and generating income. Education and training can, therefore, be an important element in the strategy for employment and poverty reduction. There is a stream of small-scale, project-level innovations in poverty-targeted training methods and content, particularly in female-targeted projects. These include:
- development of participatory methods which focus on participant bottom-up learning rather than top-down “expert” training;
 - integrated literacy and livelihood development training for very poor and illiterate people;
 - integration of life skills, gender awareness and empowerment into livelihood training;
 - training targeting different levels of particular economic sectors: employees, outworkers and upstream enterprises as part of an integrated pro-poor sectoral approach.

34. In many of these cases training is part of a set of poverty-targeted strategies including microfinance, marketing support, organizational strategies and macro-level advocacy. IFP/SKILLS is currently preparing a paper that identifies and analyses some of these experiences. Although systematic poverty assessments are scarce, these experiences show interesting alternative routes for skills development programmes to make an impact on poverty reduction, especially when they are part of an integrated strategy.

Community-based training for the poor

One of the ILO's major programmes related to skills development and poverty reduction is the community-based methodology for employment and income generation. This methodology is presently being adapted in Bangladesh by the Bureau of Manpower, Employment and Training and the technical training centres with UNDP funding and ILO technical assistance. Community-based training is a systematic approach to provide training and post-training assistance for employment generation at the local level, emphasizing entrepreneurship development, access to markets, credit and technology. In Bangladesh, the project is targeting poor rural women.

35. A number of lessons have emerged from various studies as well as from the execution of several technical cooperation projects. Obviously, higher productivity is needed to improve job quality; but training alone does not necessarily result in higher productivity. A combination – and, most important, coordination – of different support services is often needed.

Finance

36. Employment growth critically hinges on the ease with which firms access capital. It is also determined by the rapidity with which financial institutions collect excess liquidities from households and firms and transform savings into investment. Policy can make sure that capital is and remains accessible for private business, small or large, and to allow the poor to mitigate risk and reduce vulnerability. Policy can influence the accessibility and proximity of the financial infrastructure. This is especially needed for the working poor in the informal economy, who do not have time for complicated transactions at locations away from their workplace.
37. A suitable financial infrastructure means: guarantee funds and other risk-sharing mechanisms; mutual guarantee associations; micro-leasing; micro-equity finance and payment services that make it easier for banks and microfinance institutions to serve small and very small enterprises.
38. Making the financial infrastructure more accessible to the poor also means adjusting the legal and regulatory framework, i.e. notably as regards what can be legally offered and taken as collateral. This implies taking a critical look at existing law, property rights and property registry management which tend to be biased against the poor. This is a new, more comprehensive, vision of microfinance. It reflects the fact that poor people have diverse financial requirements and need stable access to a wide range of financial services, delivered through a variety of convenient mechanisms by different types of institutions.
39. As for the policy and regulatory framework, ILO research on the employment and incomes effects of financial sector policies in Africa shows that the outcome is not necessarily favourable for the majority of the working population. Financial market reform and liberalization should be undertaken with the outcomes on the poor in mind, rather than looking exclusively at aggregate allocation efficiency which may conceal growing income disparities (see also GB.285/13).

40. Studies on the impact of microcredit show its positive impact on household income and asset creation, and in improving the quality of existing jobs. And yet, a significant proportion of such households also experienced deteriorating conditions, which can be explained by the fact that low-income households are vulnerable to a range of risks and economic shocks. While microcredit can play a valuable productive role in reducing poverty, it is also necessary to consider the protective role of other financial services.
41. The ILO has taken the lead in promoting the protective role of microfinance through publications on insurance and emergency loans. Action research in South Asia on debt bondage induces microfinance institutions to develop, test and offer savings and loans products, particularly tailor-made for vulnerable families on the verge of getting bonded, already bonded or, after their release, to support their rehabilitation. By providing microfinance services the project aims at reducing the comparative importance of the employer as a moneylender.
42. Another illustration is support to associations of women entrepreneurs in Viet Nam. The aim of this project is to test innovative financial products, such as emergency loans, flexible savings or insurance, to reduce poor women's vulnerability. Through a review of available insurance, savings and emergency loans services, the project is finding suitable mechanisms for poor women, how these services might be adapted to meet the needs of the target population, and analyse the regulatory environment for extending risk-managing financial services.

Employment-focused reconstruction and poverty reduction in crisis-affected countries

43. ILO work on crisis response aims at rebuilding the livelihoods of those affected, especially the poorer ones. As productive employment provides a strong rope that can pull people and societies out of crisis, the ILO uses this instrument within the overall decent work framework. Work in this area focuses on those hardest hit, with a special eye on gender concerns. It uses an integrated approach, involving employment, social protection, social dialogue and fundamental rights; involves all relevant ILO field and headquarters units as well as ILO constituents; and seeks partnership with humanitarian and development agencies, NGOs and donors. It plants the seeds of development by setting up interventions, institutions and processes that can leave economies and societies better off than before the crisis. Some illustrations, presented below, provide an idea about how such operations can help the poor in getting out of crisis and poverty.
44. *Mozambique* – A “rapid employment impact project” helped tackle the effects of floods that struck in 2000 in Chókwe district, already suffering severe unemployment and poverty. They had affected 4.5 million people; killing over 700, putting 760,000 in need, destroying \$273 million of assets and 300,000 jobs. The ILO mobilized its own resources, focusing on agriculture, informal commerce, the poor and women, and using a comprehensive strategy with quick-impact action for local economic recovery and employment creation; full involvement of local authorities; and public-private partnerships. It helped to rehabilitate four informal local markets and district labour offices, create a micro-vocational training centre, provide training in sustainable local development and local project formulation, small business management, use and maintenance of motor pumps, making and repairing of agricultural tools, and small livestock breeding. Of the 1,400 beneficiaries reached in less than a year, 87 per cent were women.
45. *Afghanistan* – By early 2002, decades of war, repressive rule, transitions and chronic drought had left a country in ruins, volatile and with a yearly per capita income below

\$200. Some 80 per cent lived in rural areas, barely earning subsistence; close to 4 million were internally displaced or refugees; and half of its population, women, were denied basic human rights, including education, training, mobility, and the right to earn a livelihood. Within weeks of the fall of the Taleban, the ILO used its own limited resources to establish its presence with “quick impact projects”, including English language, computer and secretarial/administrative training for the Ministry of Labour and Social Affairs and the Ministry of Women’s Affairs. Meanwhile, it elaborated project proposals on labour-based reconstruction, local economic development and self-reliance, labour market information, employment services, skills development, women’s labour market (re)integration. By mid-2004, some \$7 million worth of projects will be operational, including the strengthening of employers’ and workers’ organizations, and of the Ministry of Labour and Social Affairs.

46. *Somalia* – Many years of political upheaval and strife have led to massive indigence and precarious livelihoods. The ILO intervened to reactivate local economies through labour-based infrastructure rehabilitation, which also boosts local demand by injecting salaries, subcontracting locally and using local materials; and helping local business and workers take advantage of these opportunities. It also aims to create a platform for medium/long-term economic recovery; achieving consensus on priorities, strengthening local capacities, and connecting local economies with the national and international context. The project directly created some 89,000 working days, mainly for the disadvantaged. In Mogadishu, 70 per cent of the jobs went to the poorest, 70 per cent to women, and 38 per cent to internally displaced persons.
47. *Argentina* – The major financial/economic crisis of 2000-01 raised unemployment to some 27 per cent, reduced income by 24 per cent, increased poverty up to 55 per cent, cut social security assets by 60 per cent and highlighted society’s distance from its rulers. Within weeks, the ILO organized a multidisciplinary crisis group, and formulated a plan of intervention centred on social dialogue, employment support and social protection. The ILO’s own resources were used to undertake emergency response activities, to diagnose the critical problems, support urgent national measures such as subsidies for 2 million unemployed men and women heads of households, help revise the minimum national wage, assess the crisis impact on social protection, develop wider social dialogue, and design an employment recovery programme for selected areas. In 2003, it invested in a second phase some \$800,000 from the ILO’s cash surplus to support analysis and policy formulation in the above five priority areas: helping a move from emergency to regular programmes. A third phase, starting in 2004 and financed by €1.1 million from Italy, will implement a programme in seven provinces to support micro- and small-sized enterprises (MSEs) through local economic recovery strategies, and improve national and international employability and labour mobility.
48. *Central America* – In Honduras and Nicaragua, in support of the reconstruction efforts following the devastation caused by Hurricane Mitch, the ILO provided advisory services, technical support and training for employment-intensive rehabilitation of damaged infrastructure, including the training of small contractors. Women filled some 60 per cent of the jobs created.

V. Resources

49. It is very difficult – if not impossible – to provide an estimate of resources allocated for work relating to employment for poverty reduction. As is evident from the description provided in this paper, work in this field is spread over a number of different units within the Employment Sector and, in some cases (e.g. on the informal economy), beyond the Employment Sector. A good deal of work is also undertaken jointly by headquarters and

the relevant field units. Of course, it is possible to provide figures on a couple of specific units – viz. EMP/INVEST and IFP/CRISIS – whose work relates directly to poverty reduction through employment. It may be recalled that EMP/INVEST deals with labour-based approaches to infrastructure, and IFP/CRISIS with reconstruction in crisis-affected countries; and these are only two of the different areas of work on employment for poverty reduction dealt with in this paper.

50. During 2002-03, EMP/INVEST had four Professional posts of which 2.5 were funded from the regular budget (RB) and 1.5 from the PSI. The branch had non-staff resources amounting to \$354,000 (taking RB, RBTC and PSI resources together). The team has, however, been able to generate significant amounts of extra-budgetary resources. In recent years, the annual rate of technical cooperation project expenditures amounted to over \$10 million, making it the second biggest ILO technical cooperation programme (after IPEC) in terms of expenditure in 2000-01 (see Appendix I, GB.286/TC/1).
51. IFP/CRISIS had six Professionals during 2002-03 – three of whom were funded from RB. The team currently has five Professionals. Approximately \$700,000 was allocated (during the biennium) from RBTC towards the Rapid Action Fund for financing quick response. The programme had another \$435,045 in terms of non-staff resources (from RB and PSI). Despite being new (and rather small), the IFP/CRISIS programme has also been able to mobilize substantial amounts of technical cooperation resources – \$24.6 million during 2002-03.

VI. Actions needed and future directions

52. At the international level, the poverty reduction strategies (through PRSPs) promoted by the IMF and the World Bank constitute an important element. The ILO will need to continue and intensify its efforts at integrating employment into the PRSPs.
53. Such work has to range from advocacy (which, in turn, should be based on sound analytical work and the knowledge base) to the development and demonstration of practical tools and programmes. The role of employment in achieving the Millennium Development Goals (MDGs) can be readily demonstrated. Global alliances with the World Bank and UNDP will need to be strengthened in these areas of work.
54. At the national level, work on integrating employment and decent work in national development strategies (and PRSPs) will need to be intensified. There is, of course, a need to strengthen the knowledge base for more effective advocacy and advisory work in this area.
55. Examples provided earlier of the ILO's work relating to poverty reduction indicates that the ILO has the tools and means to make employment an effective instrument in the strategies for poverty reduction. What is necessary is to: (i) focus them more towards contributing to the goal of poverty reduction; (ii) demonstrate ways of scaling up their scope; (iii) combine and integrate them for achieving greater impact; and (iv) provide practical demonstration (by following up work done already) of how such instruments can be integrated into development strategies and PRSPs. Member States may also consider a more intensified application of the employment strategies for poverty reduction discussed here, depending of course on the relevance of the various elements to the country concerned.
56. As indicated in paragraph 21, it is important to address the problem of poverty in transition economies. To this end, particular attention needs to be paid to the specific situations in

those countries and to the identification of employment strategies that would be relevant for reducing poverty in such situations.

- 57.** The Committee is invited to advise and guide the Office in giving indications for its future work on employment for poverty reduction, with specific attention to paragraphs 52-56. Such guidance might be provided on: (a) intensification of involvement in PRSPs and other national development strategies; (b) building global alliances; (c) extending the work to transition economies; and (d) adoption of an integrated approach.

Geneva, 23 January 2004.

Submitted for discussion.