

**Inter-agency expert group meeting on
Employment and Decent Work for Poverty Eradication
in support of the Second UN Decade for the Eradication of Poverty (2008-2017)**

A background note on “Employment policies for poverty eradication”

4-6 May 2016, Bangkok

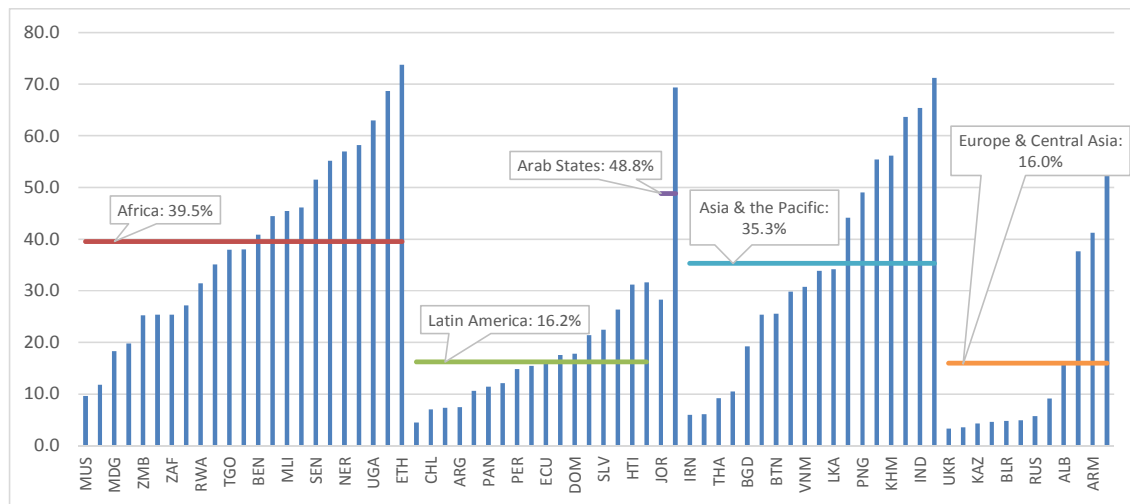
Makiko Matsumoto
Employment Specialist
ILO Bangkok

1. A remarkable progress, but many remain vulnerable to poverty

UNDP (2015)¹ reports success in reducing extreme poverty in the developing countries, from 47 per cent in 1990 to an estimated 14 per cent by 2015. Correspondingly, those earning less than US\$1.25 a day more than halved: from 1.9 billion in 1990 to 0.8 billion in 2015. In spite of such remarkable progress, further impetus is needed to ensure that people’s livelihoods do not fall back to extreme poverty. According to the ILO, the proportion of those in employment who can be considered moderately poor (US\$1.90 – 3.10 a day) and near poor (US\$3.10 – 5 a day) remained notable in the 2010s. In the latest years for which data is available during the 2010s, the average share of moderate and near poor in total employment by region ranged from 40 per cent in Africa to 16 per cent in Europe and Central Asia and in Latin America (figure 1). For Asia and the Pacific, the share of moderate and near poor in total employment also remained fairly high at 35 per cent. Within each region, there are stark differences in progress achieved across countries. It suggests that poverty reduction through decent work has not yet been a shared experience for all countries. Together with the share extreme poor in total employment, an average of more than 50 per cent of workers in Asia are potentially vulnerable to poverty in the 2010s (figures 1 and 2).

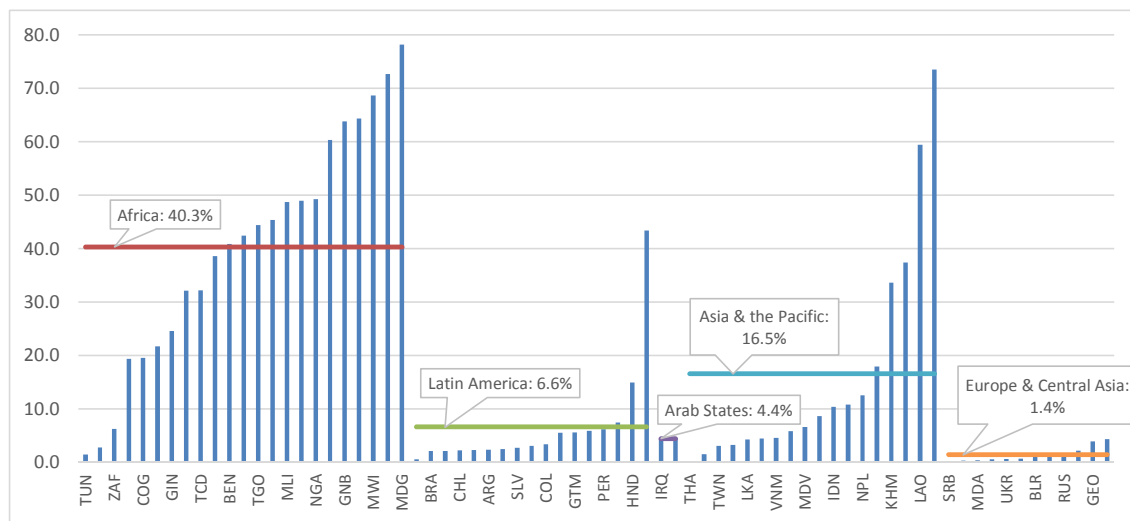
¹ UNDP: *The Millennium Development Goals Report 2015*.

Figure 1. Share of moderate and near poor (US\$1.90-US\$5, PPP) in total employment (%), 2010s



Note: Data for the latest available year in 2010s are presented.
 Source: ILO, <http://www.ilo.org/global/research/global-reports/weso/2016/lang--en/index.htm> [accessed 26.04.2016].

Figure 2. Share of extreme poor (< US\$1.90, PPP) in total employment (%), 2010s



Note: Data for the latest available year in 2010s are presented.
 Source: ILO, <http://www.ilo.org/global/research/global-reports/weso/2016/lang--en/index.htm> [accessed 26.04.2016].

As the labour force is increasingly capacitated to be out of extreme forms of poverty, generating more decent work opportunities becomes all the more important to ensure that the progress toward poverty eradication continues without major setbacks and that workers are less susceptible to poverty in the event of income and production shocks due to price fluctuations, natural disasters and other unforeseen events. In this regard, Sustainable Development Goals provide a framework that guides and integrates decent work outcomes to meet a range of social, economic and environmental challenges. Goal 8 on “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” includes targets that relate to full and productive

employment through sustained growth in the least developed countries, diversification and upgrading of skills, technology and value additions, non-discrimination, formalization, activation of youth in the labour market, protecting rights at work and eliminating unacceptable forms of work, protect migrant workers, and improve access to finance. Furthermore, the objective of attaining decent work outcomes is relevant to a host of other goals, including Goal 1 on ending poverty, Goal 5 on achieving gender equality, and Goal 10 on tackling inequalities.

As can be seen from the integration of decent work objectives across various SDGs, eradicating poverty through decent work calls for a relevant and coordinated set of policies and institutions. National employment policy, as stipulated in Employment Policy Convention, 1964 (No. 122), calls for such a coordinated framework of economic and social policy to improve quantity and quality of employment in a non-discriminatory manner. The possible elements of such policy framework were initially outlined in Employment Policy Recommendation, 1964 (No. 122), Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169) and numerous other instruments adopted by the ILO. The need for a stronger coordination across economic and social policies and setting decent work as one of the central goals of policies was re-confirmed in 2009 in the form of Global Jobs Pact to respond to the impact of economic crises in a concerted manner and through dialogue.² The key elements of the Pact include policy efforts to enhance employment creation and sustainable enterprises, social protection systems, international labour standards and social dialogue. A more recent ILO's guide for the formulation of national employment policy suggests components that addresses demand, supply and mediation elements of the labour market in recent economic contexts.³

2. Why do we need an employment policy to reduce poverty?

The starting premise is that economic activities that people engage in for a living (employment) importantly determines whether they are likely to be poor or not. Thus being employed raises the chances of a person being non-poor than if the person was without a job. Nevertheless, being employed does not guarantee a worker and her/his family members to stay out of poverty, if the work is poorly remunerated, negatively affects health status due to long hours of work or inadequate provisions for occupational safety and health, is informal, provides little opportunities for on-the-job training and skills upgrading, lacks freedom of association and collective bargaining mechanisms, or provides little prospects and security in terms of career or future earnings. In other words, an employment policy and a set of labour market institutions need to be in place to make employment decent. And it is by promoting decent work that employment policy leads to poverty alleviation.

Such policy framework is particularly relevant in light of current developments in the labour markets around the world and on-going global economic integration through trade and investment flows. One of the important features of the labour market is that left to itself, it will neither be automatically inclusive, non-discriminatory nor 'perfect', as its evolution and development are embedded in the social, local or sector-specific context. It is in this sense that labour market regulations and institutions have evolved to improve workplace rights and protection, representation and social dialogue

² ILO: "Recovering from the crisis: A Global Jobs Pact" adopted by the International Labour Conference in its 98th session, Geneva, 2009.

³ ILO: *Guide for the formulation of national employment policies*. 2012. Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_policy/documents/publication/wcms_188048.pdf.

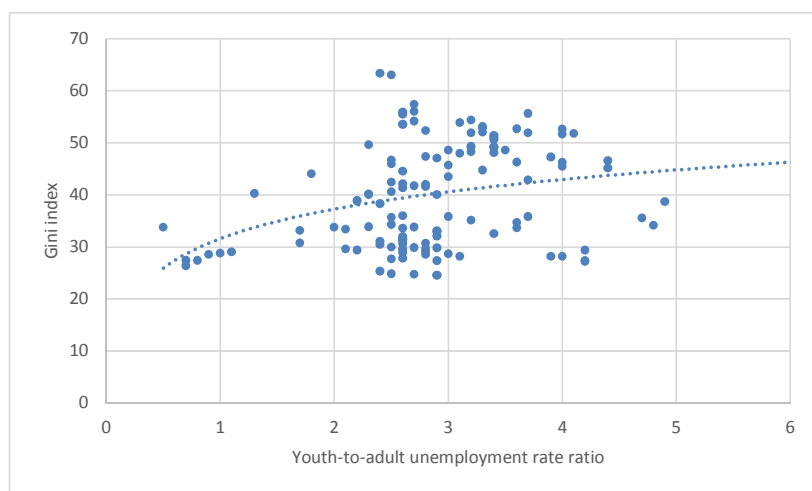
mechanisms and public services for information, matching and skills development. At the same time, a balance had been sought to encourage growth of job opportunities and productivity. Furthermore, in developing countries where subsistence activities continue to remain an important part of the livelihood at the household level, ensuring that household income diversification strategies leads to long-lasting socio-economic development in both rural and urban areas is critical. In a context where population is increasingly mobile both within and across the national borders, owing partly to better transport and communication infrastructure, household income diversification strategies has also become diverse involving young and older women and men. There is a need to ensure that such strategies further contribute to a long-lasting socio-economic development in the source communities. Policy support can occur in two fronts. One is to improve earnings, security and skills development opportunities of existing work in the urban areas. It has sometimes been argued that without a job or income security, a notable share of the workforce will not permanently transition to non-agricultural employment. The other is to encourage a creation of rural off-farm employment opportunities. Thus, employment policy framework that goes beyond a narrow cluster of labour market policies, regulations and institutions makes sense and plays an important part in making the on-going structural transformation more inclusive.

Young people have been receiving considerable focus as a target group of such policy. Successful integration of youth into the labour market is one way of accelerating the structural transformation from less productive to more productive economic activities. Youth are more mobile, usually more educated than the previous cohorts, and capable of absorbing more from new work experiences. Nevertheless, it is well known that youth unemployment rate has consistently remained almost three-times that of adults since 1995.⁴ Global youth unemployment rate has settled at around 13.0 per cent for the period 2012 to 2014 (ILO, 2015). Recent trend shows that when youth faces higher risks of unemployment than adults, as captured by ratio of youth to adult unemployment rate, income inequality, as captured by Gini index, also tends to be high (figure 3). While the positive association does not capture any causal relationships, it suggests on the one hand that youth may face more hardship in entering the labour market than adults when income inequality is high and on the other hand that a high income inequality may be capturing segmentations in the labour market which makes initial entry much harder. Either way, youth are agents and potential drivers of structural change and their smooth integration into the labour market should be a policy priority. Employment policy can and should support decent work for youth by quantitatively and qualitatively estimating the worker and skills needs of current and future investments, informing education and training institutions and youths about such likely needs, providing employment counselling and labour market orientations to youth, to name a few. A challenge in this regard is that informal employment continues to dominate in many developing and emerging countries⁵, and what may have been formal employment in the past is becoming increasingly non-standard or informal. Hence, young people's integration in the labour market may imply perpetuation of informal or non-standard forms of work.

⁴ ILO: *Global Employment Trends for Youth 2015: Scaling up investments in decent jobs for youth*. Geneva, ILO.

⁵ ILO and WIEGO: *Women and men in the informal economy: A statistical picture*. 2013. Available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_234413.pdf

Figure 3. Gini index and ratio of youth to adult unemployment rates, 2008-2013, pooled



Note: Developing countries, including high income countries. Country-year observations with ratio of youth to adult unemployment rates greater than six are also not shown.

Source: World Bank, World Development Indicators database for Gini index and ILO, World Employment and Social Outlook: Trends 2016's supporting data for youth-to-adult unemployment rate ratio.

It is in recognition of the contributions that employment policy framework can and should make to economic and social development that 110 member States of the ILO have ratified the Employment Policy Convention, 1964 (No. 122). Many have ratified this Convention already in the 1960s⁶, while more recent ratifications have taken place after 2010.⁷ As of 2014, approximately 60 countries have been developing, reviewing or implementing national employment policies with ILO support.⁸ In Asia and the Pacific region, promotion of decent employment opportunities have taken numerous forms, in line with the objectives and interests of the national stakeholders.⁹

⁶ For example Algeria, Australia, Belarus, Belgium, Brazil, Canada, Chile, Costa Rica, Cyprus, Finland, Guinea, Hungary, Ireland, Jordan, Madagascar, Netherlands, Norway, Paraguay, Peru, Poland, Russian Federation, Senegal, Sweden, Thailand, Tunisia, Uganda, Ukraine and United Kingdom.

⁷ This includes Chad, Saint Vincent and the Grenadines, Serbia, Sri Lanka, Switzerland, Togo, Trinidad and Tobago, and Viet Nam.

⁸ ILO: *“Employment policies for sustainable recovery and development”*, Report VI of 103th session of the International Labour Conference 2014. Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_240032.pdf

⁹ Many countries have employment plans in line with national development plans that are framed either on a 5-year or 10-year basis. The difference between employment plans and policies can be little, if an emphasis is placed on improving decent work outcomes in the national development plans (for example, in the Philippines and Indonesia). However, employment plans sometimes simply represent work plans of the relevant line ministry, with little coherence or integration with other proposed development policy actions. In recent years, Sri Lanka in 2012 and Cambodia in 2015 had adopted national employment policy. In China and Viet Nam, a comprehensive employment (promotion) law had been adopted in 2007 and 2013, respectively.

3. The gap between policies and the capacity to deliver: Employment policy as a coordinating framework

If a country has an employment policy, then the government is explicitly committed to improving the employment outcomes. It also provides an entry point for the stakeholders - including the intended beneficiaries, the policymakers and the national research networks - to assess and debate about policy measures that work or ones that require adjustments to become more effective. Having an employment policy provides a potential platform for concerted efforts to improve employment outcomes, by stimulating policy dialogue across a broad range of stakeholders. It also serves as a statement of intentions and path of development that the policymakers envision for the country. Indeed, until the ILO's more recent support to formulate national employment policies in the developing, emerging and transition economies since around the mid-2000s, the employment objectives, not to mention decent work objectives, were largely absent in national development frameworks. Thus, approximately two decades between the mid-1980s and the mid-2000s had been marked by a notable silence in areas of employment and labour market in national policies. It is not surprising that many developing countries experienced (and still experience) a dearth of representative labour market information, as one of its key sources – the labour force surveys or other similar household surveys that collect detailed information including working conditions – have either not been implemented or implemented only on an irregular or non-representative basis with large time gaps between them. In summary, articulation of policy objectives and plan of action to improve decent employment outcomes influences the political economy in favour of employment concerns. It also increases commitments to collect adequate information on statistics related to decent employment, as part of regular monitoring and evaluation.

For the purpose of poverty alleviation, given the multifaceted nature of poverty, the above line of thinking likely results in at least as many policies as there are ministries, if not more. In countries with a good governance capacity, including knowledge, analytical capacity, prior experiences, team work, and sufficient coordination with the local governments, a situation with multiple set of policies may be welcomed and truly represent concerted efforts by the government and other relevant stakeholders to improve the poverty outcomes. Nevertheless, in a context where the capacities of each line ministry is limited and where little policy dialogue takes place across stakeholders, across ministries or across departments within ministries, having 'too many' policies may induce fragmentation, increase coordination costs and result in lower chances of policy implementation. And without an expansionary fiscal policy that cater to the increasing demand for more and better publicly-supported provision of physical and social infrastructure (such as roads, transports, electricity, water, education, health, employment services, protection) that goes hand in hand with economic development, the more policies there are, the less resources there would be for each policy. It means first and foremost that having a macroeconomic policy framework that is connected to the core concerns of socio-economic development becomes a critical enabling condition.¹⁰

Furthermore, current policymaking situation in many developing countries around the world has typically evolved through a history of external support from various multilateral or bilateral organizations to policies, strategies, programmes and projects for at least a couple of decades and more. They typically have addressed the issues of employment and decent work from a specific angle, including sectoral development focus, skills development, small enterprise development, target

¹⁰ See, for example, Chapter 3 "Macroeconomic policy, growth and employment" in I. Islam and R. Islam, eds. (2015). *Employment and Inclusive Development*.

groups such as women and youth, enhanced social dialogue, extension of social protection, eliminating unacceptable forms of work, and so on. What may have been lacking is an institutional translation of specific past activities and achievements of projects or programmes into a longer-term and visionary policy framework that is still grounded in the current delivery capacity of the governments and social partners. Thus, articulating an employment policy when it does not exist in a country would primarily involve institutional assessments of past achievements and shortcomings, absorbing good practices and lessons learned, institutionalizing better policy coherence and coordination across different ministries, agencies and departments. For example, if a country has a skills development policy that include both institutional and beneficiary targets, and a trade and investment policy that either targets specific sectors or localities, it may make sense to bring the elements of the two policies together at sectoral or locality levels.¹¹ Such coordinated policies could be considered as a start of an 'employment policy', which can subsequently develop into enhancement of rights at work, social protection, and measures to include those who have thus far been left out of the process, as the economy, the labour force and the policy delivery capacity develop. Employment policy for poverty alleviation could be considered as an articulation and improved coordination of existing capacities and policy frameworks that emphasizes the attainment of decent work outcomes.

4. 'New normal' of slower economic growth: What could be the policy priorities?

The estimated global growth rate has been inching downwards, with subdued prospects of recovery in the medium-term. According to the World Bank's January 2015 forecast, the global economy would have grown by 3.0 per cent.¹² As of January 2016¹³, this estimate has been revised downward to 2.4 per cent. The current estimated growth rate for 2016 stands at 2.9 per cent, a 0.4 percentage point lower estimate than a year ago. And global growth is expected to recover to 3.1 per cent in 2017 and 2018. Such slowdown could be attributed to a number of drivers, including slowdown in long-term capital investment, demographic developments, rising inequality and weakening productivity gains.¹⁴ These factors in turn are affecting employment prospects, and the ILO has been raising concerns over limitations in employment opportunities as well as continued challenges in improving job quality (ILO, 2016).

With somewhat grey prospects for the economy and employment opportunities in the years to come, the policy priorities may need to adjust to ensure more and better jobs that result in poverty reduction. At the risk of over-generalization, these priorities at the national level include:

1. In conjunction with the objective of maintaining stability, macroeconomic policy framework enables adequate provision of publicly-supported services, including physical and social

¹¹ The Republic of Korea is one of the countries that is well known to have pursued such combined strategies. See, for example, B.Y. Cheon. (2014) "Skills development strategies and the high road to development in Republic of Korea", Chapter 7 in M. Salazar-Xirinachs, I. Nübler and R. Kozul-Wright, eds. (2014). *Transforming Economies: Making Industrial Policy Work for Growth, Jobs and Development*.

¹² The World Bank: *Global Economic Prospects January 2015*, table 1. Available at: <http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-January-2015-Table1.pdf>

¹³ The World Bank: *Global Economic Prospects January 2016*. Available at: <http://www.worldbank.org/en/publication/global-economic-prospects>

¹⁴ ILO: *World Employment and Social Outlook: Trends 2016*.

- infrastructure, maintenance and upgrading of these infrastructure, human resources and public services of quality, particularly in rural areas or localities experiencing deficits.
2. Put in place a mechanism for coordinated and coherent economic, social and employment policies. Such mechanism should ideally be formally institutionalized. Depending on specific country context and government structure, however, short-term realistic efforts at policy coordination may need to start at various levels of the government on an 'informal' basis.
 3. Facilitate and manage structural change. Many developing countries have large potentials to grow further through domestic economic diversification and structural changes, as they can occur not only from one sector to another but also within sectors and subsectors. In this regard, each country may need to consider a balance between inward- and outward-looking, as well as investment- and consumption-based growth paths. Employment policies need to address both the demand and supply in the labour market, as well as reducing the gap between them. Such policies facilitate integration of youth in the labour market toward more productive employment opportunities (see Box 1). Policies and measures for structural change may include:
 - a. Industrial and sectoral policies to either develop a leading sector or to diversify the economy, while aiming to enhance domestic (and international) connectivity across sectors and sub-sectors. Such policies signal the direction which the policymakers and the private sector will be emphasizing in the medium- to long-term and influences sectoral patterns of demand for workers. In conjunction, support development of sustainable enterprises, particularly among the SMEs.
 - b. Strengthen education and training for skills development of quality that can meet the current and future demand for workers, enhance overall productivity and raises potential income streams that the workers can expect. In this regard, it may be fruitful to consider incentivization or improved human resource management system within the public sector to increase quality skills development opportunities in rural and other left-behind areas.
 - c. Strengthen social protection measures to reduce vulnerability of workers and their families from unexpected shocks and to mitigate adjustment costs that invariably arise from structural change. Reduction of adjustment costs on individuals or enterprises may also facilitate structural changes.
 4. Ensure that economic gains lead to a shared prosperity. Even though the developing economies have been growing fast in many parts of the world, and particularly so in Asia and the Pacific region, income inequality has either risen or remained high (ILO, 2016). Putting in place institutions and mechanisms for sharing the gains of economic growth can mitigate or decrease inequality. Such institutions or mechanisms include:
 - a. Wage setting system through social dialogue, including minimum wages, reduction in wage inequality between women and men, and enhanced collective bargaining institutions. Many countries have experienced notable growth in both productivity and wages.¹⁵ A rising share of wage employment in many developing and emerging economies imply that wages are increasingly important component of household incomes, and key to reducing poverty. Yet, growth in wages have tended to fall

¹⁵ ILO: *Global Wage Report 2014/15*. Available at: <http://www.ilo.org/global/research/global-reports/global-wage-report/2014/lang-en/index.htm>. And in Asia and the Pacific region, notable growth in wages has been importantly driven by China. See ILO (2014). "Wages in Asia and the Pacific: Dynamic but Uneven Progress". Available at: http://www.ilo.org/asia/whatwedo/publications/WCMS_325219/lang-en/index.htm

- behind growth in productivity. For the economy to grow on a sustained basis, productivity gains need to translate into consumption, which requires wages to grow.
- b. Promote women's and youths' access to decent employment and skills development opportunities and awareness raising of their rights at work. Reducing the considerable gender gaps in the labour market is not only the right course of action, but it also strengthens the linkages between households and the income earning opportunities in the labour market and can help mitigate labour shortages due to demographic changes, where such shortages exist.
 - c. Protect migrant workers and translate experiences and incomes gained from work-related migration into local economic development. As noted, workers are increasingly more mobile within and across national borders. According to the World Bank, remittances from migration as share of global GDP doubled from an average of 0.3 per cent between 1977 and 1979 to 0.7 per cent between 2012 and 2014. In 2014, total remittances received was approximately current US\$528 billion. Managing migration and protecting migrant workers is critical. Enhancing social protection for rural-urban migrant workers can also facilitate further structural change.
5. Enhance regular collection of labour market data and information, including from survey-based and administrative sources, that can be processed and disseminated to monitor the developments in the labour market, conduct analyses to inform policies, improve job-vacancy matching services, and improve other labour market services provided.
 6. Continuous investments into improving the capacity to implement and monitor policies from the perspective of decent work outcomes and poverty reduction, as well as improving the quality of public services provided.
 7. While individual country decides on the coverage of employment policy interventions from the above broad set of policy areas, there is a tendency to include: 2, 3a, 3b, 4b and 5, and depending on cases, 4a and 4c.

Box 1: What works for youth: Components of employment policy¹

In an experience sharing workshop organized by the ILO on the theme of "What works for youth employment", measures that facilitate following elements have been found to be effective in improving youth employment outcomes.

1. On-the-job training and learning through apprenticeship contracts as youths' entry point to the labour market. Such policy measures have been implemented in Argentina, Mexico, Uruguay and Zimbabwe, among many other countries.
2. Facilitate entry of youth into formal employment opportunities and supporting transition from informal to formal employment. Some examples include targeted generation of formal employment opportunities for first time labour market entrants in Colombia, and initiatives to support formalization of informal sector and employment. The targets for the latter types of interventions can occur at the enterprise level (Nepal), recognition of informal apprenticeship (Tanzania), and the rural economy (Zimbabwe).
3. Combination of labour market demand- and supply-side interventions to facilitate labour market entry, with a sectoral focus. Some examples include initiatives to formalize work in the construction sector (Bangladesh), promoting youth employment in digital and animation industries (Jamaica), and apprenticeship programmes as the first labour market entry point

(Brazil).

¹ *Source:* ILO Workshop Report on “What works for youth employment? Innovative experience in the transition to formality”. Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---ed_emp_msu/documents/meetingdocument/wcms_381171.pdf