

**ILO's contribution invited by the Brainstorming Session, 13 May 2008, on the
Policy Committee Discussion on Financing for Development**

**Draft for inclusion in Informal Summary of General Assembly Review of
Chapters I-VI of the Monterey Consensus and Outcome Document¹**

**Systemic Policy Coherence across the UN: DESA-ILO Agreement on FfD
Objectives and Policy Tools**

The Report of the Secretary General to the High-level Dialogue, on the Follow-up to and implementation of the outcome of the International Conference on Financing for Development, is very far sighted and comprehensive. The logic of Monterey begins with the mobilising of domestic financial resources for development. It then goes on to emphasise the role of international flows, international trade as an engine of development, ODA, external debt, and policy coherence between the international monetary, financial and trading systems. The lynchpin of the domestic growth and regulatory environment, is summed up in the Secretary General's Report in three far reaching domestic policy tools, *active employment policies, countercyclical instruments, and public investment*. The ILO could not be in greater agreement, or indeed coherence, on the importance of these objectives and policy tools.

**Employment and Decent Work Mobilise Resources for Growth and
Development**

On employment, the Monterey Consensus recognises the 2005 World Summit Outcome, *that sustaining high levels of employment is an indispensable element of domestic resource mobilisation. That, National Development Strategies should give priority to policies that foster the progressive realisation of decent work for all, thereby mobilising resources in the fight against poverty. Emphasis on human resource development and active labour market policies, including training, are prerequisites for achieving this objective*. The ILO recognises that growth has to be based substantially on domestic savings and investment, which are in turn dependent on domestic income levels. Empirical evidence from developing countries shows their incomes to be based more significantly on employment and wages. Therefore good and sustainable investment and growth rates have to be based on income resulting from high levels of employment, high levels of productivity and commensurate real wages. Large fluctuations in employment and wages, translate into larger fluctuations in incomes and trend growth.

**Macroeconomic Policy must create policy space to sustain Employment, Growth
and the Drivers of Growth**

Then, maintaining sustainably high levels of employment and income becomes a critical goal for macroeconomic policy. The Secretary General's Report recognising current pressures on macro policy, aptly highlights that *in their international*

¹ The ILO has submitted two short papers to the sessions on: chapter I on Mobilising Domestic Financial Resources, and on chapter VI on Addressing Systemic Issues, at which Mr. Stephen Pursey, Director Policy Integration also made a statement on behalf of the ILO. At the Brainstorming Session, Mr. Philippe Eggar from the Director General's Office pointed out that these ILO contributions needed to be reflected in the informal summaries, and in the Background Note for the Brainstorming Session. The chair of the Brainstorming Session invited further written contributions, which are made here telegraphically for inclusion in the Outcome document.

commitments and reforms programs undertaken in cooperation with multilateral organisations, developing countries should pay attention to their policy space for undertaking employment oriented macroeconomic policy. The ILO sees the need to canvas a broad based macro strategy for growth and employment because of the current global risks. The slow down in growth projected for the US, is attributed to a fall in consumption demand, as a fallout from devaluing housing assets. The fall in US global demand could result in a drop in global growth, unless compensated by rising consumption demand from emerging market giants like China and India².

A Social Protection Floor for the Vulnerable and the Economy

Maintenance of an employment-income led cycle of growth however requires strong investment in social protection, to cushion both the vulnerable and the economy. The time is right to define a basic set of social security benefits, i.e. a social security floor, which should be achieved by all countries in the shortest possible time. This basic set of social protection benefits can only be credibly promoted if it can be demonstrated that it is affordable. Fiscal space is always limited. Obviously, at early stages of development the space is more limited than at later stages, so the introduction of social security benefits may have to be sequenced by order of priority. There are positive examples from countries like Brazil, Chile, Mexico, India, Namibia and South Africa where elements of the social floor are already successfully being implemented. In addition ILO actuarial research has shown in the case of 22 developing countries in Africa, Asia and Latin America that some form of basic social security can be afforded by virtually all countries.

Public Investment in Logistic and Social Infrastructure using Labour Intensive Techniques

The Secretary General's Report rightly identifies that public investment in infrastructure actually crowds in private investment, while its neglect in many countries has led to diminished growth prospects, because *the original confidence that the private sector would substitute totally for the public sector in infrastructure has been grossly misplaced.* The ILO's experience through its Policy Coherence Initiative, undertaken to dialogue with the Bretton Woods institutions and other UN agencies and stakeholders, especially bears this out in Southern Africa. Private sector employers demand much faster growth in public infrastructure to match private investment, while fiscal conditionality like a cap on the public wage bill restricts this. Human resource development through attracting and retaining domestic skills, and meeting MDG targets for covering an expanding population are also similarly constrained. Not least, public infrastructure programs that generate additional employment in times and areas of need through employment intensive technologies, such as in India, are being excluded by macro conditionality in parts of Africa.

² The ILO raised this issue as an impending concern at the Asian Employment Forum in Beijing in August 2007, cautioning for the need to re-evaluate the reliance of Asian growth on exports alone, given the riskiness of their dependence on continued growth in US consumption and imports². A more risk averse strategy lay in recognising the quantitatively greater role of domestic consumption in Asian growth, and its dependence in turn on maintaining levels of employment and critical conditions of decent work like the real wage.

Utilising FDI, and Inflows Productively by increasing linkages between MNEs and Domestic Enterprises

FDI flows to developing countries are concentrated, towards some regions, countries, and sectors, for instance towards export processing and extractives. The boom in commodities helps developing countries in the short to medium term, but in the longer term appreciates the exchange rate and makes manufacturing exports less competitive. This makes extractives an enclave sector, with low employment, and weakens the non enclaves sector's growth and employment. The ILO's Declaration on Multi National Enterprises gives important guidelines for strengthening links between the MNE sector and the domestic enterprise sector: *by giving priority to the employment, occupational development, promotion and advancement of nationals of the host country; using technologies which generate employment, both directly and indirectly; and by building linkages with local enterprises by sourcing local inputs, promoting the local processing of raw materials and local manufacturing of parts and equipment.*

Channelling Development Cooperation towards Increasing Productive Capacity in Agriculture

The more recent boom in food prices benefits producers, but impoverishes poor consumers. IFPRI estimates more net consumers than producers in poor countries, so poverty is expected to rise by 100 million – ie by 9%-10%. FAO and UNCTAD fear 7 years of poverty gains under the MDGs campaign will be wiped out in Africa. In Asia and Latin America the earlier long run of low food prices underlies their export based growth. The Green revolutions there kept cereal wage goods - rice, wheat and corn, prices low, and therefore real wages low relative to developed countries. The wage differential led to offshoring from Developed countries, and high export growth, and employment in Asia and Latin America. Higher food prices will now bid up real wages and upset this pattern of growth. To protect these gains in poverty, growth and employment, the currently small fraction of development cooperation that is channelled towards productive capacity in agriculture needs to be substantively enhanced.