

# Jobs and labour markets in developing countries

## *Policies and priorities for a sustainable future*

### 1. Introduction

The paper discusses a range of issues associated with job creation and quality in the context of labour markets in developing countries.

It begins in Section 2 (page 2) with an overview of international and regional mandates on job creation, because this provides a useful starting point by illustrating both the political commitments and values that underpin employment policy and their evolution over time.

Section 3 (page 5) then goes on to address a number of key issues and challenges for employment policy, namely:

- Decent work: quality versus quantity of employment (page 5)
- Job creation: direct or indirect strategies? (page 6)
- Roles of the public and private sectors (page 8)
- Supply or demand-driven strategies? (page 9)
- Informal and precarious employment (page 9)
- Youth employment (page 12)

Section 4 (page 14) then reviews the key policies and means of action for employment creation, exploring:

- Macro-economic policies (page 14)
- Training, skills development and employability (page 16)
- Self-employment, entrepreneurship development and private sector support (page 18)
- Employment-intensive investment policies (page 19)
- The state as employer of last resort (page 21)

The concluding Section 5 (page 22) briefly considers avenues and obstacles to policy reform and implementation, and is followed by a bibliography (page 24).

This report was commissioned by [Voluntary Services Overseas](#) (VSO), the world's leading independent international development organisation working through volunteers to fight poverty in developing countries.

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## 2. International mandates and policy frameworks on job creation

Employment creation and the quality of work have been major preoccupations of the international community since the founding of the United Nations. The Universal Declaration of Human Rights endorsed by the United Nations member states in 1948 states that “everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment”. Within the framework of the ILO’s 1964 Employment Policy Convention (no.122) member states agree to “declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment.” The stated purpose of such a goal is “to stimulate economic growth and development, raise levels of living, meet manpower requirements and overcome unemployment and underemployment”.

It is worth noting that the ILO Employment Policy Convention viewed job creation as a direct policy goal, and held that job creation can stimulate economic growth rather than being only an indirect result of growth. This is in contrast to the dominant development paradigm of the 1970s and 1980s, which held that sound macro-economic policies would enable growth and lead to job creation, and that, therefore, job creation would be a consequence of following the correct policies rather than their focused aim.

In accordance with the latter approach, development policy has until recently been largely dominated by structural adjustment programmes under the overall leadership of the Bretton Woods institutions and the so-called ‘Washington Consensus’. This doctrine held that fiscal restraint, devaluation to stimulate exports and reduction of inflation would stimulate economic growth, which in turn would lead to job creation. Full employment was not seen as a policy goal and the public sector’s role in job creation was largely limited to providing a good business environment for the private sector.

The 1995 World Summit for Social Development marked the beginning of the end of the domination of the Washington Consensus over the international development agenda. The Social Summit focused on three interrelated priorities: poverty eradication, employment creation and social inclusion. Drawing on language taken from the ILO’s Employment Policy Convention, Heads of State and Government committed themselves to “promoting the goal of full employment as a basic priority of our economic and social policies, and to enabling all men and women to attain secure and sustainable livelihoods through freely chosen productive employment and work” (UN 1995).

The Copenhagen Declaration agreed at the Summit furthermore contained a commitment to “pursue the goal of ensuring quality jobs, and safeguard the basic rights and interests of workers and to this end, freely promote respect for relevant International Labour Organization conventions, including those on the prohibition of forced and child labour, the freedom of association, the right to organize and bargain collectively, and the principle of non-discrimination”.

This commitment on the part of Heads of State and Government provided the basis for the adoption by the ILO in 1998 of the Declaration on Fundamental Principles and Rights at Work (ILO 1998) and for the notion of ‘core labour standards.’ Respect for labour standards falling within the four key areas outlined above, namely, prohibition of forced and child labour, commitment to freedom of association and the right to organize

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and bargain collectively and the principle of non-discrimination, are now held to be conditions of ILO membership, whether or not a country has ratified the conventions concerned.

However, they have also been seen by some developing countries at times as standards imposed on poor countries by rich ones, and as protectionist in effect. This perception needs to be borne in mind to understand sensitivities involved in development cooperation between industrialized and developing countries.

The 1998 Declaration did not address the issue of job creation. However, within the framework of the Decent Work Agenda (ILO 2002), the ILO has linked employment creation to employment quality. Indeed, the concept of 'decent work' can be seen as an attempt to reconcile the quantity (full employment) with the quality (productive, remunerative and respect for core labour standards) of employment.

During the five year review of the Social Summit (WSSD +5), governments reported on progress in achieving these goals and raised a number of social and economic issues which posed particular challenges and required innovative solutions. The following were raised by several governments:

- Importance of rehabilitating the public sector
- Growth of inequality
- Informalization of employment
- The working poor
- Making economic growth more employment-intensive
- Conflict, crises and social development
- Financing social protection
- Reversing the decline of official development assistance
- Debt reduction
- Globalization and liberalization
- Local development and values in the global economy

Just three months after the five year review of the Social Summit, Heads of State and Government met in New York at the opening of the UN General Assembly for the Millennium Summit (September 2000). The call, contained in the Millennium Declaration, for developing and implementing strategies that give young people everywhere a real chance to find decent and productive work (UN 2000) is the only commitment on job creation contained in this key framework document which gave rise to the Millennium Development Goals and which has guided the international development community over the past decade.

Following up on this Millennium goal on youth employment, the UN Secretary-General's Youth Employment Network, set up together with the ILO Director-General and the President of the World Bank, which acted and continues to act as a catalyst for a number of initiatives within the UN system focusing on youth employment. The United Nations General Assembly passed a resolution on "promoting youth employment" which encourages member states to prepare national reviews and action plans on youth

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employment and called for the UN Secretary-General to prepare a “global analysis and evaluation” of these action plans, which could form the basis of an international peer review mechanism to develop policy coherence around the issue of youth employment (UN 2005b).

As important as the Millennium Commitment on youth employment was, it nevertheless confined employment policy to a target group issue within the context of MDG 8 (Develop a global partnership for development). However, due to growing international concern that employment had been overlooked in the Millennium Declaration, the 2005 World Summit agreed (UN 2005a):

“We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. These measures should also encompass the elimination of the worst forms of child labour, as defined in International Labour Organization Convention No. 182, and forced labour. We also resolve to ensure full respect for the fundamental principles and rights at work.”

This strong language on employment led the international community to strengthen the place of poverty eradication within the MDGs by introducing a new employment target - *Achieve full and productive employment and decent work for all, including women and young people* - with specific indicators that go beyond job creation to address the policy dimensions of this commitment. This is done by taking on issues such as the relationship between economic growth and job creation, labour market participation, and working poverty and informal employment, including self-employment.

Another important framework for coordinating the international community’s development cooperation efforts is the Poverty Reduction Strategy (PRS) process launched in the 1990s as part of the Highly Indebted Poor Countries (HIPC) initiative. Employment creation as a specific direct goal was largely missing from a large majority of first generation PRSPs, but, as a result of dialogue between the World Bank and the ILO as well as a series of country advisory missions, succeeding generations of PRSPs have placed a much stronger emphasis on job creation as a national priority.

The above global commitments and mandates on job creation are underpinned by a number of regional commitments, such as those made at the 2004 Extraordinary Summit of the African Union (AU) Heads of State and Government on Employment and Poverty Alleviation in Africa and its Ouagadougou Declaration. With respect to the issues discussed in this paper, the following commitments are particularly important:

“WE, the Heads of State and Government of the African Union, COMMIT OURSELVES TO:

PLACE employment creation as an explicit and central objective of our economic and social policies at national, regional and continental levels, for sustainable poverty alleviation and with a view to improving the living conditions of our people;

URGE the UN, international financial institutions, bilateral and multilateral institutions, regional and continental development banks to adopt greater policy coherence and increased support to the employment agenda within the context of our national PRSPs and other development strategies.”

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These commitments were followed up by the Conference of African Ministers of Finance, Planning and Economic Development held in Abuja in 2005 underlining the need "to develop strategies for generating decent and productive work for men and women as well as youth in Africa, and to explicitly address employment generation issues in national poverty reduction strategies." This was followed in 2006 by a declaration from the African Ministers of Finance, Planning and Economic Development "that the way forward in creating decent jobs in Africa lies in mainstreaming employment in the development agenda". Their declaration was particularly significant in highlighting the need to further integrate employment creation into poverty reduction strategies and investment policy.

In conclusion, beginning with the Social Summit in 1995, there has been a strong resurgence of job creation within the international development policy agenda. The rationale for this has been strengthened by the economic crisis since 2008, which has further undermined expectations that economic growth will pave the way to job creation, and by growing concerns that unemployment, particularly among young people, is contributing to loss of social cohesion and growth of unrest.

### 3. The policy environment

This section will raise key policy issues relating to job creation and put them in the context of countries at different levels of development and in different regions. While it is beyond the scope of this paper to enter into the details, an attempt will be made to highlight the different sides of the debates, even dilemmas, which surround the different policy issues in order to better inform the policy options, choices and strategies for job creation raised in the following section.

#### 3.1 Decent work: Quality versus quantity of employment

It is sometimes assumed that there is a trade-off between the quality and quantity of employment and that developing countries should focus first on job creation and address the quality of those jobs as a second priority. Some developing country governments and international institutions fear that labour standards and labour market regulations are drags on job creation, and that promoting employment involves decreasing regulatory burdens.

The World Bank's annual Doing Business Report provides an illustration of the perceived trade-off between quality and quantity of employment. The Report ranks countries according to their scores in respect of ten indicators. Previously, they also included an 'Employing Workers Indicator' (EWI), but due to concerns within the ILO that the EWI ranking encouraged low levels of social protection, and even non-compliance with ILO labour standards (Berg and Cazes, 2007), a consultative group was set up to revise it. (For now the EWI has been dropped from the overall Doing Business rankings, although data is still presented in an annex to the overall Doing Business Report.) The consultative group's final report persists with the view that providing social protection to workers, on the one hand, and providing flexibility to employers with respect to working hours, wages, hiring and firing, on the other, are tradeoffs to be balanced against each other, rather than legitimate goals to be pursued in tandem.

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The reality is much more complex. While it is true that the relatively high levels of protection afforded to formal sector (and particularly public sector) workers are a feature of the division between ‘insiders’ and ‘outsiders’ in developing country labour markets, it does not follow that the former causes the latter. Rather, the impact of regulations on the ability of an enterprise to ‘do business’ needs to be weighed against the intended purpose of the regulation as well as more specifically on the ability of enterprises to create jobs. A number of non-labour market regulations (zoning, procurement, etc.) in fact can be designed and used to stimulate, rather than obstruct, job creation.

Moreover, the trade-off argument pertains largely to employment in the formal economy, which forms a small proportion of the overall economically active population in developing countries. In the case of most developing countries the problem is not unemployment per se, but rather informal or vulnerable employment. Unemployment is a luxury most workers cannot afford since they do not have access to social protection. Therefore employment strategies to create new job opportunities should be complemented by strategies to upgrade existing informal jobs. From that policy perspective, job creation and pursuing decent work is a win-win strategy.

However, since informally employed workers are usually beyond either trade union organisation or official statistics, particularly in occupations in which women predominate, there is a dangerous tendency for development policy to focus on raising working conditions in formal sector jobs (for example, factory workers in export-oriented industries) while ignoring working conditions for those in informal sector enterprises. Yet the latter not only form a larger part of the overall labour market but can also be tied into the same global supply chains. In addition, the role of unpaid labour – again done predominantly by women – in the production of labour itself, in the absence of formal social protection systems, is routinely overlooked in evaluation of actual as opposed to paid labour costs. (This is one of many points of criticism of the approach being taken by the World Bank in the production of its 2013 World Development Report on Jobs, the outline of which defines a job as a ‘productive activity that is remunerated’.)

To return to the ILO’s perspective, quantity and quality of employment are combined through the creation of decent work which is achieved through the implementation of four strategic objectives, with gender equality as a crosscutting objective:

- Creating Jobs -- an economy that generates opportunities for investment, entrepreneurship, skills development, job creation and sustainable livelihoods.
- Guaranteeing rights at work -- to obtain recognition and respect for the rights of workers. All workers, and in particular disadvantaged or poor workers, need representation, participation, and laws that work for their interests.
- Extending social protection -- to promote both inclusion and productivity by ensuring that women and men enjoy working conditions that are safe, allow adequate free time and rest, take into account family and social values, provide for adequate compensation in case of lost or reduced income and permit access to adequate healthcare.
- Promoting social dialogue -- involving strong and independent workers’ and employers’ organizations is central to increasing productivity, avoiding disputes at work, and building cohesive societies.

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### 3.2 Job creation: direct or indirect strategies?

Does job creation result from promotion of economic growth, sound macro-economic policies and support to the private sector, or can it be pursued as a direct goal? This paper will argue that all policy avenues for job creation should be pursued, and that they are complementary rather than mutually exclusive, because the evidence suggests that while economic growth can contribute positively to job creation it is certainly not a sufficient condition and in some circumstances not even a necessary one.

Global GDP grew by 4.3% from 2001 to 2006, but the global unemployment rate did not decline, and since 2007 it has risen. The overall employment-intensity of growth is on the decline for a large majority of developing countries and in most countries economic growth is not creating sufficient employment opportunities to absorb new labour market entrants. In an analysis of the relationship between value added in manufacturing and employment growth for close to 20 developing countries for the periods 1980-1989 and 1990-2002, only slightly over half showed positive growth in both value added and employment for both periods. However, the employment-intensity of value added was markedly lower in the second period than in the first. In short, whereas the growth-employment relationship appears to be generally positive, there are many notable exceptions; and even when positive, the impact of growth on job creation is insufficient to provide the amount of employment required. Furthermore for economic growth to have a robust impact on employment creation, this growth must be employment-intensive.

In a study of developing countries, Islam (2010) evaluates the growth-employment relationship with respect to four categories as follows:

- Low output low employment (stagnation)
- Low output high employment (growthless jobs)
- High output low employment (jobless growth)
- High output high employment (employment intensive growth)

Productivity growth is a double-edged sword with respect to the growth-employment relationship. As long as output increases exceed productivity growth, then productivity will result not only in increased, but also in better quality employment. However, if productivity growth applies only to a small proportion of the labour market, then productivity increases can lead to jobless growth and have little impact on overall employment growth or poverty reduction. This is in fact the situation in many developing economies where the majority of workers are self-employed in agriculture, unpaid family workers or working in micro-enterprises in the informal economy. Productivity gains in the limited employment opportunities which the formal sector has to offer are unlikely to have positive spin-offs in the overall economy (ILO 2012).

Furthermore employment is a necessary, but not sufficient, condition for poverty reduction. The ILO estimates that there are “456 million workers around the world living below the US\$1.25 a day poverty line in 2011, a reduction of 233 million since 2000 and of 38 million since 2007. . . . Nearly 30 per cent of all workers in the world – more than 910 million – are living with their families below the US\$2 a day poverty

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line. These workers and their dependants remain highly vulnerable to further economic shocks. . . In Sub-Saharan Africa, North Africa, South Asia and the Middle East, the number of workers living with their families on less than US\$2 a day continues to grow.” (ILO 2012)

Research shows that the relationship between economic growth, employment creation and poverty reduction are far from automatic, and positive outcomes rely heavily on additional accompanying factors, many of which fall within the realm of public policy. With respect to the Millennium Development Goals, employment-intensive growth (i.e. growth that creates jobs) generates private income which contributes directly to the achievement of the first (End Poverty and Hunger), second (Universal Education), fourth (Child Health) and fifth (Maternal Health) MDGs by increasing employment and incomes, thereby making food, education and health services affordable to a greater share of the population. Such growth also contributes to increased public investments in health and education which is justified since they can have significant externalities, carrying benefits not only to those receiving the services, but also to society as a whole. Other MDGs (namely those empowering women, combating epidemic diseases or protecting the environment) can be seen as public goods and are much more dependent of public investments than on private consumption. Therefore rather than being the direct result of employment intensive growth, these MDGs would help lay the foundations for equitable and sustainable growth. (Khan 2007b, which draws heavily on Khan 2007a and Khan 2007b). In other words, employment-rich growth requires gender equality, a sustainable environment and a healthy and productive workforce.

### *3.3 Roles of the public and private sectors*

The neo-liberal development policy paradigm held that the public sector was an obstacle rather than a facilitator of job creation, and that public employment was an obstacle to poverty reduction because it crowded out private investment. It followed that deregulation, privatisation and cuts in public spending were held to be necessary components of economic growth, which in turn would bring job creation. (Similar arguments are made in Europe today in support of the ‘austerity agenda’ in response to the debt crisis.)

As with the ‘quality’ vs. ‘quantity’ dilemma, however, the reality is more complex. Many countries undoubtedly suffer from a weakness of public sector institutions and service delivery, and there are certainly many cases of public resources that could be used more productively -- in ways that would stimulate or directly involve job creation -- but are used corruptly or inefficiently instead to benefit relatively privileged interests. However, it does not necessarily follow that privatisation improves public institutional governance or service delivery, or that cutting public employment leads to growth in private employment. Moreover, the state and public sector can play both indirectly and directly positive roles in employment creation, through:

- Macroeconomic policies to stimulate employment intensive growth;
- Public investment policies, particularly in sectors with strong employment generating potential;

“The state and public sector can play both indirectly and directly positive roles in employment creation.”



- Reviewing and designing regulatory frameworks with a specific view to job creation and to decent work;
- Supporting human capital development through investments in education and training;
- Supporting the private sector's ability to create jobs; and
- Direct job creation and public employment programmes, including taking on the role of employer of last resort.

### 3.4 Supply or demand driven strategies?

Employment policy should not only help the workforce get ready for the labour market but also help the labour market get ready for the workforce. All too often, the 'labour market' is portrayed as an immutable reality which cannot be changed, thereby implying that it is the responsibility of the workforce, even in cases where this may involve lowered expectations, to acquire the skills required by employers.

However, developing countries are largely characterized by structural unemployment, under-employment and informality, meaning that there is a chronic shortage of decent jobs and no amount of training will resolve this decent work deficit. Such structural unemployment points to the need to calibrate and match additional training of an already educated workforce with policies to create new jobs responding to the aspirations of that workforce. Whereas these aspirations may be characterized as unrealistic, they should never be ignored and in fact provide a basis for social dialogue between workers, employers and governments which link training policies with demand stimulation and job creation. To do otherwise will only intensify competition for a limited number of job opportunities, a situation which contributed, for example, to the rising frustration of young people and eventually to revolution, in the Middle East and North Africa in 2011.

In some situations, such as in Egypt, unfilled vacancies can co-exist with high levels of unemployment. This, for example, has been the case in job openings in the export-oriented ready-made garment industry where the nature and conditions of work did not correspond with the educational and gender profile and aspirations of young job seekers. Elsewhere, as in much of Sub-Saharan Africa, the labour market is characterized by an educated workforce displaying high levels of unemployment juxtaposed with informal workers with low levels of education and low open unemployment. Although the exact labour market configuration will vary from one country to another, on the whole job creation policies will trump those focusing on skills mismatch.

### 3.5 Job creation in the context of growing informal and precarious employment

As long ago as 1991 the 78th Session of the International Labour Conference discussed the "dilemma of the informal sector", which can be seen both as an incubator for entrepreneurship and job creation and a scene of exploitation, poor working conditions and low levels of productivity. The dilemma was posed as whether

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the ILO and its constituents should promote the informal sector as a provider of employment and incomes or seek to extend regulation and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes for an ever expanding labour force. The 1991 Report emphasized that “there can be no question of the ILO helping to ‘promote’ or ‘develop’ an informal sector as a convenient, low-cost way of creating employment unless there is at the same time an equal determination to eliminate progressively the worst aspects of exploitation and inhuman working conditions in the sector”. The Conference discussion stressed that the dilemma should be addressed by “attacking the underlying causes and not just the symptoms” through “a comprehensive and multifaceted strategy” (ILO 1991).

The World Bank provides a contrasting framework in which to view the issue in its regional flagship report on Latin America, *Informality: Exit and Exclusion*, which notes the “exclusionary character of much informality, which leaves citizens outside formal institutions”, but adds that “there is an important ‘exit’ dimension that has been understressed in the literature: workers, firms and families, dissatisfied with the performance of the state or simply not finding any benefit to interacting with it, opt into informality.” (Perry et al, 2007). The ILO’s perspective, on the other hand, stresses that this is not a free and positive choice. Its report to the 2002 International Labour Conference – outlining trends that have only increased in the decade since then -- states:

Contrary to earlier predictions, the informal economy has been growing rapidly in almost every corner of the globe, including industrialized countries – it can no longer be considered a temporary or residual phenomenon. The bulk of new employment in recent years, particularly in developing and transition countries, has been in the informal economy. Most people have been going into the informal economy because they cannot find jobs or are unable to start businesses in the formal economy. In Africa, for instance, informal work accounted for almost 80 per cent of non-agricultural employment, over 60 per cent of urban employment and over 90 per cent of new jobs over the past decade or so. (ILO 2002)

The growth of informal employment underlines both the importance of improving the productivity and quality of informal work and the scale of the challenge involved. Tackling that challenge requires an understanding that the distinction between ‘formal’ and ‘informal’ work – despite being an important one – needs to be understood as demarcating points along and at the poles of a spectrum of employment relationships. For example, Marty Chen of Women in Informal Employment Globally Organising (WIEGO) focuses (see diagram below) on segmentation within the informal economy, relating the different categories of informal workers to different types of employment relationships (employer-worker, disguised employment relationship or self-employment) and segmentation in the informal labour markets (gender, earnings). (Chen 2006)

Whereas the informal sector is often portrayed in terms of certain categories of work, from a policy perspective it is more useful to determine whether or not a given category of employment is integrated into formal systems of protection or regulatory regimes. By focusing on the employment relationship or the regulatory environment, the issue of informality, rather than being intrinsic to an activity, rather falls within the sphere of public policy. Saskia Sassen argues that it is not the nature of work but

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rather the absence of regulations - “regulatory fractures” – that determines informality. For example, while domestic helpers or backyard mechanics may be considered to be informal workers, this is the case only if they work outside regulatory frameworks. (Sassen 1997).

Therefore, regulatory policy can play an important role in creating and formalising job opportunities. This is the case most obviously with labour law, except that this does not apply outside formal employment relationships. Indeed, a challenge with labour regulation is to balance the need for standards with the danger of contributing to informality due to the cost of complying with regulations. “at the risk of oversimplification”, identifies “three broad relationships”: situations in which there is no relevant law in place, such as absence of regulation of self-employment ; situations in which regulation is not enforced; and situations in which the law stands in the way of job creation as well as contributing to informality

For example, in the context of community-based labour-intensive slum upgrading schemes, urban government can review local regulatory frameworks (zoning, procurement, business registration, construction codes, etc.) with a view of making them more employment-friendly. Labour laws and their enforcement In the context of understanding informality in terms of the absence of regulatory protection,

Translating the above characteristics of the informal economy and its relationship with the regulatory framework into policy prescriptions is a challenge. Since informality is often characterized by long hours, low productivity and revenues and poor working conditions, the challenge is not so much employment creation but rather to improve working conditions, productivity and earnings. Policy interventions have tended to focus on training and capacity building efforts for workers and enterprises in the informal economy, a supply-side approach.

However, a focus on the demand for the goods and services produced by the informal economy is also called for, one which not only takes into account the heterogeneity of informal work and production, but also addresses its varying degrees of integration within the formal economy. Rather than viewing the informal economy as a marginalized phenomenon, destined to disappear as development takes place, informality rather is an integral feature of modern capitalist development, one which is strategically captured not only by the survival strategies of informal workers, local micro- and small enterprises and their dependents, but also by industries and economic sectors seeking to take advantage of global supply chains.

Therefore, policy initiatives can help workers better position themselves with respect to demand for goods and services they produce through informal work, for example, for:

- domestic low-income markets;
- domestic high-income markets;
- global markets.

The Commission for Legal Empowerment of the Poor proposed a new social contract which is based on a minimum floor of social protection combined with improved access to formal sector employment. The Commission’s Working Group on Labour Rights (CLEP 2008) writes:

“Rather than viewing the informal economy as a marginalized phenomenon, destined to disappear as development takes place, informality rather is an integral feature of modern capitalist development.”

The growing recognition of the need for labour rights to catalyse employment creation in the informal economy, while protecting its workers, has now led to an emerging global social contract, a broad agenda for reform and for empowerment. . . .[The] Working Group . . . suggests that the underpinnings of the new social contract on labour rights [for the informal economy] include five fundamental areas of action, namely:

- Strengthen identity, voice, representation and dialogue.
- Strengthen the quality of labour regulation and the effective enforcement of fundamental principles and rights at work.
- Support application of a minimum package of labour rights for the informal economy.
- Strengthen access to opportunities for decent work and to opportunities for education, training and retraining, as well as combating discrimination to ensure efficient labour markets.
- Support inclusive social protection.

Indeed, these recommendations largely coincide with the four areas of action of the Decent Work Agenda but applied specifically to the informal economy, and the recommendation about a social protection floor has been echoed by the Bachelet Report published by the ILO last year (Bachelet 2011).

### 3.6 Youth employment

Youth development and youth employment have a long history of resonance with political leaders and policy makers around the world, for many reasons. On the one hand, young people are seen to be the future of society and an asset, rich in imagination and creativity, which can be harnessed for the greater good, stable and productive societies. On the other hand, youth are seen as a problem. When a large youth cohort is combined with high rates of unemployment, for example, this is seen as an explosive mixture. In both cases, as well as all the nuanced points of view along the problem-to-asset spectrum, there is both a wealth of practical experience and a lack of a coherent vision about how to give young people access to decent jobs.

From 1998 to 2007, the global youth unemployment rate declined from 12.4% to 11.7%. However, the global financial crisis wiped out a decade of progress, and the rate rose from 11.9 to 12.8 per cent between 2008 and 2009, marking the largest annual increase since global estimates have been made. There has been little or no recovery since with the latest estimates showing this rate as having fallen only slightly in 2011 to 12.7%. (ILO 2012)

Those regions where young people form the highest share of the working age population, i.e., with an above-average youth “bulge” within the overall demographics of the working age population, are the developing regions of the world, namely:

- Sub-Saharan Africa (35.4%),
- Middle East (30.8%),
- North Africa (29.9%),

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- South Asia (28.9%),
- South-East Asia and the Pacific (25.6%)
- Latin America and the Caribbean (25.1%). (ILO 2008 and ILO 2010).

Unfortunately, as shown below, most – but not all - of these developing regions also experience youth unemployment rates higher than the 2011 world average of 12.7%:

- North Africa: 27.1%
- Middle East: 26.2%
- Central and South-Eastern Europe (non-EU) and CIS: 17.7%
- South-East Asia and the Pacific: 13.4%
- Latin America and the Caribbean: 13.3%
- Sub-Saharan Africa: 12.8%

Only South Asia, at 9.9 %, has a youth unemployment rate lower than the world average. The wide variations in youth unemployment rates amongst developing countries suggest the following explanations:

The Middle East and North Africa show persistent and structurally high rates of youth unemployment. For the past 20 years, one in four young persons from these two regions has been unemployed.

Central and South-Eastern Europe, despite a relatively low percentage (21%) of young people in the overall working age population, exhibit higher than (world) average rates of youth unemployment.

The other developing regions (South-East Asia and the Pacific, Latin America and the Caribbean, Sub-Saharan Africa and South Asia) exhibit rates of youth employment close to if not lower than the world average. This can be explained not by a relatively healthy labour market, but rather by the fact that young people from these regions have either dropped out of the labour market altogether, or - due to lack decent jobs and of social protection to tide them through periods of unemployment - are employed in informal and vulnerable jobs.

Since the majority of young people in the world are involved in informal employment relationships, a clear understanding of the heterogeneity and the dynamics of informal work are important to helping create new employment opportunities while at the same time addressing decent work deficits.

The ILO's Global Employment Trends for Youth 2010 reports that the global financial crisis led to “an increase in vulnerable employment and casual labour in an ‘increasingly crowded’ informal economy.” (ILO 2010) The report also points to the underlying high incidence of young people working in the informal economy, a phenomenon that was disproportionately impacted by the crisis:

“Workers living day to day in self-employment do not halt their income-seeking activities during times of economic shocks. In fact, the tendency is for more people to join the ranks of own-account and contributing family workers during times of crises in poor countries. If a worker in a low-income country loses a job in the formal sector – such as the garment worker in Cambodia – there is little chance of finding new work in the same sector as it continues to shrink and social protection from the State is not

“A clear understanding of the heterogeneity and the dynamics of informal work are important to helping create new employment opportunities while at the same time addressing decent work deficits.”

sufficient to cover the living costs of themselves and their families; what choice does the person have but to take up whatever work they can find, regardless of the wage, condition and stability?”

The ILO's Panorama Laboral 2009 confirms that this is exactly what happened in the Latin American countries studied. (ILO 2009)

Young people are also more likely to be in vulnerable employment, a category which can include not only informal self-employment but also casual day labourers - a category of workers that tend to be unprotected and vulnerable to poverty - who are classified as “wage and salaried employment”. The ILO points out: “This classification hazard weakens the argument that during times of economic shocks, vulnerable employment will grow at the expense of wage and salaried employment. What could be happening instead is a shift of persons within wage and salaried employment from steady contract jobs to occasional wage labour in the informal sector. This implies a negative shift in labour market developments that is not captured in the analysis of the employment by status indicator.” (ILO 2010).

Therefore, when seeking policy solutions to address vulnerable employment in developing countries, it is important to put a youth perspective on the debate surrounding the informal economy. In fact, youth employment can be most effectively addressed by ensuring that mainstream employment policies include young people rather than devising special programmes which are targeted exclusively at young people with the effect of separating, rather than including, young people in overall employment policy. Given the urgency and high political traction associated with youth employment, it may be more effective to view young people as a starting point for, rather than a target group of, for overall employment policy.

### 3.7 Conclusion

While each of the policy issues discussed in this section has its own implications, they are all interdependent and this demands a coherent and effective development cooperation strategy to:

Foster employment-rich economic growth;

Address not only job creation but also improvements to the quality (i.e., productivity, remuneration and working conditions) of those jobs;

Evaluate regulatory frameworks with specific reference to job creation and quality;

Improve employment opportunities, protection and job quality for workers in the informal economy; and

View young people as a starting point (rather than target group) for employment policy reform.

The following section will review policy options for putting these goals into practice.

## 4. Policies and programmes for job creation

“Young people are also more likely to be in vulnerable employment, a category which can include not only informal self-employment but also casual day labourers.”

## 4.1 Macro-economic policies

The previous section reviewed the growth-employment-poverty nexus, noting that the macro-economic policies associated with the neo-liberal development paradigm did not necessarily lead to growth, that growth does not automatically lead to employment creation, and that employment creation does not automatically lead to poverty reduction. This section will discuss the policy measures required for stimulating employment-intensive growth, as well as additional mechanisms, such as employment targeting, that can be brought to bear to better leverage the employment impact of macro-economic policies.

The recent crisis and the need to strengthen post-crisis recovery provide a window of opportunity to re-define the concept of macroeconomic stability to include the goal of full employment. While a focus on employment is incorporated in Article I of the IMF's Articles of Agreement, which states that one of the Fund's purposes is "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy," in practice, the focus has tended to be on targeting inflation.

A recent staff paper by Blanchard et al. (2010) has attracted a lot of attention in this regard because it is seen as a serious introspection by the International Monetary Fund (IMF) about its macroeconomic policy prescriptions. The paper acknowledges that there can be "multiple targets in a macroeconomic strategy, and multiple instruments to attain these targets."

An economic policy focused on employment growth and decent work predicated growth targets on the need not only to absorb new entrants to the labour market but also to convert existing unproductive jobs into productive ones. To be effective, employment targets need not only to be established but also defined in ways that take into account variations between sectors and changes in productivity over time. In this way, policy can be designed to prioritise the identification of dynamic-employment generating pathways for the economy, translating these into targeted employment objectives in specific sectors and in local development strategies.

Such a strategy needs to take account of the dynamic of structural change, which can have negative as well as positive effects. Productivity increases in agriculture and industry, while increasing the quality of employment in these sectors and accompanied by the growth of formal jobs in the supporting service sectors, may also result in layoffs and a corresponding growth of informal urban and rural jobs and survivalist activities. (UNRISD 2010). In this regard, the poor who are trapped in informal subsistence and survivalist activities also need to be targeted from a growth and employment perspective, so that their work and productivity, as well as work and productivity in the formal sector, can be enhanced.

Whereas the growth-led paradigm views labour-intensive activities negatively because of their low productivity, an 'employment-led growth' perspective focuses on incremental transition from lower to higher productivity. Public employment programmes, such as India's National Rural Employment Guarantee Scheme (NREGA), can play a critical role, by prioritising employment generation through investments in activities such as rural connectivity and water conservation. This can contribute to enhancing the productivity and the quality of jobs in the 'employment-led

“The poor who are trapped in informal subsistence and survivalist activities also need to be targeted from a growth and employment perspective.”

growth' sectors of the economy as well as fostering improvements on the land of marginal farmers.

While such programmes are often conceived of as 'safety nets' -- NREGA has been called the "world's largest social welfare scheme" -- they can be designed as a component of an inclusive growth strategy that takes account of the comparative abundance of labour and scarcity of capital in poorer countries seeking to raise endowments over time. Moreover, as Bhaduri (2005) suggests, they can be reconciled with competitiveness through:

- Closer attention to the domestic market and use of public procurement policies.
- Identifying a suitable mix of industrial and service sectors with inter-linkages between those that are more capital-intensive and/or exposed to competitive pressures and those that are more labour-intensive.
- Complementing all of this with a direct role for the state as employer of last resort to improve the functioning of the labour market.

(Lal et al 2010)

Fiscal sustainability is clearly a concern with schemes of this kind, but this should be assessed over a longer term, because without sustainable employment growth, governments will not generate the necessary taxes and fiscal revenues required to balance budgets. (Roy et al 2007). The alternative is a downward spiral of constantly cutting expenditures in response to falling employment.

#### 4.2 Training, skills development and employability

Macro-economic strategy needs to be complemented by measures to enable current poor and unemployed to benefit from the job opportunities that would be created. This includes addressing constraints to their mobility through, for examples, skills upgrading, access to affordable transportation, credit, and so on. However, while lack of appropriate skills and work experience can be key entrance barriers to the labour market, analysis is required to diagnose the extent to which lack of training is the problem. If vocational training programs are evaluated (as they often are) only in terms of number of youth trained and successfully placed in employment it can mean that neither longer term retention nor job displacement -- i.e. newly trained workers displacing others, rather than leading to net job creation -- are not sufficiently addressed.

One avenue to improve youth employability includes making general and technical secondary education more skills- and career- oriented. Often the knowledge and skills acquired in formal education are poorly adapted to the needs of employers and to the self-employed, and therefore supplementary training is required to make young people 'employable' by industry standards. In Tunisia, for example, where youth unemployment spurred a popular revolution, high levels of education and labour market preparedness did not address the need for job creation. Kaboub (2007) wrote prophetically in 2007:

High unemployment is not only an economic problem, but it is also increasingly becoming a social and political issue that has the potential to destabilize Tunisia if not dealt with promptly and strategically. ... Tunisia has spent 25% of its annual

“The fundamental problem remains lack of employment opportunities, and a lesson to be drawn is that resources for education and training need to be matched by resources devoted to creating new jobs for those educated and newly trained workers.”



government budget on public education. Today's unemployment situation reveals that the composition of the unemployment pool has become qualitatively different from what has been the custom in the past. ... In 2006, for the first time in Tunisia's history, two thirds of the first-time job seekers have a university degree. This trend is likely to continue well into the foreseeable future as the number of college students continues to grow exponentially.

A closer look at the Tunisian labor market reveals that more than 50% of the unemployed have been actively seeking work for more than 12 months. Unfortunately, despite the urgency of the unemployment situation, the active labor market policy (ALMP) budget has been around 1.5% of GDP with a meager 0.15% of GDP devoted to direct job creation in public works.

Improving links between schools and workplaces can help to close the gap, although dialogue between the leadership of each should be complemented by consultation with job seekers themselves. The German Dual System, which divides the technical secondary school week between the classroom and places of work, has been promoted in various forms by German technical cooperation projects around the world, such as the Mubarak-Kohl Dual System (MK-DS) which ran for 14 years in Egypt. The aim was to produce a skilled and disciplined workforce for new export-oriented enterprises, following 20 years marked by unemployment rates rising five-fold, capital output ratios doubling and growth of informal forms of employment (Fares & Gonzalez 2009).

While the system might have served well the requirements of employers and investors seeking to produce a labour pool to enable them to reach new export markets and to be successful in highly competitive sectors, there was insufficient consultation with job seekers. The result was that the system did not respond sufficiently to the aspirations of the country's young people, nor to the needs of those working in the informal economy. To address these deficiencies, a new partnership agreement launched a Mubarak-Kohl Vocational Education, Training and Employment Promotion Program (MKI-vetEP) which was intended to focus on job matching, relating to both technical skills and so-called soft skills, such as life skills, appropriate behaviour in the world of work, and literacy and numeracy skills.

As a result of the limitations of training programs focused on employers' and labour market needs without integrating a clear understanding of youth motivations in the labour market, there has been a movement towards 'Training-plus' programmes, which combine vocational, in-classroom training with workplace-based training and a variety of intermediation services. Lessons learned from conventional supply-side training programmes can be seen as supporting an evolution of these programs along a continuum towards more demand-oriented approaches involving various forms of intermediation and support services. Such a comprehensive training approach has been championed by the International Youth Foundation since 2001, for example through its support for the entra-21 scheme funded also by the Inter-American Development Bank and others.

However, while such programmes can improve skills matching and enable many young people to improve their working lives, the fundamental problem remains lack of employment opportunities, and a lesson to be drawn is that resources for education and training need to be matched by resources devoted to creating new jobs for those educated and newly trained workers. As the World Bank has acknowledged in its report

of a global evaluation of skills training, work experience, apprenticeship and school-to-work transition programmes:

“Attention to apprenticeship and structured work experience as a means to promote the school to work transition has grown over the past several decades to join the continued emphasis on school-based vocational programs for entry-level skills. Evidence favours these programs, but with qualifications. Employment growth is a key ingredient to demand for apprentices and interns. Employers are unlikely to take on board large numbers of youths for training when conditions for sustained employment are not present.” (Adams 2007)

In summary, investments in human capital development through both general education and vocational education and training programmes will continue to play an important role in an overall employment policy for developing countries. However, these policy efforts, particularly in a context of structural unemployment, underemployment and informality, and at a time when levels of investments in education and training have never been higher, will not be effective unless they are matched new job creation in the formal economy and upgrading of jobs in the informal economy, thereby better responding to the expectations and even aspirations of the workforce.

Greater efforts should be made to evaluate the effectiveness of programmes for placing the unemployed in sustainable jobs (rather than displacing other workers), as well as their overall cost-effectiveness via-à-vis other alternative or complementary employment strategies. Otherwise, such programmes will only increase competition for the limited number of available jobs and lead to growing levels of frustration and discouragement amongst job seekers. The wave of popular uprisings in North Africa and the Middle East since 2011 has brought home this message forcefully.

#### *4.3 Self-employment, entrepreneurship development and private sector support*

The ILO writes that “skills training for young entrepreneurs is regarded as one of the most important investments to carry out in developing countries where employment opportunities are scarce and self-employment is the only option for disadvantaged youth.” (ILO 2010) The World Bank’s Doing Business Report focuses on “regulatory reforms” to “make it easier to start and operate a business” which in turn is linked to “empowering entrepreneurs.” However, not all young people have the desire, motivation and capabilities to succeed in business and many young entrepreneurs are driven by lack of wage employment opportunities.

A 2006 survey of young entrepreneurs in 14 Latin American countries (Llisterri et al 2006) found that: “Young entrepreneurs can be divided into two broad groups: those who become entrepreneurs by necessity because they are unable to find other forms of formal employment or continue their education, and what can be called “vocational entrepreneurs” who seize a business opportunity.” The research showed also that: “Businesses created by youths tend to have a weak impact and uncertain evolution. Most of the businesses created by young people have a relatively small impact on job creation (95 per-cent of young employers have less than 10 employees compared to 90 percent of all employers), but provide jobs and a source of income for their owners.” On the other hand, the report added: “The creation of a new business in itself could help

“Greater efforts should be made to evaluate the effectiveness of programmes for placing the unemployed in sustainable jobs.”

young people transition into paid employment or, in some circumstances, their first attempt at being an entrepreneur could eventually turn into a growing company.”

Programmes to support young people in self-employment and entrepreneurship are often promoted for those who might be expected to be most likely to fail in business and who most aspire to stable work in the formal economy -- namely, disadvantaged youth working in the informal economy. In many cases “self-employment” is a misnomer that conceals casual employment in the informal economy. In fact, in research on the impact of regulatory frameworks on informality, “self-employment” is used as a proxy for informal employment.

A World Bank report found that the evaluation literature on micro-enterprise development and self-employment programmes is thin, and that those studies which do exist, the focus on business development rather than employment per se. It added:

“The evaluations tend not to cover displacement and substitution effects which presumably could be significant in this type of intervention. With these caveats, it does appear that these programs can provide effective support for the small minority of unemployed workers who are interested in starting their own business. The literature does suggest that programs offering mentoring and business counseling, in addition to financial aid, are more likely to succeed than those only offering the latter.” (Betcherman et al 2004)

A study on “Active Labor Market Programs for Youth in Africa: A Framework for Engagement” states that “in the face of low labor demand in many African countries, self-employment may be the only viable option. Hence, promoting gainful self-employment may be one of the more promising options.” Yet it goes on to explain that “unfortunately, there does not seem to be any evidence identifying which constraints most affect young people’s ability to start a business. Nor is there a discussion in the literature about the extent to which anyone could be an entrepreneur or the cultural influences that encourage or discourage starting one’s own firm.” Specifically with respect to entrepreneurial training, “the evidence base is very weak.”

An analysis of a Youth Employment Inventory carried out by the World Bank (Betcherman et al 2007) reveals that there is a severe lack of rigorous evaluation of youth employment interventions leading to a gap in the evidence base to support effective program design and implementation. The analysis of the inventory suggests that only 15% youth employment programs from developing countries provide evidence of net impact. The youth employment evaluation facility, sponsored by the Youth Employment Network, is one promising initiative to support counter-factual evaluations of youth entrepreneurship programmes.

#### *4.4 Employment-intensive investment policies*

There is renewed interest in public employment programs as a vehicle for directly providing employment opportunities, coupled with training and work experience. Over the past three decades, the ILO’s Employment-Intensive Investment Programme (EIIP) has evolved considerably from a series of relatively stand-alone labour intensive projects – with positive but limited impacts of employment and living conditions in target populations – to more systemic interventions which, based on the earlier pilot

experiences, contribute to both job creation and infrastructure deficits on a larger and more systematic scale. The EIIP has involved a wide variety of infrastructural improvements, initially mainly in rural areas including water supply, reforestation, erosion control, small dam construction, irrigation, feeder road construction and improvement, and construction of schools, health centres and cereal banks, and later branching out to involve urban works such as slum upgrading, street paving, sanitation and drainage. Maintaining as a common feature the dual objectives of asset and employment creation, employment-intensive investment programmes feature a varying mix of these and other objectives and can be categorized as follows:

Sectoral infrastructure investment programmes where priority is given to implementing good quality assets and where the objective of job creation is important, but secondary, in that employment is maximized without compromising the quality of infrastructure. Such programmes are typically implemented by technical ministries and works are contracted out to small or medium enterprises or to community-based organisations.

Local area-based development programmes that have infrastructure components, support decentralization and are implemented and funded by local government authorities. These tend to be multi-sectoral programmes where, in addition to job creation, there is a broader objective of local economic development and optimizing the use of local resources.

Public Employment programmes (PEP) can help protect the most vulnerable groups, while at the same time developing infrastructure, assets and services that promote social and economic development. Such programmes can be designed either in response to a crisis, or as part of longer term, counter-cyclical employment policy. Primary objectives focus on both employment generation and income support. As well as providing employment for marginalized and unskilled workers, PEPs can be a source of small enterprise creation by subcontracting works to labour-based contracting enterprises, including consulting engineers.

As the ILO programme has evolved over the past decades, the focus has been on increasing the employment content of infrastructure investments through labour-intensive approaches, without compromising technical standards and long-term sustainability. The programme has been largely supply-driven in that it seeks to increase the employment impact of already-allocated project funding and infrastructure investment budgets. However, there is new interest in moving from a supply-driven to a demand-driven approach in the form of employment guarantee programmes, which provide many multipliers that can help contribute to demand-led economic growth and sustainable employment. (World Bank 2010)

Since employment-intensive techniques imply increasing the employment:capital ratio of public investments, such approaches can be viewed as favouring “employment” to the detriment of “productivity” and relegated to the role of special or crisis-response programmes. Such a conclusion would be misleading because participants are employed at a higher level of productivity than their alternative economic activities could provide and the multiplier impacts can have a direct and positive effect on the communities in which poor people live. These effects are quantifiable, as shown by a comparison of the economic outcomes of employment-based versus equipment-based production methods in Uganda (Taylor & Bekabye 1999). The labour-based

“Labour-intensive works can provide a wide spectrum of positions and tasks appealing to those of different educational backgrounds and workplace aspirations.”

method not only has three times the impact on employment creation but also twice as much on GDP growth because a higher proportion of income and consumption remains in the local economy.

Labour-intensive works can provide a wide spectrum of positions and tasks appealing to those of different educational backgrounds and workplace aspirations. Therefore it is important not to stereotype labour intensive works as low-skilled. For example, potential workers can be attracted to creating their own labour-based contracting enterprise, or setting up and managing computer-based monitoring and evaluation systems, or carrying out various worksite supervisory roles, or overseeing implementation and payments on public contracts, and so on. Others without higher education might be attracted to the predictable income provided by manual work, particularly if this is accompanied by training and possibilities for advancement.

Such programmes can also include specific support mechanisms for setting up labour-based contracting enterprises, such as training in bid preparation (balancing competitive pricing with accumulation for investment and growth) and other technical areas.

For both intrinsic and political reasons, employment impact assessments can be important strategic tools to apply to programmes of this sort, and the ILO is currently developing a methodology. Robust assessments could be integrated into investment climate surveys and integrated into bidding and tendering documentation, and hence become an integral part of public contracts.

#### 4.5 *The state as employer of last resort*

Unemployment in developing countries is mostly structural in nature, and a further policy option is to put in place a public employment guarantee, which aims to provide employment to all job seekers who are ready and able to work. Rather than making training a pre-requisite to young people finding employment, an employment guarantee programme can make jobs available that ‘take workers as they are,’ regardless of their skills, education, or personal characteristics. This may be cost-effective in view of the high costs to society of forgone production, increased welfare and transfer payments, decreased fiscal revenues, social unrest and deterioration of human capital.

Studies have shown that a universal employment guarantee could be put in place in many countries for 1 to 2 per cent of GDP. Kaboub estimated that an employment guarantee programme in Tunisia could be implemented for between 3 to 5 percent of GDP: “One-point-five percent of GDP spending on ALMP is an extremely low level of spending for a country that has consistently wasted the human capital of at least 15% of its most vibrant working-age population—the same population that the government has spent so much to educate and keep healthy in the last five decades. Gradually increasing the budget line for ALMP (under an ELR program) to 3–5% of GDP is something that the Tunisian economy can easily handle.” (Kaboub 2007)

An employment guarantee would provide protection against economic risks and poverty traps as well as a means of defusing social tensions and buying time for employment-friendly economic reforms to take root. By drawing in young people who

“An employment guarantee would provide protection against economic risks and poverty traps as well as a means of defusing social tensions and buying time for employment-friendly economic reforms to take root.”

have often never been part of the workforce before, well-designed employment guarantee programmes can potentially increase their 'employability' and/or facilitate re-entry into the private sector, suggesting that in many instances the private sector prefers to hire people who already have work experience or are working. Employment guarantee programmes can also complement some of the programmes aimed at retraining and retaining workers in other sectors by helping to stabilize local demand and income.

Although in theory these programmes provide a universal employment benefit to everyone able and wishing to work, in practice the programmes tend to be targeted or rationed to particular groups or regions, either through wage rates which are attractive only to low-income groups, or by limiting participation, for example, to rural areas or to heads of households. For example, the Indian NREGA scheme is a rights-based, demand-driven programme that provides 100 days of work per year to everyone who applies for a job card and for work in rural areas. Job cards, clear and transparent payment mechanisms, real time and public monitoring of payments, activities and achievements through the programme's website, plus regular social audits and beneficiary consultations all are in place to enable transparency and fight corruption.

In conclusion, this section has reviewed different policy options, both at the macro and micro levels and from both supply and demand side perspectives. All of these options are complementary and not mutually exclusive and should be pursued in a coordinated manner. It is also important that job creation be a specific direct goal of policy, and therefore that this goal be quantified and that its achievement be monitored and evaluated.

## 5. Avenues for policy reform and implementation

The discussion in this paper leads to the conclusion that the policy options explored in the previous section face many obstacles. Some of these arise from market failure, others from government and institutional failure and in other cases, there is a lack of political will linked to allocation of the required resources within national budgets and within ODA resources. However, lack of action on job creation also arises due to diverging views on how to most effectively proceed. It is for this reason that this paper, in providing background to the policy discussion in section 4, lays out the different debates or dilemma confronting employment policy makers and practitioners, to help promote a better understanding of the policy options available and of the hard choices to be made. In most cases, there is not one simple solution, but rather a variety of strategies and interventions which can be combined into an integrated approach.

This paper has highlighted the key policy areas for job creation, namely:

- Macro-economic policies which foster job-rich growth;
- Vocational education and training programmes;
- Support to self-employment and entrepreneurship development;
- Public employment programmes; and
- Employment guarantees.

“It is important that job creation be a specific direct goal of policy, and therefore that this goal be quantified and that its achievement be monitored and evaluated.”

All of the above areas can work side-by-side as part of an integrated job creation strategy and are not in any way mutually exclusive. Furthermore, although the five above areas cover most of the employment creation policies and programmes being applied in developing countries, there are others which are not discussed in detail such as, for example, wage subsidies and other incentives to hiring, designing regulations to stimulate job creation, foreign trade agreements and private sector support programmes.

What the paper does not do is to flesh out the institutional mechanisms necessary to implement job creation in developing countries and this is certainly an area which requires further work and careful attention. Many development cooperation programmes fail due to a lack of ownership and capacity of the national institutions responsible for their implementation.

Also job creation is closely linked to economic, fiscal and monetary policies, but often there is a lack of coordination between those responsible for economic and fiscal policy and those responsible for implementing political commitments for job creation. With this in mind, the following overall lessons and areas for future work can be drawn from the preceding discussion.

A first and fundamental step is to specifically target employment creation and decent work as policy priorities. This poses practical difficulties from an institutional standpoint since Ministries of Labour or Employment rarely have the means to create jobs. Therefore robust institutional mechanisms with strong political support and technical oversight need to be put in place to pilot a national employment strategy. National employment councils can be a mechanism to coordinate the role of different government ministries such those responsible for finance, economy, budget, youth and the various technical line ministries responsible for public investments in different sectors. Such councils should not be limited to governmental actors but should also include representatives of international, national and local business interests, trade unions and other civil representatives of particular groups, including youth, women and informal economy workers.

Secondly, if employment creation is indeed a priority, then policy makers should be ready to imagine and design what a policy of full employment would actually entail. The strategy should begin with seeking out opportunities to increase employment impacts of existing resources, and subsequently, to cost out what additional resources would be required, thus implying a comparative assessment of the different alternative approaches discussed in this paper. In particular, the costs and benefits of job creation efforts should be analysed since in many cases the social and economic costs of unemployment exceed the costs of the policy measures to create jobs.

Thirdly, these goals and strategies for job creation must find expression in national poverty reduction strategies and MDG acceleration frameworks, and the work of the G20 and bilateral and multilateral partners, and regional groupings such as the African Union.

Fourthly, action plans must consider and evaluate all options, not choosing between but designing optimal combinations of public and private, direct and indirect, interventions. In cases where the private sector is not creating sufficient jobs, measures should be

“Often there is a lack of coordination between those responsible for economic and fiscal policy and those responsible for implementing political commitments for job creation.”

taken to provide incentives to encourage, and particularly with respect to the use of public funds, hold the private sector accountable for job creation. Although job creation will always be the primary responsibility of the private sector, direct public employment programmes should always be an option on the table, to be costed and compared with alternative approaches.

Fifthly, the regulatory environment – not only labour regulation but also rules about infrastructure development, local economy development, and so on -- should be designed with a view to reflecting the employment and decent work priorities in its design and operation.

And sixthly, public and private investment policies and practices should be specifically assessed with respect to job creation using employment impact assessment methodologies. Often although job creation remains high on the political agenda, development frameworks such as poverty reduction strategies, public investment budgets, public contracts, foreign direct investment projects, foreign trade agreements and stimulus packages are often adopted and put in place without clear targets or even estimates on job creation – and this even in cases where job creation is a stated goal. The ILO and others are currently developing employment impact assessment methodologies, as an evolution of its work on public employment programmes, which can help view public investment policies and a wider range of public and economic policies, through an employment lens.

In conclusion, there needs to be greater appreciation of job creation as an area for public policy intervention and as an explicit goal, rather than a residual.

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