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Creating an environment at the national and international  
Levels conducive to generating full and productive  
Employment and decent work for all, and its impact on  
Sustainable development

**Conference Room Paper**

**On the theme of the 2006 ECOSOC High-Level Segment:  
"Creating an environment at the national and international levels  
conducive to generating full and productive employment and decent work for all, and its  
impact on sustainable development"**

The present Conference Room Paper is intended as background analysis to the 2006 High-Level Segment (HLS) report of the Secretary-General and, as such, should be read as a supplement covering a broader range of issues addressed in the report.

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## 1. Introduction

1. At the World Summit in September 2005 world Leaders reaffirmed their commitment to the goals and targets agreed in the Millennium Declaration and at other major UN conferences and summits. At the heart of the development agenda endorsed at the World Summit stands the promise to reduce poverty and to enhance equity and social integration. Employment, due to its crucial role in the growth-distribution nexus, and its ability to reduce poverty, promote gender equality and facilitate social integration, deserves special attention in this regard. Recognising this role, world Leaders at the World Summit made the commitment “to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of [their] relevant national and international policies”.<sup>1</sup>

### 1.1 Problematique

2. At about 192 million, the number of people unemployed worldwide climbed to new heights in 2005. Even more striking, the extreme working poor, i.e. those who earn US\$1 a day or less, number nearly three times as many as the global unemployed, and fifty per cent of the global labour force earns US\$2 a day or less in per capita terms for themselves and their families – the same number as ten years ago. Given these trends, it is not only unemployment, but particularly underemployment and employment with insufficient remuneration to lift people out of poverty that need to be addressed. The dual challenge therefore is to create new productive and decent jobs while raising the productivity and quality of existing ones.

3. Considering that employment generation is contingent on sufficiently high economic growth rates, it is unsettling that, despite recent recoveries in global economic growth, the secular trend has been a decade-upon-decade decline in average global per capita growth rates since the 1960s. Furthermore, the employment content of growth seems to have been weakened in recent years, mainly due to continuing productivity gains. Simultaneously, the effective supply of labour has increased due to external opening and the growing participation of developing countries in the world economy, in combination with continued high fertility rates in many developing countries and a rise in participation rates of women.<sup>2</sup> Thus, an increasing number of jobs has to be created to absorb the expanding labour force, while, at the same time, due to increasing productivity, higher rates of growth are now needed to generate the same rates of job growth than was the case fifteen years ago.

4. In fact, the growing disjunction between output growth and employment creation in the formal economy is affecting, with few exceptions, all regions of the world. The evidence for a weaker link between growth and formal employment is clearest in the wealthier countries with good employment data and minimal informal economic activity, but it is also clear from the continued persistence of working poverty in many developing countries despite respectable or even impressive rates of GDP growth. The world, in short, is facing a structural challenge for job creation – one that requires policies that focus both on increasing growth and improving its employment content.

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<sup>1</sup> United Nations (2005). World Summit Outcome. A/RES/60/1, para 47.

<sup>2</sup> Between 1995 and 2005, the global labour force (the sum of people employed and unemployed) grew by some 438 million workers, a 16.8 per cent increase. ILO (2006). Global Employment Trends Brief 2006. Geneva: ILO. Available at: [www.ilo.org/trends](http://www.ilo.org/trends).

## ***1.2 Centrality of Decent Work***

5. Since labour income constitutes the main source of income for the poor, employment creation must occupy a central role in any poverty reduction strategy. However, employment *per se* is not sufficient to attain the Millennium Development Goals (MDGs) and the UN development agenda if it does not generate sufficient income for individuals and households to move out of poverty, or if work is under precarious and hazardous conditions. Greater attention, therefore, needs to be paid to the creation of decent work, defined as *opportunities for men and women to obtain productive work, in conditions of freedom, equity, security and human dignity*.<sup>3</sup>

6. The ILO Declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference in 1998, captures the vital dimension of the concept of decent work: freedom of association, absence of discrimination, including gender discrimination, forced labour, and rejection of child labour. Beyond these fundamental rights there are other concerns, such as the safety of the working environment, the duration and intensity of work, the possibilities for personal fulfilment, and protection against uncertainties. Above all, however, work should be available for those who want and need it, and it must be productive in order to provide a decent income.

7. The centrality of decent work derives, of course, from the centrality of work to people's lives, and from its bearing on the three pillars of sustainable development, namely economic growth, social development, and environmental protection. Work is where the "economic" dimension of people's lives meets the "social". Decent work is central not only as a source of income – thereby stabilising demand in the economy – but also as an essential condition for women and men to live a self-determined, decent life, and to participate fully as citizens in their communities. Loss of work, on the contrary, impinges on dignity and self-esteem, undermines social integration and affects the social cohesion of societies. Employment and decent work are also essential to provide stability and long-term recovery for countries emerging from conflict (see box 1).

8. Insofar as employment generation contributes to economic prosperity and poverty reduction, it, therefore, strengthens the economic and social pillars. With regard to the environmental dimension, it is well-established that environmental degradation is primarily caused by unsustainable consumption and production patterns. But it can also result from poverty. Thus, to the extent that employment strategies alleviate poverty they can support the environmental dimension of sustainable development.

## ***1.3 Employment in the Context of Globalisation***

9. While there is a general consensus that integration into the global economy is essential for sustained economic growth, there are different approaches of how to achieve economic integration with high levels of employment. To date, economic policies adopted by countries in their quest for success in the global economy have largely involved far-reaching liberalisation of trade, investment and financial policies. This has been associated with liberalisation of the domestic economy involving privatisation, a reduction in the role of the State in economic management and regulation, and a general expansion in the role of the market.

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<sup>3</sup> ILO (1999). Decent Work. Report of the Director-General to the 87th Session of the International Labour Conference. Geneva: ILO.

**Box 1: The Centrality of Employment in Countries Emerging from Conflict – Labour-Intensive Public Works Programmes in Mozambique and Cambodia**

For countries emerging from conflict, employment is essential to provide stability and long-term recovery. In post-conflict settings, productive employment is a prerequisite for a stable social recovery as it constitutes an economic and social alternative to engaging in violence and conflict. Additionally, war-torn economies are characterised by damaged social and economic infrastructure that needs to be rebuilt and maintained in order to support the economic recovery of the country. Labour-intensive infrastructure programmes can thereby contribute towards both objectives: employment generation and infrastructure building. Also, they help reactivating local economies by stimulating local demand through wages and involvement of local contractors using local materials.

The first Employment Intensive Infrastructure Program (EIIP) was implemented in Mozambique in 1981. Starting with training activities and experimental sites, it was extended into a nation-wide programme after the signing of the peace treaty in 1992. The approach followed in Mozambique proved to be very successful: between 1981 and 2002 over 8 million workdays were generated and 7,900 kilometres of feeder roads rebuilt. The employment generated and the wages paid reactivated the traditional savings and credit system and assisted business development in the informal economy.

A similar programme was set up in Cambodia in 1998 with a special focus on decentralised implementation by local authorities and small-scale subcontracting of local builders and construction firms. The programme created more than 3 million workdays, involved 206 small local contractors, 657 civil works contracts, and constructed 600 kilometres of roads and 16 markets. Based on the experiences of Mozambique and Cambodia, a public infrastructure programme has recently been initiated in Somalia.

Source: ILO (2005). Mozambique: Employment Intensive Infrastructure Programme; Tusanasorn, P.; Johannessen, B. (2003). When Labor Works. ADB Review 35(2).

10. The global transition to economies based on market principles and external openness has clearly had positive effects, but not everywhere, and not without significant adjustment costs. There is evidence, for example, that with the liberalisation of trade regimes, job destruction often precedes job creation, even if the ultimate outcome is positive. There is also evidence that rapid liberalisation can and has resulted in “deindustrialisation” in some developing countries, as less competitive domestic industries fail to adapt. Furthermore, “off-shoring”, i.e. the production of goods or purchasing of services from an overseas provider, has emerged as an employment concern in some developed countries, in particular for women who often constitute the majority of workers in labour-intensive export production industries, such as textile and garment production. While, statistically, off-shoring involves only a small fraction of the annual employment turnover in industrialised economies, it does lead to labour displacement and perceptions of greater job insecurity, which must be addressed.

11. Globalisation, in short, creates new economic opportunities that may demand new skills and appear in new locations. It requires economic adjustment in all countries, industrialised and developing. The challenges are especially daunting for many developing countries where institutions, capabilities and infrastructure need to be built in the face of an increasingly competitive economic environment. While each national situation is different and there is no universal set of policy recommendations, some issues are common.

12. Globalisation, as opposed to the mere internationalisation of economic relations, not only involves the movement of goods across borders, but also of production capital, financial capital, technology and, to a limited degree, human resources. More importantly, globalisation brings about a fundamental change of the very characteristics of production and trade. Being a primary

driver of globalisation, the diffusion of new technology profoundly impacts on comparative advantage, the competitiveness of enterprises, the demand for labour, work organisation and the nature of the employment contract.

13. The emergence of global production systems – most pronounced in the high-tech industries and in labour-intensive consumer goods – has created new opportunities for growth and industrialisation in developing countries. Global production systems are also becoming increasingly significant in the service sector where technological advances have made it possible for services such as software development, financial services and call centres to be supplied from different countries around the globe. The impressive growth of information and communication technology-related jobs in India is an example of such a structural shift to higher value-added services. However, such shifts are likely to be limited within certain sections of the workforce better equipped with education and skills.

14. Another characteristic of globalisation is that portfolio investments and other financial flows increasingly influence the macroeconomic environment that shapes patterns of trade and investment, while the use of macroeconomic policy tools has become more circumscribed. In many cases, increasing tax competition and a general reduction in the role of the State has thereby reduced the fiscal capacity of Governments. One effect of the increased mobility of capital combined with high levels of unemployment is that it has weakened the bargaining position of workers vis-à-vis employers. At the same time, increasing international competition for markets and for foreign direct investment (FDI) has generated pressures to increase labour market flexibility and erode labour protection.

15. In developed countries, erosion of the welfare state, cost-cutting induced by competitive pressures, decreasing power of trade unions, deregulation in the labour market, and changes in technology and work organisation have resulted in an increase in the number of part-time employees, and a rise in the number of contingent employment in temporary work agencies or through personal contracts. However, the strong growth in part-time employment in some countries, such as the Netherlands, often reflects a choice to combine work and family responsibilities – with positive effects on women's participation rates in the labour market. Contingent employment, such as temporary employment through work agencies, in contrast, seems to be driven by employers' pursuit of flexibility and is predominantly involuntary. The temporary and discontinuous nature of the various forms of contingent employment make it harder for the worker to obtain social rights and enjoy the economic protection the social security system grants during times of economic distress. There is also some evidence suggesting that the changes in labour market policies, designed to increase flexibility, had adverse effects on real wages of low-skilled labour and, hence, contributed to the growth of wage inequality. This affects particularly women, as they constitute the majority of the unskilled labour force and earn less than men in all regions of the world.

16. Changes in labour market institutions and social provision have, therefore, increasingly limited the redistribution of economic rewards towards labour. The result of these changes has been that in many countries employment has increasingly become informal, wage shares of national incomes have declined, and wage differences between skilled and unskilled labour increased. In developed and developing countries alike, there is also an enduring trend of horizontal and vertical sex segregation in the labour market, due, among other things, to gender inequalities in education, training and recruitment that are the cause of, inter alia, persistent gender wage gaps in all sectors throughout the world. All these changes and structural patterns in the labour market can be viewed as the symptoms of a lack of attention to achieving a balance between economic and social outcomes, reflected in the low priority that the goal of full employment and decent work currently receives in international policies, including in the design

of poverty reduction strategies. Indeed, employment levels have often become incidental outcomes of market processes.

17. Since people are most directly impacted by globalisation through their work and employment, it is imperative that countries, enterprises and people are able to convert global opportunities into decent jobs and income. Growth strategies that are geared towards generating full and productive employment and decent work for all should, therefore, be at the centre of national and international economic policies while, at the same time, ensuring social development and environmental sustainability. The challenge is, thus, to develop coherent and gender-sensitive policies for economic growth and employment generation at the national and international levels that can absorb large numbers of workers, especially in resource-scarce areas, and that are at the same time environmentally sound. The fundamental question that the remainder of this paper addresses is how to pursue these seemingly competing goals through a balanced and effective approach.

## **2. Global Employment and Labour Market Trends <sup>4</sup>**

### ***2.1 Employment, Labour Force and Labour Force Participation Rates***

18. At the end of 2005, 2.85 billion people aged 15 and older were in work, up 1.5 per cent over the previous year, and up 16.5 per cent since 1995. How many of the new jobs created in 2005 were decent jobs is difficult to estimate at this point, but from past experience it becomes clear that most of the jobs created would not be classified as decent or productive.<sup>5</sup> Almost 30 per cent of the jobs were created in South Asia, but given the growing labour force within the region, this did not help to improve labour market performance. Employment grew least in Central and Eastern Europe (non-EU) and the Commonwealth of Independent States (CIS).

19. Between 1995 and 2005 the global labour force – the sum of people employed and unemployed<sup>6</sup> – grew by some 438 million workers, a 16.8 per cent increase. During the same period, the global youth labour force (aged 15 to 24 years) grew by only 4 per cent and the labour force participation rate<sup>7</sup> of youth declined by 4.8 percentage points to 54.1 per cent, partly explained by the rising share of young people in education.

20. Despite overall progress, particularly in the industrialised countries, gender gaps in the world of work persist: While women constitute 40 per cent of the world's workforce, female labour force participation (52.2 per cent) is lower than for men (80.8 per cent in 2005). Women are also less likely than men to hold paid and regular jobs and more often work in the informal economy. Fewer women than men own businesses and, worldwide, over 60 per cent of unpaid workers in family enterprises are women. Women are also more likely to have shorter careers than men of the same age because they may not work full-time throughout their working lives.

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<sup>4</sup> This section is largely based on ILO (2006). Global Employment Trends Brief 2006. Geneva: ILO. See [www.ilo.org/trends](http://www.ilo.org/trends).

<sup>5</sup> A look at additional indicators such as the number of working poor discussed below helps to demonstrate the extent of jobs that are not decent and productive.

<sup>6</sup> People outside the labour force are those who are voluntarily inactive and those that are discouraged to participate in labour markets for whatever reason.

<sup>7</sup> Labour force participation rates (LFPR) express the number of people that are active in the labour market (either employed or looking for work, thereby being considered as unemployed) as a share of the working age population. Age-specific LFPR take the active people of that specific age group and compare it to the population within this group. For additional information on labour market indicators visit: [www.ilo.org/kilm](http://www.ilo.org/kilm).

## 2.2 Unemployment and Unemployment Rates

21. The world's unemployment rate of 6.3 per cent is 0.3 percentage points higher than a decade earlier.<sup>8</sup> The nearly 191.8 million people unemployed around the world in 2005 represent an increase of 2.2 million since 2004 and 34.4 million since 1995 (for changes in unemployment rates see table below). In particular, unemployment of women increased by 13.2 million from 1995, reaching 77.9 million in 2004. Particularly alarming, however, is that almost half of the unemployed in the world are young people, given that youth make up only 25 per cent of the working-age population. Young people are more than three times as likely as adults to be unemployed.

### Changes in unemployment rates disaggregated by regions

	World	Developed Economies and EU	Central and Eastern Europe (non-EU) and CIS	East Asia	South-East Asia and the Pacific	South Asia	Latin America and the Caribbean	Middle East and North Africa	Sub-Saharan Africa
1995	6.0	7.8	9.4	3.7	3.9	4.0	7.6	14.3	9.2
2004	6.3	7.1	9.5	3.7	6.2	4.7	7.4	13.1	9.9
2005*	6.3	6.7	9.7	3.8	6.1	4.7	7.7	13.2	9.7

Source: ILO (2005). Global Employment Trends Model. \*2005 are preliminary estimates

## 2.3 The Working Poor

22. However, unemployment is a weak indicator of decent work deficits, for unemployment is only the tip of the iceberg of the global employment challenge. In most of the developing world, “employment” and “unemployment” are crude measures at best of the state of people’s livelihoods and well-being. As developing countries often lack unemployment protection mechanisms, most people simply cannot afford to be unemployed. The focus in developing economies should, therefore, not be based on unemployment indicators alone, but also on the conditions of work of those who are employed. In fact, it is not unemployment, but underemployment and under-paid employment that are the primary challenges we face. The structural transformation of the economy towards new and expanding sectors of higher value addition is, therefore, the appropriate goal that policies should facilitate. In the more immediate term, however, there needs to be a focus on building capacity in those sectors of the economy where the poor live and work.

23. In 2005, of the over 2.8 billion workers in the world, nearly half were underemployed or, due to low productivity and other factors, did not earn enough to lift themselves and their families above the US\$2-a-day poverty line – just as many as ten years ago. Among these working poor, 520 million lived with their families in extreme poverty on less than US\$1 a day (see figure below), some 60 per cent of them being women. Even though this is less than 10 years ago, it still means that nearly every fifth worker in the world has to face the almost impossible situation of surviving with less than US\$1 a day for each family member. This is true despite the fact that

<sup>8</sup> However, in developing countries, the “unemployment” rate greatly underestimates the extent of labour market distress. A more appropriate measure would add the income underemployed to the number of unemployed (who, it should be added, might be so because they can afford to be so). Thus, if underemployment were calculated at the \$2 a day threshold, the global labour underutilisation rate would amount to 56.3% of the global labour force.

most of them work long and difficult hours, often under adverse conditions. Without a chance to get a decent job and to work themselves and their families out of poverty, a large segment of the world's population has little hope for a better life – a human tragedy, and also an obstacle to development.

24. Asia has seen a substantial reduction in the number of working people living on less than US\$1 a day; as many as 132 million Asian citizens lifted themselves out of the working poor category between 1995 and 2005. Meanwhile, Sub-Saharan Africa's weak economic performance as well as the inability of many economies to turn growth into job creation or higher wages has resulted in an increase in the working poor to 27 million. The regions that showed the largest reduction in the share of working poor in total employment between 1995 and 2005 were Central and Eastern Europe (non-EU) and CIS (with a decrease of more than half) and East Asia (with a decrease of nearly half). In the first two regions, however, it would be difficult to equate the reduction in the working poor rate with a genuine improvement in the well-being of the regions' population; the number of working poor was high at the beginning of the period (1995) due to the initial effects of the dissolution of the planned economies and the collapse of social protection systems after 1991. Increases in economic growth rates spurred by productivity growth in the latter half of the decade led to a decrease in the number of working poor, but, at the same time, the number of unemployed increased as did the number of economically inactive. Therefore, a portion of those previously classified as working poor are now classified as unemployed or inactive, neither of which could be called an improvement in economic status.

25. The poor are overwhelmingly at work in the rural or urban informal economy, or in agriculture. In Latin America, for instance, the urban informal economy was the main source of job growth in the 1990s, increasing by 3.9 per cent a year, compared to an annual growth rate of just 2.1 per cent for formal economy employment. About 60 per cent of new jobs were created by micro-enterprises, own-account workers and domestic services. During the 1990s in Africa, urban informal employment absorbed about 60 per cent of the urban labour force, and generated more than 93 per cent of all new jobs in the region. In Asia, considerable variation in informal activity exists: While only about 10 per cent of new jobs in the industrialising Asian economies were created by informal employment, some countries in the region registered informal labour absorption rates of over 60 per cent. Compounding these stark figures, approximately 75 to 80 per cent of the world's extreme poor live in rural areas, predominately in Sub-Saharan Africa and South Asia, and are engaged in agricultural activities.

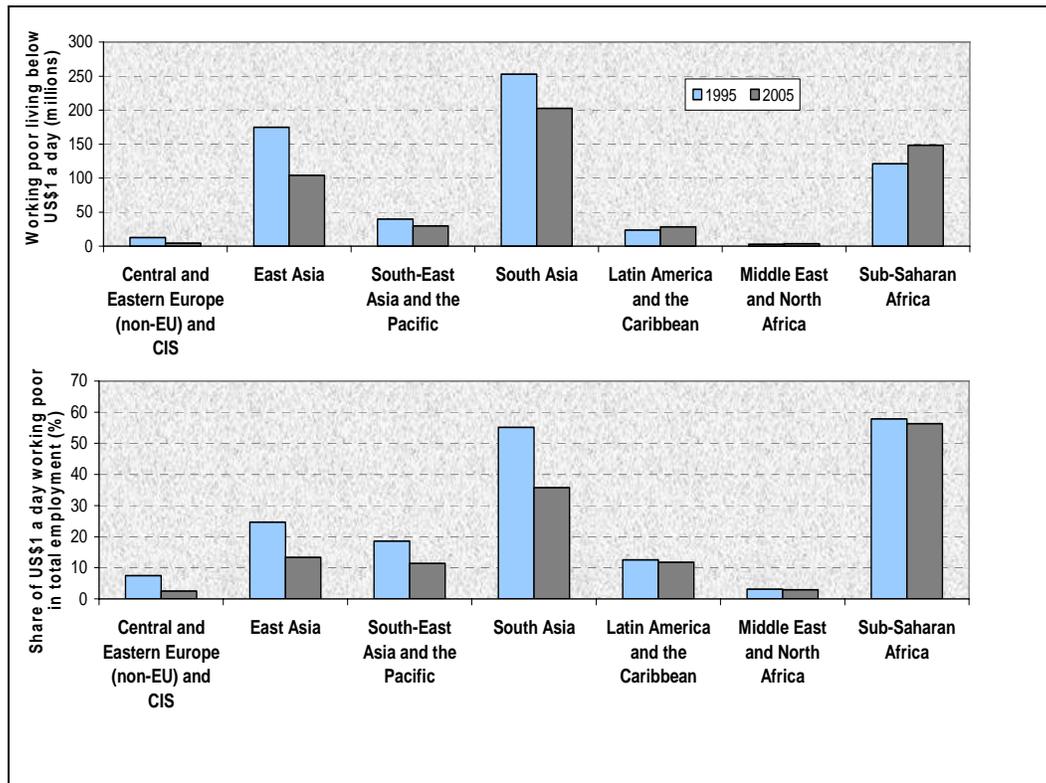
#### ***2.4 Sectoral Trends***

26. In 2005, the agriculture sector accounted for 40.1 per cent of total employment in the world, a reduction of 4.3 per cent compared to its share in 1995. This means it still had the highest employment share of all three major sectors, with a total of 1.1 billion workers. Agriculture continues to account for the major share of employment in East Asia, South-East Asia, South Asia and Sub-Saharan Africa, where more than 60 per cent of the world's working-age population lives. Given that the vast majority of the world's poor live in these regions, working out of poverty means ensuring that jobs in the agricultural sector provide a decent living.

27. The industrial sector has grown over time in terms of total numbers of workers. There were 598 million people working in industry in 2005, a 16 per cent increase from 10 years earlier. Still, the share in total employment decreased from 21.1 to 21.0 per cent. It is employment in the service sector that has changed the most over the last 10 years. The share of total employment in services increased in all regions with one exception – the Middle East and North Africa. Within the service sector, women are mostly found in certain types of occupations that are associated

with traditional gender roles, mainly in community, social and personal services, while men are concentrated in better-paid jobs in financial and business services and real estate.<sup>9</sup> If the service sector continues to grow at the pace it has over the last 10 years, it will soon overtake agriculture as the largest provider of employment.

**Figure 1: Working poor living on less than US\$1 a day: Number and share in total employment**



Source: ILO Trends Working Poverty Model. \*2005 are preliminary estimates.

28. Yet, this transition does not necessarily mean an upgrade in terms of working conditions or in personal welfare. The services sector covers a broad gamut of jobs, from decent jobs in the “formal economy” to low-paid precarious jobs under poor conditions in the “informal economy”.<sup>10</sup> As the agriculture-to-services<sup>11</sup> shift typically implies rural-to-urban migration of workers, personal welfare can, in fact, be adversely affected: The migrating person loses access to land, where food might be gathered, and must instead rely on the market, and thus on income, for sustenance. This is no simple matter for the very poor, who might find themselves with no means of earning income from one day to the next.

<sup>9</sup> United Nations (2005). Report of the Secretary-General on Women in Development, A/60/162. New York: United Nations.

<sup>10</sup> For a detailed discussion see Majid, N. (2005). On the Evolution of Employment Structure in Developing Countries. Employment Strategy Paper No. 18. Geneva: ILO. Available at: <http://www.ilo.org/public/english/employment/strat/download/esp2005-18.pdf>.

<sup>11</sup> It appears that – contrary to the assumptions of traditional development theory – workers are now moving directly from agriculture to services.

### **3. The Quality of Employment**

29. The quality of employment is embedded in the very notion of decent work. It is about security of tenure and prospects for career development; it is about working conditions, hours of work, safety and health, fair wages and returns to labour, opportunities to develop skills, balancing work and life, gender equality and social protection. It is also about freedom of association and having a voice in the workplace and society. It is about securing human dignity and eliminating discrimination, forced labour, human trafficking and child labour.

30. The notion of quality of employment extends beyond the formal labour markets to include the conditions of casual and contract labourers, unregulated wage employment, self-employed and micro-enterprises that form the bulk of the rural and informal economies. Jobs in the informal economy are characterised by poor working conditions and high job insecurity due to the absence of social protection. Decent work deficits are particularly pervasive in terms of remuneration, security against income loss, social protection, rights at work and social dialogue. Underemployed and overworked, the working poor, a significant proportion of whom are women, are often trapped in a vicious cycle of low productivity, low earnings, weak protection, and limited voice in influencing policy agendas, including poverty reduction strategies. For the extreme poor, improving the quality of employment is about moving beyond subsistence to existence.

31. While the diversity and complexity of specific situations call for the contextual definition of quality and its components, and for setting adequate standards and goals, it is evident that there are serious shortcomings in all of the areas that define the quality of work. In fact, the quality of employment in both the formal and informal economies is increasingly coming under pressure. Erosion of the welfare state, cost-cutting induced by competitive pressures, decreasing trade union density in many countries, deregulation in the labour market, and changes in technology and work organisation have together affected negatively the quality of employment, especially as it concerns job security, returns to labour and basic protection. The most severe aspect is continuing forced and exploitative child labour.

32. Gender inequality is a significant dimension of the quality of employment. While there is evidence that the gender pay gap is slowly narrowing in many countries, substantial differences remain. In the EU-15, women earn about 16 per cent less than men when working in the same occupation.<sup>12</sup> In manufacturing, where more comprehensive data are available, several countries record gender pay gaps in excess of 30 per cent.<sup>13</sup> Attention should, therefore, be paid to closing the gender gap in wages and earnings, but also in access to assets and opportunities in the formal and informal economies, and to exploring new patterns of employment such as part-time and home work where women predominate. At the same time, effort should be strengthened to change gender stereotypes with regard to household responsibilities so as to avoid putting a double burden of work on women.

### **4. The Role of Macroeconomic and Trade Policies: National and International Perspectives**

33. In view of the magnitude of the employment challenge, a fundamental question is: If work is so central to people, why does it appear to be less central to policies? If it is so central,

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<sup>12</sup> Commission of the European Communities (2003). Gender Pay Gaps in European Labour Markets – Measurement, Analysis and Policy Implications. SEC(2003)937. Brussels: Commission of the European Communities.

<sup>13</sup> ILO (2006). Key Indicators of the Labour Market, 4th edition. Geneva: ILO, Chapter 1B.

should not employment generation be the primary objective of economic policies, rather than a residual of other policy spheres? Many would probably argue in the affirmative – that employment generation indeed ought to take centre stage in macroeconomic and social policies. If it has not, however, it might not be for simple neglect. Rather, the reason – or at least one major reason – most probably lies in some of the effects of the transition to a global, interdependent market economy, occurring in the context of a weak global governance structure – a structure unable to match in functional terms the challenges posed by economic integration. This has also led to narrowing policy space, and even national Governments can often not play their traditional role.

34. As noted in the introduction to this report, despite the recent return to acceptable global economic growth rates, growth has been inadequate to create sufficient decent employment for an increasing global labour force. As such, sound macroeconomic policies and a balanced national development agenda conducive to high economic growth rates are imperative for the creation of a more favourable environment to achieve employment and poverty reduction objectives. Thus, to achieve the goal of decent work for all, it has to be considered in the context of the overall macroeconomic environment and pursued through an integrated and coherent set of gender-sensitive policies at the national and international levels.

#### ***4.1 The Need for National Policy Space***

35. In an open and interdependent world economy, the use of macroeconomic policy tools has increasingly become circumscribed: Tools that might have supported job growth are less of an option in a world in which exchange rates are flexible, markets are open, and capital is mobile. An example illustrates the point. In the past, Governments were able to actively pursue policies of full employment by engaging in counter-cyclical spending to smooth demand and maintain jobs. At the same time, economies were more closed, so the possibility of Government spending resulting in external leakages that could lead to balance of payments constraints was lower. Open capital accounts, by contrast, reduce the degrees of freedom in macroeconomic policies and bias them toward greater discipline. They can also render the objective of full employment more difficult to attain since the gains from trade are often accompanied by losses in domestic industries exposed to competition.

36. That said, it would be wrong to conclude that economic openness has undermined the objective of full employment for at least three reasons. First, there is ample evidence of employment success in some countries linked to greater openness to trade. Second, it is not a question of the abandonment of full employment, but one of the redefinition of the modalities to attain it. Third, and essentially, while policies facilitating the engagement in global markets are important for employment creation, it is the domestic or local economy where most employment is generated. Thus, there is much that can be achieved at national and local levels to give greater prominence to employment and to stimulate employment creation. In sum, to suggest that globalisation removes the power of States to act in the direction of full employment is an oversimplification that borders on misstatement.

37. It is the action of nation States that largely forms the modus of globalisation, and national policy space remains important to shape economic integration in a way that facilitates the creation of domestic employment within a framework of international macroeconomic cooperation. A case in point is the prevailing focus on economic stability in national and international policy-making as reflected in key macroeconomic indicators. While macroeconomic stability is important for generating investment and economic growth, many countries that have followed too stringent stabilisation measures have failed to generate the much-needed economic growth vital for job

creation and poverty alleviation. Fiscal space for public expenditures should, therefore, be preserved, especially in situations of economic and employment stagnation and recession that may necessitate counter-cyclical policies.

38. Similarly, while integration into the global financial system can be potentially beneficial to middle-income developing countries, it also creates vulnerabilities to speculative capital flows and financial crises.<sup>14</sup> Since these generally have severe long-term consequences on labour markets, a careful sequencing of capital account liberalisation becomes crucial. To contain the risks of financial integration, Governments can manage capital flows and, at times, use selective capital controls to protect their countries from speculative excesses.

39. Furthermore, many developing countries are now competing among themselves to attract foreign investment, which, in some cases, can lead to the lowering of regulations, taxes, environmental protection and labour standards. Thus, there is a need to promote more transparency and coherence as well as flexibility and policy space for countries to manage investment so that, in addition to the entry into global production systems by developing countries can be a win-win process for all countries. Also required are more regional coordination and transparency of investment incentives. Public investment, particularly into labour-intensive infrastructure projects and natural-resource management, is an important complementary element in this regard. It not only generates employment and growth on its own terms, but can – if well designed – attract private investment, leading to further job creation.

#### ***4.2 The Role of Trade Policies***

40. Although trade liberalisation has the potential for welfare gains in the long-run, its immediate impacts at the national level are often considerable adjustment costs, including job destruction and de-industrialisation. Existing assets, access to markets and infrastructure, as well as composition and level of economic activities determine the potential costs and benefits of trade liberalisation to individuals and households. While some can gain from the increased demand for goods and services they produce, others may lose because the sectors in which they work become unprofitable or because they are unable to capitalise on the opportunities. Gender differences can occur since women and men work in different sectors and produce different goods and services.

41. While it is particularly trade in manufactures that has stimulated industrial growth in some developing countries,<sup>15</sup> it has also led to the “marginalisation” of those developing countries that remain dependent on exports of primary commodities. For these countries, international prices of primary commodities are of crucial importance, and, until recently, there had been a competitive bidding down of these prices – the result of both a “supply glut” and declining demand. Moreover, the recent conjunctural upswing in prices is not immune to instability and another downswing, and is, thus, no foundation on which to base a successful growth strategy. A central concern of international policy, therefore, must be to overcome “marginalisation”. This requires further liberalisation of trade in primary commodities, a feature of the Doha Development Agenda, with a view to stimulating the demand for the exports of the marginalised countries, taking fully into account the special needs of LDCs arising from preference erosion, price shifts and increased market competition. Also required are a significant reduction in tariff

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<sup>14</sup> van der Hoeven, R.; Luebker, M. (2006). *Financial Openness and Employment: The Need for Coherent International and National Policies*. Geneva: ILO, forthcoming.

<sup>15</sup> It needs to be pointed out that the bulk of trade with developing countries, as well as FDI, is concentrated in only 12 countries. See World Commission on the Social Dimension of Globalization (2004). *A Fair Globalization: Creating Opportunities for All*. Geneva: ILO, pp. 25-29.

escalation, as well as productive diversification and increased value-added content of exports, including processing of primary commodities.

42. However, greater market access is no panacea. At the national level, designing an effective industrial policy in areas of potential comparative advantage can promote diversification and help end the dependency on primary commodity exports. In support of such diversification strategies, international assistance for the poorer marginalised countries has to be substantially increased and will need to be directed to developing their manufacturing capability (including processing of primary commodities). Commitments to this policy agenda have already been made; it is now a question of implementation. Several initiatives by the multilateral system and bilateral donors have recognised the importance of “aid for trade” to help developing countries, particularly LDCs, to cope with short-term adjustment costs and to overcome supply-side production constraints. It is now important that the pronouncements to revitalise and scale up “aid for trade” become operationalised by the multilateral system in conjunction with donors. At the same time, countries need to focus on the development of their domestic economies through strategic and coherent sectoral policies.

43. Another challenge is the persistent inequity in the global trading system due to remaining trade barriers in industrialised countries against labour-intensive goods produced in developing countries. These are items in which developing countries have a comparative advantage, and which are vital for their growth and development prospects. Consequently, unfair barriers to market access must be substantially reduced. Yet, developing countries can also do much to help themselves by reducing remaining South-South trade barriers.

44. At the same time it must be recognised that greater market access for developing country exports will impose high social costs on workers in some sectors of industrialised countries. In response, national policies to provide adjustment assistance to affected workers should be vigorously pursued. Doing so would ensure that greater fairness of the global trading system is not achieved at the expense of vulnerable workers in industrialised countries.

### ***4.3 International Migration and Employment***

45. There is also an asymmetry between the largely unrestricted environment for international flows of financial capital and trade in goods, on one hand, and universal restrictions on immigration, on the other, which generates an adverse distributive impact on labour. Yet, in a long-term perspective international labour migration meets long-term structural needs of advanced economies for both low- and high-skilled workers, deriving from rising educational levels, ageing populations and the expanding service economy. Thus, in the face of a shrinking and ageing population in many industrialised countries and an expanding, young population in most developing countries, international migration could play a critical role in stabilising labour markets of both labour importing and exporting countries if balanced, e.g. against the adverse effects of the “brain drain” of skilled personnel from developing to developed countries.

46. International migration should, thus, be viewed as an important, integral part of the development process, and as a positive force which, if properly managed, can produce concrete benefits for societies of destination and origin. Migrants should, accordingly, be seen as enterprising individuals who have much to offer to the societies that receive them and to those from which they originate. Both sending and receiving countries should thereby strive to advance the development benefits of migration through, among others, enhanced cooperation.

## 5. Labour Market Challenges: Balancing Flexibility and Social Security

47. A common challenge to which all integrating economies nowadays have to respond is that structural change and labour market adjustment have become quasi-permanent features of national economies in a globalised world. Consequently, the social protection system that should accompany structural change has also to be institutionalised. This requires reforms of the social security system, especially regarding its aspects traditionally linked to the holding of a formal, stable job. Therefore, while the size and scope of security programmes can be adjusted depending on whether the economy is booming or in recession, a core group of policies should remain in place over the economic cycle in order for worker security to be maintained and to allow companies the space to adapt. This, however, entails developing systems with a higher level of diversification and broader coverage, and an adequate mix of individual contributions and systemic solidarity.

48. Social dialogue is instrumental for designing and implementing such flexibility-cum-security programmes and necessary for raising the acceptance to change. Effective policy-making and implementation of employment and labour market policies requires the active engagement of employers and workers through their freely chosen and representative organisations. Sound labour-management relations and collective bargaining can also contribute to the management of change and the raising of the productive performance of enterprises and the economy as a whole. Such bipartite and tripartite approaches, known as social dialogue, can support Governments in improving the quality, relevance, timeliness, and balance of public policies to promote decent and productive work.

49. Globalisation and technological change are exposing increasing shares of national economies to intense competition. Firms, therefore, have to adjust frequently their operations and their labour force to meet fluctuations in demand and progress in productivity. But simply responding to firms' need for flexibility, without providing for workers' need for security, is socially inefficient and has negative macroeconomic repercussions, in addition to adverse effects at the individual and household level. Thus, an important benefit of labour market policies, in particular unemployment insurance, is that they operate as a stabilising mechanism for the economy as well as provide for the needs of laid-off workers. For example, in the United States, it is estimated that the unemployment insurance programme mitigated the loss in real GDP by approximately 15 per cent during the five recessions that occurred between 1969 and the early 1990s. The programme exhibited a substantial and significant counter-cyclical effect on changes in real GDP over the three decades, resulting in an average peak savings of 131,000 jobs.<sup>16</sup> In comparison with other stimulus measures, such as income tax cuts, it has been calculated that the U.S. unemployment insurance system is at least eight times as effective as the tax system as a whole in offsetting the impact of a recession.<sup>17</sup>

50. While both employment protection and labour market policies are important in providing security to workers, in labour markets exposed to globalisation employment protection is often hard to maintain and lay-offs tend to occur frequently. Labour market policies then help to limit the larger effects of a layoff on individual income loss and, therefore, on consumer spending and aggregate demand growth. By this token, they enable mobility as they encourage taking on new opportunities in times of transitions and allowing firms to adjust at relatively low costs. However, there is no one-size-fits-all model, and different combinations between employment security

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<sup>16</sup> Chimerine, L.; Black, T. S.; Coffey, L. (1999). Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness over Three Decades. Unemployment Insurance Occasional Paper 99-8. Washington, DC: U.S. Department of Labor.

<sup>17</sup> Orszag, Peter (2001). Unemployment Insurance as Economic Stimulus. Policy Brief. Washington, DC: Center on Budget and Policy Priorities.

provided at the firm level (employment protection legislation) and protection provided through the social protection system (unemployment insurance and active labour market policies) might provide flexibility with security under different conditions.

### ***5.1 Passive and Active Labour Market Policies***

51. Labour market policies are divided into two groups: passive and active. “Passive” policies are concerned with providing replacement income during periods of joblessness which are not conditional upon joining a training or work programme, though they usually include job search provisions. “Active” policies address labour market integration through demand or supply measures; they can include job training, job placement services, as well as employment subsidies that stimulate the creation of additional jobs. Both passive and active labour market policies provide security during labour market transitions and should also be used during different phases of joblessness, with passive income replacement and job search in the beginning of the unemployment period, and active measures then preventing the occurrence of long-term unemployment.

52. Similarly, certain labour market policies are more suited for different stages of the economic cycle. In developing countries, and in the absence of an unemployment insurance scheme, at the onset of an economic recession, public temporary employment generation programmes are important for providing jobs and income to displaced workers as well as to avoid the erosion of human capital. Then, when an economy is starting to recover, employment subsidies can be used to encourage private firms to hire workers. During all times, however, training programmes are important for providing skills to those workers who are having more difficulty integrating into the labour market. At the onset of a recession in industrialised countries and in countries with more organised passive and active labour market schemes, unemployment insurance will smooth individual income loss and, on the macro side, the business cycle. Then a hierarchy of measures from intensive placement to public temporary job creation (as a matter of last resort) will set in to avoid or mitigate long-term unemployment.

53. Recent policy debates have emphasised the importance of promoting active, not passive, labour market policies. For example, the European Employment Strategy from 1997 emphasised an “activation strategy” which requires the adult unemployed to participate in job training and educational programmes after twelve months of receiving benefits and youth after six months. Thus, in the case of Denmark, the passive component of unemployment benefits was reduced for adults from four years in 1994, to two years in 1998, to one year in 2000.<sup>18</sup> Activation strategies, while more costly, have the benefit of improving workers’ skills, and are also effective in reducing the moral hazard effects associated with unemployment insurance. In this regard, it is interesting to note that, in the absence of “passive” unemployment compensation systems, many developing countries provide active labour market policies. India, for example, now runs an employment guarantee programme that provides temporary work for those with no jobs or income (see box 2). Also in Morocco, active policies are preferred to passive income replacement programmes.

54. While labour market institutions and policies are common in industrialised countries, particularly in Europe, they tend to be weak, inefficient and often uncoordinated in developing countries, especially in low-income economies, because of the small State budget available to finance them. Thus, in contrast to industrialised countries’ labour markets which are mainly

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<sup>18</sup> Madsen, Per (2003). Flexicurity through Labour Market Policies and Institutions in Denmark. In Peter Auer and Sandrine Cazes (eds.). *Employment Stability in an Age of Flexibility*. Geneva: ILO.

formal and characterised by waged employment, many developing countries are characterised by dual labour markets in which the absence of protection in the informal economy contrasts with a high level of employment security in the smaller formal economy.

**Box 2: A Rural Employment Guarantee Scheme: The Case of India**

To combat high unemployment rates and increasing rural-urban migration, the Indian authorities passed the National Rural Employment Guarantee Act in August 2005. This act makes it mandatory for the Indian State to provide 100 days of work a year to rural households. The scheme is a social security programme which also aims to include landless families in the national social protection system. In addition, the National Rural Employment Guarantee Act makes the right to work legally enforceable for all, including the rural poor.

Every adult who is a member of a rural household can voluntarily apply for unskilled manual work. At least one-third of beneficiaries should be women. Until a further decision is made, the wage paid to workers employed under this scheme will be equal to the minimum wage set for agricultural labour. If an eligible applicant is not given a job within fifteen days from receipt of her application, she is entitled to a daily unemployment allowance.

A Central Employment Guarantee Council composed of representatives of the state governments,<sup>19</sup> of workers and disadvantaged groups, and of tribes and castes monitors the implementation of the scheme. At least one-third of the Central Council's members should be women. Councils with a similar composition are also set up at the state levels to monitor the implementation of the employment programme at the local level.

The total cost of the scheme is estimated to be about one per cent of India's GDP. A 7-8 per cent annual growth rate should ensure costs coverage. As for funding, a National Employment Guarantee Fund is established at a central level to finance part of the programme's costs. The Fund is financed through grants and loans which can also be subtracted from other already existing employment and poverty alleviation programmes. The remaining costs will be borne by state employment guarantee funds which would play a complementary role to the national fund.

Sources: <http://www.thesouthasian.org/archives/000498.html>  
<http://pib.nic.in/release/release.asp?relid=11820>  
<http://www.rediff.com/money/2005/aug/22spec1.htm>

55. Labour markets in low-income economies are, therefore, characterised by large proportions of unpaid family work and self-employment and a very low share of waged employment, particularly among women. Since regulation does not affect much employment, labour markets tend to be rather flexible and workers' protection is often neglected. In other words, the situation of the labour markets in poor developing countries presents opposite characteristics compared to those of industrialised economies. A largely prevailing informal economy, a predominantly agricultural sector employing most of the labour force, often in self-subsistence activities, and a very small State budget are among the principal features of such economies. In particular, the large size of the informal economy and of agricultural labour creates a high level of flexibility through the provision of occasional work and irregular incomes, which is not compensated by measures targeting workers' protection.

56. In light of the large informal economy in many developing countries, particularly in Africa, serious considerations need to be given to developing necessary gender-sensitive institutional capacities for gradually formalising informal economies in order to extend the

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<sup>19</sup> India is a Federal Republic composed of States.

outreach of social protection and benefits of decent work to all. Risk management mechanisms can also prove effective in increasing the level of economic security of workers at times of income loss and in situations where the State is too poor and/or weak to provide labour market policies. Such mechanisms include savings, credit (both for consumption and emergency needs and for productive activities), mutual insurance, training, and public works to provide an income at times of economic slowdown or recession.

## ***5.2 Enhancing Employability by Improving Knowledge and Skills***

57. Globalisation and trade liberalisation have increased the need to adapt new technologies more rapidly in order to remain competitive. Therefore, knowledge and skills have to be central components of employment strategies as they determine the employability and competitiveness of the labour force and the overall investment climate of an economy. It is now evident that in today's globalising world the knowledge and skills of an economy's workforce are increasingly determining the wealth and prosperity of nations. In fact, it can be said that employability lies at the heart of effective labour market flexibility. Education and training for both women and men, including informal training systems, would, therefore, be the key elements of a strategy to address the challenges of globalisation, gain competitive advantage and reverse the tendency towards growing disparity in income and wealth. Rapidly changing skill requirements, thus, call for a comprehensive effort to increase the educational level, especially in developing countries. Moreover, the benefits of education and training go beyond ensuring employability and higher return to labour. They also lay the foundation of an inclusive and participatory society in which equity and justice can flourish.

58. However, there is a large disparity in investment in education and training per student between the advanced and the least developed countries (LDCs) – the former being at least 30 times more than the latter.<sup>20</sup> Even within developed economies, the approach towards training seems to reflect differential performance. For example, a comparative study between Germany and UK attributed higher productivity and better trade performance of the former to the greater preference of the employer towards apprenticeship training as opposed to regular youth employment and informal training in the latter.<sup>21</sup>

59. Of particular importance in this regard is that measures to enhance the employability of youth be a key component of active labour market policies and educational reforms. The productive integration of youth – especially from poor or underprivileged households – into the labour market is relevant for present and future growth prospects, social mobility and cohesion, and the interruption of the intergenerational transmission of poverty (see box 3). Young women thereby appear to have the greatest difficulty in entering the labour market and retaining decent jobs. Because of young people's comparatively poor labour market performance, this issue has been taken into account in the MDGs, and the UN Youth Employment Network (YEN) has made several recommendations in this regard. A comprehensive strategy should focus on four elements: enhancing employability; promoting equality; facilitating entrepreneurship; and placing employment creation at the centre of macro-economic policy.<sup>22</sup> Policies to stimulate additional employment opportunities for young people coming onto the labour market are vital, and must be complemented by targeted measures to overcome the specific disadvantages many young people

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<sup>20</sup> ILO (2006). Learning and Training for Work in the Knowledge Society. Geneva: ILO. Available at: [http://www.logos-net.net/ilo/195\\_base/en/report/rep\\_toc.htm](http://www.logos-net.net/ilo/195_base/en/report/rep_toc.htm).

<sup>21</sup> Ibid.

<sup>22</sup> United Nations (2001). Recommendations of the High-level Panel of the Youth Employment Network. A/56/422. New York: United Nations.

encounter in entering or remaining in the labour market. Measures should also be taken to create an enabling business environment, and to inform and assist young people in establishing or joining small enterprises, as well as to help young persons in the informal economy move to the formal economy.

**Box 3: Youth Unemployment – The National Open Apprenticeship Scheme in Nigeria**

Young people constitute a large and rising part of the unemployed with high social and economic costs for society. When unemployed youth have little chances to become productive members of society, they face a high risk of engaging in self-destructive or criminal behaviour such as drug abuse, social unrest or even armed conflict.

To avoid the social exclusion of unemployed youth and the concomitant risk for social cohesion, it is necessary to implement a comprehensive and integrated approach especially targeting young people. To this end, member States of the UN Secretary-General's Youth Employment Network (YEN) have formulated national plans to fight youth unemployment. In addition to improving the general investment climate or promoting entrepreneurship, youth employment programmes particularly focus on the supply side of labour through improved access to basic education, vocational training, and apprenticeships in order to increase the employability of youth.

The provision of work experience via vocational training and apprenticeships has proved to be a promising means to fight youth unemployment, as experience from the National Open Apprenticeship Scheme (NOAS) in Nigeria shows. The scheme, initiated in 1987, offers vocational education and training to unemployed youth making use of sub-contractors from both the formal and informal economy. In addition to offering unique work experience in the private sector, the programme provides theory classes to complement the practical experience. So far, the program has trained nearly 600,000 unemployed youth and school-leavers, of which 400,000 have started their own micro-enterprises. The experience shows, however, that it is crucial to integrate the private sector and make use of subcontracting to ensure that the training meets the demands and desired skills of labour markets. Additionally, any training programme should be part of an overall strategy to create employment.

Source: Kanyenze, G. et al. (2000). Strategies to Combat Youth Unemployment and Marginalisation in Anglophone Africa. ILO/SAMAT Discussion Paper No. 14. Harare: ILO.

## **6. Rural Employment: Linkages between Agricultural Productivity and Non-Farm Activities**

60. At the Millennium Summit, the international community agreed to halve the proportion of poor persons living on less than US\$1 a day by 2015 as one of its development goals. Considering that 40 per cent of the world's labour force and three-fourths of the poor live and work in rural areas, it is evident that rural development must play a fundamental role in achieving this goal. The pervasive spread of the HIV/AIDS epidemic in many developing countries, particularly in Africa, is thereby a cause of deep concern as it poses a significant threat to rural development and livelihoods (see box 4).

61. While agriculture is still the main activity of the rural poor, non-farm activities such as agro-processing and input supply activities become increasingly important. Labour is often the only productive asset poor people own, and rural employment provides the nexus between environmental, social, and economic sustainability; poverty reduction; and food security. Considering that agriculture-related activities constitutes a major share of the economies of developing countries, the recommended route out of poverty in rural areas is through decent

employment creation but also – critically – through productivity growth in on- and off-farm activities.

62. At the same time, covering 30 per cent of the world's land area (4 billion hectares), forests play a critical role in providing for livelihoods in the form of employment, income and asset generation, and by maintaining the production of renewable natural resources and the health of the environment. Although difficult to quantify, forests contribute significantly to national economies. They provide the basis for the livelihoods of 400 million people, informal employment to more than 30 million people, and formal employment to approximately 12 million people while at the same providing for hundreds of billions of dollars worth of trade in forest-related products. Though forests are most often considered to be an important part of environmental sustainability, it is only through the recognition of the economic and social services provided by forests and the potential for income generation through sustainable forest management that healthy forests can be maintained in the long-term.

#### **Box 4: HIV/AIDS and Employment**

HIV/AIDS has become a major threat to employment objectives and labour market efficiency, considering that about three-quarters, or about 26 million, of all adults living with HIV/AIDS are in the prime of their working lives. The agricultural sector, which is vital for rural households and national economies in many developing countries, is disproportionately affected by HIV/AIDS as it is highly labour intensive and includes a large number of mobile or migratory workers. The negative effect of HIV/AIDS on that sector includes impoverishment of directly affected communities, erosion of its capacity through losses in human resources, and disruption of its operations by severing key linkages in the production chain.

In terms of its economic impact, HIV/AIDS has become a major threat to employment objectives and labour market efficiency. The loss of workers and workdays due to AIDS-related illnesses, the demands of caring for the ill, and funeral attendance has resulted in significant declines in productivity, loss of earning, and attrition in skills, thereby impacting negatively on the overall investment climate. HIV/AIDS is also changing the age and sex distribution of the labour force, and increasing the number of women, children and the elderly who face economic uncertainty. Particularly women's ability to participate in the paid workforce is reduced as women and girls provide most of the home-based care for HIV/AIDS patients. The vulnerability of women to HIV infection, as compared with men, increases existing gender inequalities. The early entry of orphans into the labour force exacerbates the worst forms of child labour, and the epidemic is forcing older persons back into the workforce due to economic need. The epidemic also strikes hard at the poor who least can afford treatment and care, thereby increasing existing problems of poverty and inadequate social protection.

Recognising the adverse impact of human capital losses on productivity and sustainable development, major international companies are now including HIV/AIDS in their risk assessment and some have begun establishing appropriate interventions to reduce HIV prevalence and to minimise its economic and social impacts. Chilanga Cement Plc, for example, partners now with Zambia's HIV/AIDS Business Sector Project to provide an HIV prevention and wellness programme both in the workplace and the community, with focus on peer educator communication. As a result, the project was able to reduce the rate of absenteeism due to HIV/AIDS-related sickness and funeral attendance, and has facilitated a reduction in high-risk behaviour through increased knowledge about the epidemic.

### ***6.1 Improving agricultural productivity, employment and poverty reduction***

63. There is a general consensus that productivity growth is the main determinant of income growth and poverty reduction, provided there is a relatively equal distribution of land ownership. Yet, in much of the developing world, agricultural productivity and its growth remain at very low levels. The promotion of labour-intensive approaches, technologies and institutions is of particular importance in this regard, since other factors of production, such as land and equipment, are often scarce, expensive or not available. Given the clear linkages between agricultural productivity growth and poverty reduction, devising how to increase agricultural productivity is an essential first step in designing a poverty- and employment-oriented development strategy in the agricultural sector.

64. While labour-intensive approaches to productivity growth are essential, output growth is unlikely to be sustainable unless underpinned by technological change. However, some sources of labour productivity growth, especially capital-intensive technologies such as tractors, may increase productivity at the cost of employment, especially in the short- and medium-term. In view of the fact that employment reduction in agriculture can have serious adverse implications for poverty in the short-run, it is imperative to minimise these effects through adequate social protection systems until other sectors are able to absorb the surplus labour.

65. Among the prevailing obstacles to productive and sustainable agricultural production in many countries, particularly for women, are inadequate land tenure structures, and lack of secure access to training, technology, and resources, including water, forest genetic resources, and fertilisers. In this regard, land reforms can be important for enhancing productivity, stimulating private investment in agriculture, and reducing social disparities, including gender disparities. Infrastructure support is also pivotal for promoting improved market access, as well as for increasing both farm and non-farm productivity in rural areas.

66. Promoting better-functioning rural labour markets is also of particular importance given that the majority of rural households hire out their labour permanently or temporary. Job placement mechanisms should be improved through better information, incentives, and reduction of segmentation so as to reduce transaction costs, especially aiming to increase access for the most vulnerable. Furthermore, the information gap between rural and urban areas is growing, with the potential effect of widening income differences and social disparity. Increased access is, therefore, needed to information and communication technologies (ICT) for trade-related capacity-building so farmers can be better informed about practices, prices, and access to inputs and output markets. The use of information and communication technologies, should thereby receive priority attention when addressing the information needs of rural areas, with a view to promoting their seamless integration into the national economy. Careful coordination of the public and private sectors in cooperation with rural communities will be required to ensure success.

67. Access to financial services can also help the rural poor reduce their vulnerability and widen their economic opportunities through small productive investments, enabling them to build assets over time. While the successes of microcredit are well recognised, the provision of safe and flexible savings products, secure transfer and remittance facilities, and insurance services are often as important as access to loans. Moreover, in rural areas there is a need to expand lending beyond microcredit to meet the needs of the agricultural cycle, and to invest in small transformation activities and equipment.

## **6.2 Rural Non-Farm Activities**

68. Since productivity improvements will in many cases reduce agricultural labour demand, it is equally important to support the creation of productive off-farm employment, whether in rural areas or in towns and cities to which rural job seekers migrate. In Asia, non-farm employment accounts for 44 per cent of rural employment and is growing twice as fast as farm employment in some countries. In Latin America, non-farm activities represent at least 30 per cent of rural employment. Additionally, the rural non-farm sector provides a considerable share of employment for the landless poor. In fact, about 60 per cent of the landless poor in Asia and 30–50 per cent in Sub-Saharan Africa depend on rural non-farm employment for their livelihoods.

69. Being itself a market for agricultural output, the rural non-farm sector can have positive multiplier effects both for rural employment and welfare by lowering rural un- or underemployment through new income generating activities, and by providing production incentives. Simultaneously, the higher income associated with productivity growth in the agricultural sector allows for the consumption of goods and services produced in the rural non-farm sector, thereby creating a virtuous cycle of productivity and employment growth. Also, the spread of agro-industry and rural industrialisation has increased the opportunities for women to access cash income through self-employment or the setting up of rural enterprises. A prosperous agricultural economy can stimulate strong jobs growth in agro-processing industries as well as in housing and other construction, transport, and other services. However, for these multiplier effects to be effective, diversification of the rural production structure is usually a prerequisite. Rural non-farm incomes also allow households to overcome credit and risk constraints on agricultural innovation, permitting crucial farm investments to raise productivity and increase farm incomes.

70. Thus, to the extent that rural non-farm incomes help smooth out fluctuations or offset shortfalls in farm incomes, rural non-farm activities can contribute to poverty reduction. However, for the majority of rural workers, the rural non-farm sector provides only a low-level livelihood and a safety net, and only some relatively privileged households with sufficient resources engage in rural non-farm activities with high returns. Hence, for rural non-farm activities to increase employment and income, and reduce poverty, they must be accessible to the poor. Investment in human and social capital is of crucial importance in this regard because of the positive correlation between education, social bonds, and non-farm employment. Vocational training, in addition to formal education, can thereby provide important skills for business development. Group strategies, such as producer groups and women's self-help groups, also have the potential to address credit and market constraints and help overcome existing asymmetries in distribution of social capital (see box 5). However, while independent efforts to support the sector may have dividends in themselves, it is important to recognise that the role of the sector in poverty reduction is likely to come into proper play only when there is reasonable growth in agriculture.

71. On the whole, high transaction costs incurred due to poor infrastructure (including transport, communication, energy, and water) have deterred rural non-farm sector development. It is, therefore, important to facilitate rural non-farm sector growth by reducing transaction costs through the development of roads, electricity and telecommunications infrastructure, and by enhancing rural town development, associated with high market density and high population density.

### **Box 5: Women's Self-help Groups**

The scarcity of service institutions in rural areas and weak advocacy capacity of rural women entrepreneurs makes it important to support the initiatives of groups, private sector associations and communities to develop self-help programmes for women. Self-help groups empower micro- and small-entrepreneurs to identify their needs, plan, and implement their own projects; share the benefits of their collective efforts; and evaluate their programmes and projects. The capacity of rural women to participate in local and national policy-making is often limited, and their interests are often insufficiently represented by urban and male-dominated lobbying groups. By organising themselves in groups and associations, rural and women entrepreneurs are able to voice their specific concerns and advocate changes through formal policy-making processes. Via self-help groups women can create cooperatives and networks of entrepreneurs, and find sources of finance (including new and innovative systems of credit and financing), technical advice, and marketing channels.

### **6.3 Creating an Enabling Environment**

72. While Governments play a key role in developing a policy environment conducive to rural development, enhanced international cooperation in addressing macroeconomic and trade-related issues are also important for rural development. However, the issue is not only the adequacy (in terms of both volume and effectiveness) of development assistance, especially for the productive sectors, and debt relief, but also a matter of coherence of the development cooperation policies and the national macroeconomic, sectoral (agricultural), trade, and financial policies of developed countries.

73. In this regard, a major obstacle to rural employment generation and the reduction of poverty is agricultural protectionism, which at times neutralises much of the benefits of official development assistance (ODA). Thus, in light of the negative effects of agricultural trade distortions on local producers in developing countries, it is imperative that any international strategy towards employment generation in the agricultural sector entail the phasing out of existing export credits, subsidies, and domestic support measures. Also, efforts need to be made to achieve a substantial lowering of tariffs and to address the present discriminatory tariff rate quota system by giving priority to products that originate in developing countries. The issue of tariff escalation for processed commodities also needs to be addressed.

74. Also, there is an immediate need to diversify production away from primary commodities, considering that from 1980 to 2005, world prices for agricultural commodities fell by 49 per cent (though they recovered somewhat in the last five years). Yet, many developing countries and LDCs still depend on agricultural commodities for more than half their export earnings. It is in this regard that technical support should be stepped up to assist developing countries to diversify their exports and add value to commodities before exporting them. This, however, requires overcoming supply-side constraints, the provision of necessary support services, and a thorough reorganisation and integration of research, extension, credit, and marketing services, using modern means of communication and training. The integration of such services would imply better coordination between Government, non-governmental organisation and private sector initiatives.

75. The existence of human capabilities and the right institutional frameworks are necessary conditions for entrepreneurship to flourish, particularly in rural areas where public administrations have relatively weak capacities to implement policies and maintain conducive conditions for entrepreneurial initiatives. In addition, rural women entrepreneurs' understanding

of regulations, as well as their capacity to identify unjustified application of the regulations, is weak. There are often not enough institutions and agents to arbitrate disputes in rural areas, and it is not uncommon that laws and regulations explicitly discriminate against women entrepreneurs, which makes it difficult to develop businesses. Two important issues that must be addressed are, thus, the need to improve legislation and the need to improve the implementation of existing regulations. Through training of trainers, local advisors and managerial staff, as well as the development of practical and effective methodologies and tools, projects can strengthen the technical and managerial capabilities of partner institutions to deliver specialised services to women and rural entrepreneurs.

76. Agricultural and rural development policies have traditionally addressed agricultural growth with a focus on the production side, often without a careful evaluation of their impact on the livelihoods and vulnerability of the largest group of poor in the rural areas: the workers (including the landless, wage-dependent small farmers and forest-dependent communities). Increased participation of workers and their trade unions in the policy dialogue at national and international levels, however, is essential for ensuring that policy reflects the needs and perspectives of these groups. In order to arrive at sustainable rural development strategies, it is, therefore, important to strengthen the capacity of participatory, membership-based organisations that promote gender-sensitive, decent, remunerative, and stable rural employment and legislation of labour standards. The role of policy makers would be to find appropriate and effective ways to guarantee broader participation of different categories of workers in the policy dialogue, and to promote the search and adoption of innovative solution at the local level.

## **7. The Role of Small and Medium Enterprises and Industrialisation**

77. Creating off-farm employment opportunities in rural areas while increasing agricultural productivity is indispensable, but it cannot substitute for a long-term strategy to create jobs, especially in urban areas, by means of sustainable industrial development and modern service sector development, including ICT and tourism. It is, therefore, important to ensure a balance between the needs of rural and other disadvantaged areas (where the majority of the poor live) and the need to ensure a sustainable urban industrial base. Industrialisation has a critical role to play in helping developing countries to raise growth rates through industrial upgrading and productivity gains, and to generate sustainable employment and higher incomes to lift people out of poverty. For this reason, it has long been – and remains – the most powerful engine of structural change and modernisation.

78. Small and medium enterprises (SMEs) can be considered the springboard to a strong industrial sector as they are essential in creating employment opportunities and a main source of economic growth while increasing competition and contributing to a more equitable distribution of income. However, in developing countries, more than 90 percent of SMEs are micro or small enterprises with less than 10 workers, most of them operating in an informal setting without legal recognition or registration. A large proportion of small-enterprise activities takes place in services, most notably trading, but also food services, repair work, and personal services, due to the fact that manufacturing is much more affected by economies of scale. Value addition by small enterprises operating in the informal economy remains low, largely due to their inability to upgrade themselves in terms of business practices, technology, and skills, and thus benefit from market opportunities. Moreover, a large number of small enterprises go out of business, largely because of their inability to access support services and information even where they are available.

79. Driven by economic necessity and lack of employment opportunities, many poor women have sought income-generating activities through micro-enterprises in the informal economy to meet household expenses or as a survival strategy. However, most self-employed women or micro-entrepreneurs operate on a scale which leaves little or no margin for absorbing shocks or even setbacks, have no reserves or savings for investments, and no access to technology to enhance their productivity.

### **7.1 Urban Economic Activities**

80. Urban economic activities account for more than half of Gross National Income (GNI) in all countries, and up to four-fifths in more-urbanised countries in Latin America, Asia and the developed world. While the African continent is characterised by a broadly different picture, a certain degree of convergence with other regions is beginning to emerge with regard to the contribution of the urban economy to national development throughout the continent. At the same time, it is now generally recognised that poverty will become increasingly urbanised across the world, partly because there is a growing gap between the demand for the delivery of municipal services (and associated capital investments) owing to rapidly growing urban populations and the financial resources available to municipal authorities to fund those services. Furthermore, this urbanisation of poverty and unemployment is primarily felt in the developing world: It was estimated at the beginning of the millennium that while 16 percent of all urban households live in poverty in developed countries, in urban areas of developing countries, 36 percent of all households have incomes below the locally defined poverty line.<sup>23</sup>

81. These two contrasting pictures of urban development have led to the realisation that the developing world is faced with an urban paradox: While cities are the primary engines of economic growth, they are also the centres of increasing poverty and unemployment.<sup>24</sup> The generation of decent jobs and adequate incomes for the urban poor is thus critical for the achievement of the poverty-related Millennium Development Goals (MDGs), particularly since the share of the world's population living in urban areas will continue to rise inexorably whether rural development policies are successful or not.<sup>25</sup> As is stressed in UN-HABITAT's latest Global Report on Human Settlements, "the most direct and important factor contributing to urban poverty is the shortage of well-paid employment in cities."<sup>26</sup>

### **7.2 The Informal Economy**

82. The urban informal economy often employs a greater share of the urban labour force in most developing countries. For example, a comprehensive survey of the informal economy in 110 developing, transitional, and industrialised countries estimated that the average size of the

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<sup>23</sup> UN-HABITAT (2001). *Urban Millennium – Everyone Deserves a Decent Place to Live*. Nairobi and New York: UN-HABITAT.

<sup>24</sup> See UN-HABITAT (2003). *The Challenge of Slums: Global Report on Human Settlements*. Nairobi and New York: UN-HABITAT.

<sup>25</sup> See UN Millennium Project (2005). *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*. London: Earthscan. Since natural population increase is now the major factor in urban demographic growth, particularly in large cities in developing countries, policies to slow rural-to-urban migration are likely to have little impact on those who are already in town. See also ILO (1998). *The Future of Urban Employment*. Geneva: ILO.

<sup>26</sup> UN-HABITAT (2005). *Financing Urban Shelter: Global Report on Human Settlements*. Nairobi and New York: UN-HABITAT.

informal economy in OECD countries was equivalent to 18 per cent of official GNI in 2000.<sup>27</sup> By contrast, the average size of the informal economy in developing countries was equivalent to 41 percent of their GNI in the same year. The same study showed that the informal economy is not only large but also growing in many developing countries. Employment in the informal economy continues to grow even when formal employment is stagnant, thus helping labour markets to reduce the detrimental impacts of economic crises and the displacement of workers from less competitive activities associated with the ongoing process of greater global integration.<sup>28</sup> There is also evidence showing that, in many countries, the majority of new employment – both self-employment and wage employment – is generated in the informal economy.<sup>29</sup> The considerable growth of the informal economy in many developing countries is also closely associated with heavy or inefficient regulations that make it difficult for businesses to operate efficiently in the formal economy.

83. It is now generally acknowledged that the promotion of small- and micro-enterprises is one of the most promising economic measures in addressing the working poor against the background of an increasing informalisation of work, notably in the urban economies of developing countries. The informal economy typically consists of street vending and micro-enterprises with low productivity and employs a high percentage of the urban poor. There is, in fact, such a close interaction between micro-enterprises and the informal economy that criteria such as a maximum number of employees (5-10) and a maximum turnover are often used to define enterprises as informal.<sup>30</sup> Preliminary evidence from many developing country cities around the world also shows that women constitute a significant proportion of the informal workforce and are responsible for a considerable share of informal economy production of goods and services.<sup>31</sup> Women, especially single female-headed households, are often engaged in both street vending and home-based work because these activities make it easier for them to balance income generation with household responsibilities.

84. Regulation of the informal economy is necessary not only for raising tax revenues, but also for ensuring acceptable labour, health, and environmental standards. Moreover, efficient and effective Government is essential to encourage entrepreneurship, improve the access of workers to social protection, and strengthen the supervisory system to ensure the observation of protection norms. However, when regulation is excessive and inadequately enforced, it increases the costs of entry and operation, and exacerbates the division of the economy into formal and informal economy. A good deal of the debate on Government policies for the urban informal economy is, thus, based on whether it should be further regulated or deregulated. It is increasingly recognised, however, that policy analysis should move beyond this conventional debate and focus on appropriate regulation designed to release the economic potential of the sector and strengthen its contribution to urban development.

85. While, over the long-term, the goal should be to make jobs in the informal economy gradually more formalised, where they will be covered by labour laws and standards, in the short-

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<sup>27</sup> Schneider, S. (2002). Size and Measurement of the Informal Economy in 110 Countries around the World. Paper presented at a Workshop of Australian National Tax Centre, Canberra, July 2002.

<sup>28</sup> UN-HABITAT (2001). State of the World's Cities 2001. Nairobi and New York: UN-HABITAT.

<sup>29</sup> See World Commission on the Social Dimension of Globalization (2004). A Fair Globalization: Creating Opportunities for All. Geneva: ILO, pp. 60-62. The report also states that it is hard to establish how far this is caused by globalisation, though increased global competition has made informality more difficult to control in many countries.

<sup>30</sup> UN-HABITAT (2003). Global Report on Human Settlements 2003, Nairobi and New York: UN-HABITAT.

<sup>31</sup> See UN-HABITAT. Municipal Regulation and the Urban Informal Sector: The Way Forward, Nairobi and New York: UN-HABITAT, forthcoming.

term, priority should be given to raising productivity and improving the wages and working conditions of those informally employed. A principal means for doing so would be allowing the organisation and representation of informal workers. Informal economy representatives and associations should be encouraged to contribute to the process of formulating municipal legislation towards micro-enterprises and street vending so that their concerns can be effectively incorporated into municipal regulation. Particular efforts should also be made to involve women representatives of the informal economy in the policy process, with a view to formulating more appropriate regulations that take into account women's and men's needs to balance productive and reproductive roles and responsibilities.

86. The legalisation of *de facto* property rights by Governments is also a vital step in the transformation of the informal economy. Specific policies to achieve this goal include identifying the people and assets concerned, restructuring the legal framework so as to provide incentives to the informal economy to operate under the rule of law, and formulating low-cost legal and administrative mechanisms that will allow informal entrepreneurs to deal productively with formal enterprises, public services, and creditors. In addition, the productivity of informal enterprises should be raised through access to affordable credit, exposure to information on markets, and new technology.

87. National and municipal governments also have a role to play in promoting market mechanisms that facilitate the transfer of appropriate technology to integrate small and micro-enterprises, including those run by women, more fully and competitively into the formal economy by providing investment and trade information; establishing and enforcing product quality standards that are consistent with practices existing in the formal economy and training small and micro-enterprises on such standards; and facilitating and encouraging the development of gender-sensitive, market-based business development services that help these enterprises access global production networks.

### ***7.3 Strategies towards Competitive Upgrading of SMEs***

88. In most developing countries, the SME sector is affected by poor market access, scarcity of intermediate suppliers, and fierce domestic competition. Therefore, in the presence of wide and persistent productivity differences with large firms, Governments, in collaboration with the private sector, should bring about the conditions for enhancing and improving human and physical capital, including infrastructure and information, so as to ensure that greater returns on the labour can be achieved in small enterprises. Also, there needs to be a credit market that functions for entrepreneurs – even for the most disenfranchised – in order to improve the productivity and job creation potential of such enterprises.

89. In the context of increasing economic integration, any successful strategy towards developing the SME sector needs to focus on better market and supply-chain integration by developing linkages to the broader economy. This is because competitive challenges pose a particular difficulty for small enterprises if they are acting alone to access markets served by larger enterprises as well. Small enterprises usually have to rely for various inputs and services on limited business contacts, often informal, at exorbitant costs with erratic reliability. Similarly, their limited knowledge and access to markets constrain their capability to expand and to create decent jobs. However, when they benefit from linkages to larger enterprises in terms of accessing the market, resources, or technology, globalisation can present tremendous opportunities for small enterprises. To this end, the private sector, particularly the lead firms of global and national supply chains, should be encouraged to help their SME suppliers to upgrade in order to raise their

value-added content and to improve their level of quality and reliability in carrying out business activities.

90. Although supply chain linkages can provide opportunities for accessing markets and benefiting from economies of scale, there is need to ensure that SMEs are able to truly benefit from such linkages since many supply chains are characterised by dominant players who determine the overall character of the chain.<sup>32</sup> Inter-firm cooperation in the form of business clusters can provide an effective alternative to supply chain linkages that can help SMEs to overcome their traditional weaknesses of isolation, and lack of economies of scale and scope. There are productivity gains and associated potentials for growth in earning opportunities for the working poor through collective efficiency and other advantages of economies of agglomeration in the clusters. Targeted interventions can play important roles in exploiting these opportunities in order to achieve the twin objectives of growth and poverty reduction.

91. In fact, clustering small firms together in a specific location and providing them with the necessary infrastructure and services has provided opportunities for survival and growth in many poor regions of developing countries – the wood furniture cluster in Central Java in Indonesia; labour intensive garment production in the urban informal economies in Lima, Peru; or vehicle repair in Kumasi, Ghana being some examples.<sup>33</sup> There are also many examples of successful small firm clusters in the developing economies competing globally – from shoemaking in Brazil’s Sinos Valley to garment and textiles in Tirupur and Ludhiana in India.<sup>34</sup>

92. Also, business relationships between informal entrepreneurs and small enterprises in the formal economy with further linkages to larger enterprises can help expand informal actors’ ability to access resources and markets. SMEs in the informal economy can thereby gain legitimacy and formality in their business transactions. Such complementarities among small enterprises, both in the formal and informal setting, can be accomplished through alliance-building in the form of trade associations, cooperatives, or self-help groups for specific purposes.

## **8. Impact on Sustainable Development**

93. Sustainable development rests on three pillars – economic, social and environmental – and, to the extent that employment creation contributes to poverty reduction and economic prosperity, it clearly strengthens the first two pillars. With respect to the third, it has been argued that the pressure to sustain competitiveness, to which countries are being increasingly subjected, may prevent Governments from taking steps to internalise environmental costs and improve environmental performance if this entails higher costs for domestic producers. However, as noted earlier, employment creation and protection of the environment are not necessarily mutually exclusive objectives and can often be made compatible. For instance, under certain conditions, eco-tax reform may be able to boost employment creation and environmental protection simultaneously – the so-called “double dividend”. Thus, the challenge is to develop policies for economic growth and poverty reduction that can absorb large numbers of workers, especially in resource-scarce areas, protect natural resources, and are at the same time environmentally sound.

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<sup>32</sup> It should be noted that the relationships between such dominant lead firms and subcontractors vary depending on the product, production process, and market. See ILO (2005). *A Guide for Value Chain Analysis and Upgrading*. Geneva: ILO, unpublished.

<sup>33</sup> ILO (2005). *World Employment Report 2004-05: Employment, Productivity and Poverty Reduction*. Geneva: ILO.

<sup>34</sup> Institute of Development Studies (2004). *Small Firm Clusters: Working to Reduce Poverty*. IDS Policy Briefing, Issue 21. Brighton: Institute of Development Studies.

### ***8.1 Challenges and Trade-offs***

94. Genuine trade-offs do exist, for instance where industrial development may be favourable to employment creation, but detrimental to the environment. Special efforts may be required for sectors under competitive pressure and without resources to undertake investments that would be more sustainable or where resistance exists against policy and regulatory frameworks. Similarly, where sources of income and survival – especially in the informal economy – rely upon maintaining environmentally unsustainable practices, it may be especially difficult to encourage change, and active technical support and capacity-building may be required. Also, while productivity growth in agriculture can reduce pressure on natural areas, it is often accompanied by greater use of fertilisers and pesticides, with adverse environmental consequences.

95. Countries may also vary in their prioritisation with regard to the relationship between employment growth and sustainable development according to their stage of development. While in industrialised countries there is often a broad public consensus on the importance of environmental protection and compliance with sophisticated regulatory mechanisms, there is still lack of action on major threats to the environment. Emerging economies experiencing fast rates of economic and resource-intensive growth face a different set of challenges, especially in terms of poverty eradication. Many countries may, therefore, give precedence to short-term priorities over environmental considerations. Countries plagued by widespread poverty and low growth rates may also find it difficult to simultaneously tackle environmental and employment challenges. However, even in countries with reasonable economic growth and declining poverty rates, environmental sustainability requires a more proactive approach.

### ***8.2 Opportunities for Employment Generation***

96. At the national level, macroeconomic policies, as well as sector-specific development policies, can encourage the emergence of new economic initiatives compatible with sustainable development, e.g. through incentives promoting more sustainable consumption and production patterns, particularly in developed countries. The encouragement of new non-polluting sectors, especially services and the production of environmentally friendly products, can thereby contribute towards job creation in environmentally sustainable sectors.

97. In industrialised countries, businesses are increasingly coming under pressure from consumers to improve the environmental characteristics of their products and processes. Consumer habits and demands have started to turn environmental excellence into a new factor of competitiveness among firms and products. Environmental performance is not just important for firms' marketing efforts, but has also become a relevant factor in capital markets, which can reward – or, at a minimum, penalise – the environmental conduct of firms. The challenge now is to implement innovative strategies such as private voluntary initiatives to mainstream concerns about environmental quality, resource use, and social equity into consumption decisions along with prices.

98. The recent wave of technological innovation represented by new, cleaner production technologies, low-emissions transport technologies, energy efficiency technologies, and renewable sources of energy, has created new markets and will continue to generate employment opportunities. However, these changes – driven by the worldwide adoption of environmental rules, laws, and standards – are mainly taking place in large firms, particularly those that have links to multinational enterprises or are involved in their production chains.

99. Thus, insofar as foreign firms tend to employ cleaner technologies in their production processes, FDI may have positive implications for the environment. Countries can seize

opportunities for absorbing clean technologies through existing investment processes and new links with countries at the forefront of these technologies. In broader terms, measures should be taken to encourage the diffusion of new, cleaner production processes and technologies from lead firms through each country's production chains. To this end, countries should make the introduction and diffusion of clean technology an integral part of trade and FDI strategies, combining environmental impact assessments for new investments with policies that promote environmentally sustainable consumption and production patterns.

100. For developing countries, new profitable and employment-generating activities in environmentally sustainable sectors may be less common. Nonetheless, research and development in ecological technologies, ecotourism, natural resource management, organic agriculture, and environmental public work schemes, as well as infrastructure creation and maintenance, do provide opportunities for decent work that protect and restore the environment (see box 6). For instance, community-managed facilities favouring sustainable tourism are flourishing in many places, and countries such as Costa Rica have successfully built a tourism industry with a reputation for sustainable development.

**Box 6: Sustainable Forest Management by Farmers' Associations, Mali**

An ILO-supported project in Kita, Mali developed a model for the sustainable management of forest resources by farm communities and their associations. It addressed the threat of the depletion of surrounding forests by introducing a more participatory, community-driven management model with an employment focus. It strengthened the capacities of farmers and women's associations to plan and organise their activities, and negotiate their interests with public and private entities.

As a result, 100,000 hectares of forests are being managed and improved through contractual agreements between village organisations and the forestry department. This innovative and sustainable use of forest resources is providing 70 per cent of energy requirements for Kita township. Overall, 800 permanent jobs have been created in the improvement of forests and creation of wood lots and 95 rural market established to trade firewood, and related women's associations have been formed. The model has subsequently been accepted at national level, serving as the basis for a redefinition of the national forest code legislation in a decentralised Government.

Source: ILO (2005). *Promoting sustainable development for sustainable livelihoods*. Geneva: ILO.

101. Sustainable and organic farming, which is labour-intensive but not input-intensive, is showing promise for rural poverty reduction in view of the premium prices obtained for those products in advanced urban- and developed-country markets. The successful use of sustainable technologies, however, is conditional on significant policy and institutional reforms that ensure equitable access to land, markets, credit, extension, education, and infrastructure. Also, substantial trade barriers in developed markets exist, impeding the achievement of that potential. The combination of fair-trade – which guarantees higher revenues for small-scale producers in developing countries – and organic labelling could offer further opportunities in this regard. At the same time, technical support in the area of testing and standards and in market development can enable producers using sustainable practices to be able to market their goods.

102. Also, the potential to shift away from non-renewable energy sources to renewable fuels based on labour-intensive agricultural production could have significant positive consequences for employment, especially in rural areas, while ensuring a sustainable development path. Brazil, for example, succeeded already in the 1970s in launching a major programme of sugar cane ethanol substitution for oil. Recently, it started a bio-diesel programme that has a good chance of

rapid expansion. At present, ethanol, extracted from sugar cane grown on 1.8 million hectares, provides over 35 per cent of the country's automobile fuels. There is also a great potential for bio-diesel in other developing countries, as it can be easily produced by small farmers in some of the poorest regions of the world. In this regard, application of various economic instruments on energy products in accordance with associated environmental damages could assist a shift to cleaner sources of energy. In designing taxes or other economic instruments, care should be taken to assess the overall welfare effect on different social groups and the impact on productive factors, bearing in mind interaction with other existing taxes.

103. The transition to employment which is supportive of sustainable development goals will require new and additional resources and innovative and stable financial mechanisms that can facilitate the development of endogenous capacity and the transfer of innovative technologies to developing countries. International donors may consider giving greater political priority to increasing transfers of concessional resources to fund employment strategies, which are targeted at productive sector development, and that take fully into account the objectives and goals laid down in Agenda 21 and the Johannesburg Plan of Implementation.

104. Finally, it must be recognised that, unless a continuous effort is made to inform and educate all actors, the goals of employment generation within a sustainable development framework will not become a priority on the political agenda. Progress in meeting sustainable development goals can only be made if the public is informed and civil society is proactive in the pursuit of its right to live in a healthy environment, and an economically prosperous and inclusive society. Social dialogue is an essential means of developing and implementing strategies which balance the economic, social, and environmental pillars of sustainable development at local, enterprise, national, and global levels.

## 9. Conclusions and Policy Recommendations

105. This report has documented the urgent need to make decent work a global goal, a need fully recognised by the world community as a result of the Outcome of the World Summit in September 2005. In the light of large numbers of unemployed and an even larger number of "working poor" the dual challenge is to increase both the rate of economic growth and its employment content. The prevalence of working poverty in the developing world thereby underlines the importance of creating employment that is sufficiently productive to yield a decent income. For this reason, both employment and productivity growth must be jointly pursued. A strategy for increasing productivity and employment over the long-run should therefore have two components: investing in the dynamically growing sectors of the economy, while building capacity in sectors where the majority of labour is employed, and establishing linkages between the two.

- **The policy framework for poverty reduction needs to focus on both creation of decent work and productivity growth. Employment strategies must be based on a two-pronged age- and gender-sensitive strategy of improving the productivity of workers in dynamically growing sectors while, at the same time, focusing on building capacity in those sectors of the economy where the majority of labour is concentrated.**
- **Working out of poverty means directing efforts towards the rural on- and off-farm sector, the informal economy, and small and micro-enterprises in order to assist workers to move from low- to high-productivity activities.**

106. The achievement of the commitments made by world Leaders requires the reconciliation of the current focus on economic growth with social and environmental outcomes. Economic

growth can never be a goal in itself. Instead it needs to be viewed as a means to promote welfare and social integration. Any national and international strategy towards development will require a balance between equity, economic growth, employment generation, and environmental sustainability within a stable macroeconomic environment.

107. *Quality of Employment.* As the analysis of the report has shown, quantity and quality of employment need not to be cast as opposing goals, but rather as a comprehensive perspective of employment policy that aims at expanding opportunities and upgrading the quality of jobs, while maintaining the capacity for economic flexibility and adjustment to rapidly changing circumstances. The institutional challenge for most countries in the context of globalisation is to balance economic efficiency and social security, allowing flexibility for firms and protection for workers. Social dialogue is instrumental for designing and implementing such flexibility-cum-security programmes and necessary for raising acceptance to change.

- **An employment strategy that aims to promote full, freely chosen and productive employment with full respect for the Fundamental Principles and Rights at Work under conditions of equity, equality, security, and dignity should be a fundamental component of any development strategy and made a central objective of national and international policies.**
- **The goal of decent work can be achieved only through an integrated, coherent, and gender-sensitive set of policies that tackle employment promotion with social protection. Numerous good practices are emerging that address the needs of different segments of the population and specific conditions of countries. These need to be scaled up, integrated in a coherent whole, and built into national development strategies, including poverty reduction strategies.**
- **Proactive government interventions can reduce gender inequalities in the world of work, and gender perspectives should be incorporated into all employment policies and programmes. Targeted measures can be useful in redressing disadvantages of particular groups of women. Affirmative action policies, such as quotas for certain jobs and for admission of women to training courses in skills that are in high demand in the labour market, have been effective in this regard.**
- **Employment policies should also aim to eliminate the remaining pay differences based on gender discrimination through a multifaceted approach, addressing underlying factors, including sectoral and occupational segregation, education and training, and job classification and payment systems.**

108. *Macroeconomic and Trade Policies.* Here, three conclusions can be drawn from the report. First, there is a pressing need to rethink how to affect the goal of full employment in an open world economy, and whether some form of improved global macroeconomic governance can be conceived to supplement purely national policies whose scope for autonomy have diminished. Second, national policy space is essential for devising policies and institutional arrangements best-suited to a country's level of development and specific circumstances. Existing rules that unduly restrict their policy options for accelerating agricultural growth and industrialisation, and for maintaining financial and economic stability need to be reviewed. New rules must also respect this requirement. Third, the employment challenge is multi-dimensional, and involves the mandates of all multilateral institutions and specialised agencies. The challenge for the multilateral system is thereby to forge better coherence across the policy spheres for which each agency is distinctively responsible.

- **The goal of decent and productive work for all should be made a global objective and be pursued through coherent gender-sensitive policies within the multilateral system in order to enhance macroeconomic and trade-related international cooperation and to arrive at a more balanced and coordinated strategy for sustainable global growth and full employment, including through greater market access, development assistance, technology transfer, and support for development of institutional capacities, as well as an equitable sharing among countries of the responsibility for maintaining high levels of effective demand in the global economy.**
- **Multilateral and bilateral development cooperation institutions should ensure that employment issues feature prominently in their operations and launch joint programmes to facilitate coherence and synergies among them.**
- **Technical support should be stepped up to assist developing countries to overcome supply-side production constraints and to enable exporters to meet the requirements of international markets, including rising sanitary and phytosanitary (SPS) standards, diversify exports and add value to commodities before exporting them. The issue of tariff escalation for processed commodities also needs to be addressed. It is now important that the pronouncements to revitalise and scale up “aid for trade” become operationalised by the multilateral system in conjunction with donors.**
- **Global rules and policies on trade and finance must allow more space for policy autonomy in developing countries, and should do so by honouring commitments already made in the Monterrey Declaration.**
- **There is a need to promote more transparency and coherence, as well as flexibility and policy space for countries to manage investment in a way that ensures that the benefits are realised, and the adverse effects, such as the crowding out of domestic investment, are minimised. Also required are more regional coordination and transparency of investment incentives. Public investment, particularly into labour-intensive infrastructure projects and natural-resource management, is an important complementary element in this regard. It not only generates employment and growth on its own terms, but can – if well designed – attract private investment, leading to further job creation.**
- **Employment policies need to be fully integrated into national development and growth strategies. Employment policies should also be central to poverty reduction strategy papers (PRSPs).**
- **At the national level, policies should be adopted that promote an enabling economic environment, including good governance, appropriate policy and regulatory frameworks, sound macroeconomic policies, transparency, appropriate laws for property rights, adequate infrastructure, and a developed financial sector. Certain institutions are also crucial, especially effective legal systems, sound political institutions, and well-functioning bureaucracies.**
- **Phasing trade reform carefully and ensuring that labour markets are prepared at each step can make trade policy more employment-friendly. At times, selective and temporary safeguards might be necessary as part of an industrial policy.**
- **Fiscal space for public expenditures should be preserved, especially in situations of economic and employment stagnation and recession that may necessitate counter-cyclical policies.**

- **National accountability mechanisms should be strengthened so that they take up the primary role in policy oversight often replaced currently by donors and the international financial institutions.**
- **Donor and lending agencies should work with national governments and social partners to incorporate productive employment and decent work as explicit components of gender-sensitive national development strategies, including poverty reduction strategies, backed by their grants and loans, and together monitor and evaluate progress.**
- **In order to advance the development benefits of migration, sending and receiving countries should cooperate to ensure that migration occurs mainly through legal channels, prevent the exploitation of migrants in vulnerable situations, and combat the crimes of smuggling and trafficking in persons. Countries of origin should thereby promote the contribution of their expatriate communities to their development processes through investment, trade, and knowledge exchange; by enhancing the use of remittances for development purposes; and by facilitating circular and return migration. Receiving countries, for their part, should advance the development benefits of migration by promoting policies that facilitate the accreditation of skill of migrant workers, reduction of transfer costs and productive use of remittances, coverage of migrant workers by national labour legislation, ethical recruitment of skilled migrant workers, social integration of migrant workers, portability of social security benefits, return migration, and measures addressing the specific risks faced by women in domestic service and the informal economy.**

109. *Labour Market Policies.* The report has highlighted that flexibility and security are not mutually exclusive objectives, but that they can in fact reinforce each other. However, the discussion has also shown that labour market policies need to vary according to an individual country's structural and economic conditions. It is, therefore, essential that policy design be driven by a country's needs and circumstances, taking into account resource and capacity constraints. While there is no one-size-fits-all model of labour market policies, there are some institutional characteristics that, if in place, could help improve the effectiveness of labour markets. First, active labour market policy should be included as a central component of macroeconomic policy. Second, there should be an appropriate balance of active labour market changes over the course of the business cycle, which would require the availability of appropriate indicators, such as measures of job creation and job destruction. Third, there is the need for a stable policy framework for active labour market policies, for example by establishing labour market policies as a component of public policy and subject them to review and periodic reform by Governments. Fourth, public expenditure needs to adjust automatically, or at least rapidly, to the changing phases of the business cycle. Fifth, the disbursement of funds should vary according to the levels of short-term and long-term unemployment, distributing resources flexibly between a variety of programmes.

- **A core set of policies should remain in place over the economic cycle in order for worker security to be maintained, and to allow companies the space to adapt. This, however, entails developing systems with a higher level of diversification and broader coverage, and an adequate mix of individual contributions and systemic solidarity.**
- **Social dialogue is instrumental for designing and implementing such flexibility-cum-security programmes and necessary for raising the acceptance of change.**
- **Well-designed, coordinated, and gender-sensitive income generation and poverty alleviation programmes are important labour market measures in developing countries.**

Education for all also constitutes a form of insurance as it reduces the risk of unemployment in view of increased economic fluctuations.

- **Rapidly changing skill requirements call for a comprehensive effort to increase the educational level, especially in developing countries. In order to mainstream youth employment into national development strategies, measures to enhance the employability of youth should be a key component of active labour market policies and educational reforms. To enhance the employability of youth, countries may also wish to consider integrating vocational training approaches into their education systems, at the primary, secondary, and tertiary levels.**
- **Policies are needed to upgrade informal training systems and to improve effectiveness of the apprenticeship training to respond to technological change that will facilitate integration with the formal economy. Increasing investments in training would require shared commitments on the part of employers, which can be achieved through social dialogue. In addition, accessing other financing mechanisms such as training funds, levy-grant systems, fiscal incentives, or collective training agreements needs to be explored.**
- **In countries with rather rigid labour market regulations and resulting high unemployment, labour market policies should focus on active employment policies and institutional arrangements for training labour followed by institutional support to reintegrate long-term unemployed into the labour market. Policies should also facilitate sectoral and inter-firm mobility of workers that is crucial in face of rapid technological change and increased competition. In addition, social protection is needed to reduce income risk from labour displacement associated with global competitive pressures.**

110. *Rural Employment.* As with every set of policy recommendations, there is no one-size-fits-all solution with regard to agricultural policies. Whether a focus on agricultural productivity, employment and growth is appropriate for a country depends on its stage in the development process, and on the potential of the agricultural sector in terms of natural and human resources. It also depends on international commodity prices and the market situation for specific products. National policy space is crucial in order to enable economies to find their niche in terms of where they can compete with other economies inside and outside the developing world. But success not only depends on the right choice of each individual country; it depends on the behaviour of the world community as a whole. Without collective efforts to achieve a fair globalisation, national activities in agriculture are not likely to yield the desired results. The policies of international organisations and donor countries must also shift more decisively away from external conditionality to national ownership of policies.

- **During the past decades there has been a period of policy neglect of the agricultural and rural sectors at the national level. There needs now to be a resurgent focus on rural development with a view to expanding market access, employment, and productivity.**
- **There is a need for increased national and international funding for rural employment generation targeted at productive sector development, taking into account overall national priorities. Aid flows under multi-annual budgets could help to mitigate employment impacts of external and exogenous shocks.**
- **In developing countries with surplus labour, agricultural policies should, as a general principle, be as employment friendly as possible by not overemphasising mechanisation that leads to suboptimal displacement of labour. Governments should also provide adequate social protection systems until other sectors can absorb the surplus labour.**

- **The rural poor, in particular rural women, should be helped to secure rights on their land and access to other resources, including water, forest genetic resources, fertilisers, and appropriate technology. Land reforms can be instrumental in this regard. Also, infrastructure support, including for marketing and transporting facilities, is pivotal for promoting improved market access, as well as for increases in both farm and non-farm productivity in rural areas. The promotion of labour-intensive approaches for building and maintenance of rural infrastructure can thereby offer new skills, employment opportunities and income for rural workers.**
- **There is a need to promote sustainable forest management and link good forest governance to other development schemes in rural areas, as a basis for productive employment creation.**
- **This entails, among others, ensuring clear and effective land tenure and access to forest resources for rural populations, particularly indigenous and local communities, so that they may better utilise forest products and services for the creation of employment and enhancement of livelihoods.**
- **The functioning of rural labour markets should be improved through better information, incentives, and reduction of segmentation, so as to reduce transaction costs, especially aiming at increasing access for the most vulnerable.**
- **The use of information and communication technologies should receive priority attention when addressing the information needs of rural areas, with a view to promoting their seamless integration into the national economy.**
- **Considering the positive interaction between rural on- and off-farm economic activities and the importance of productive diversification for rural employment generation and growth, Governments should proactively facilitate the development of productive and remunerative non-farm activities as a means to create employment and to deepen linkages between the agricultural sector and the broader economy. Investment in human and social capital is of crucial importance in this regard due to the positive correlation between education, social bonds, and non-farm employment. In addition to formal education, vocational training for both women and men is important in providing specialised skills for business development.**
- **In rural areas there is a need to expand lending beyond microcredit to meet the needs of the agricultural cycle and for investment in small transformation activities and equipment. While the successes of microcredit are well recognised, the provision of safe and flexible savings products, secure transfer and remittance facilities, and insurance services are often as important as access to loans.**
- **In light of the negative effects of agricultural trade distortions on local producers in developing countries, it is imperative that any international strategy towards employment generation in the agricultural sector address, especially through the Doha round of trade negotiations, issues of agricultural trade and market access, reduction of trade barriers, and minimisation of the effects of commodity price fluctuations, taking fully into account the special needs of LDCs arising from preference erosion, price shifts, and increased market competition.**
- **Specific attention should also be given to incorporating gender perspectives into trade policies as women have been disproportionately affected by agricultural trade distortions. This is mainly because women often have control over or possession of fewer**

**assets or property, little cash income, minimal political power, and less education than men.**

111. *SMEs and Industrialisation.* A central argument of the report has been that it is of strategic importance to ensure a balance between the needs of rural and other disadvantaged areas, where the majority of the poor live, and the need to ensure a sustainable urban industrial base. SMEs are of particular importance in this regard as they are essential in creating employment opportunities and a main source of economic growth, while increasing competition and contributing to a more equitable distribution of income. However, in developing countries most SMEs operate on a very small scale, mostly in the informal economy, under poor working conditions, and with high job insecurity due to the absence of social protection. Decent work deficits in these mostly informally operating enterprises are particularly pervasive in terms of remuneration, security against income-loss, social protection, rights at work, and social dialogue. Therefore, over the long-term, the goal should be to make jobs in the informal economy gradually more formalised, where they will be covered by labour laws and standards. To this end, improvements in the policy and legal environment are needed to lower the costs of establishing and operating businesses.

- **Specific measures should include: (i) a common institutional framework for formal and informal enterprises, accepting transitional incompliance for the latter; (ii) the simplification of registration procedures and tax structures for micro-enterprises; (iii) relaxation of municipal street trading licensing and provision of attractive trading sites in city centres, with adequate access to essential services; (iv) use of incentives to comply with minimum health and labour standards; and (v) implementation of training programmes for urban micro-entrepreneurs – with particular attention to the needs of women, girls and single female-headed households – to upgrade skills and increase access to productive resources and market opportunities.**
- **Considering the important contribution that women entrepreneurs can make to employment creation, increased productivity, and economic growth of their countries, an enabling environment should be created to promote and support women’s self-employment, and to formalise women’s micro-enterprises in the informal economy, by strengthening women’s access to credit, technology and training. Particular efforts should also be made to actively involve women in the informal and formal economy in the policy development process to formulate gender-sensitive regulations that, inter alia, promote the harmonisation of work and family responsibilities for women and men.**
- **In order to facilitate structural transformation, Governments should design effective industrial policies in areas of potential comparative advantage. To this end, they need to create an enabling environment in terms of infrastructure requirements and access to support services if countries are to upgrade their productivity and to access new markets. Backward and forward production linkages can be particularly beneficial to the development of SMEs and, consequently, to employment generation.**
- **Efficient and effective Government is also essential to encourage entrepreneurship, improve the access of workers to social protection, and strengthen the supervisory system to ensure the observation of protection norms.**
- **In the short-term, priority should be given to raising productivity and improving the wages and working conditions of those informally employed by providing access to affordable credit, exposure to information on markets and new technology, and by allowing the organisation and representation of informal workers. Improved market access for informal produces and legalisation of *de facto* property rights by**

Governments are also vital steps in the transformation of the informal economy. Also, the community and its stakeholders should work with SMEs and their workers in improving the infrastructure and living environment, which has a direct impact on working conditions, and in providing better social protection through various schemes.

- Also, business relationships should be facilitated between informal entrepreneurs and formal small enterprises with further linkages to larger enterprises to help expand informal actors' ability to access resources and markets. Such complementarities among small enterprises both in the formal and informal setting can be accomplished through alliance-building in the form of trade associations, cooperatives or self-help groups for specific purposes.
- Governments and institutions should encourage and facilitate mutually beneficial supply chain linkages by providing an inclusive industrial policy framework and by encouraging lead firms' participation in voluntary agreements. Respect for the 1998 Declaration on Fundamental Principles and Rights at Work should be strengthened in all countries, as it provides a minimum set of rules for labour in the global economy.
- Inter-firm cooperation, in the form of business clusters, can provide an effective alternative to supply chain linkages that can help SMEs to overcome their traditional weaknesses of isolation, and lack of economies of scale and scope. Policy interventions should thereby aim to revitalise clusters with high growth potential, transferring workers from the moribund to the modern clusters, or developing new competitive clusters.
- Also, there needs to be a credit market that functions for entrepreneurs, even to the most disenfranchised. To this end, commercial banks should be encouraged to lend to SMEs. Central banks and designated financial service regulators must play a proactive role in this regard by integrating the objective of increasing access of SMEs to financial services into regulatory and supervisory policies.<sup>35</sup> Governments and central banks might also consider a set of special measures for SMEs, such as guarantee programmes, more user-friendly and transparent disclosure systems, and IT-driven appraisal systems to reduce the risk perceived by banks.
- It is also essential to upgrade workers' and entrepreneurs' respective skills, taking fully into account the demand in the labour market. Business practices need to be modernised and opportunities for networking and linkages need to be facilitated. Public institutions, in collaboration with the private sector, need to facilitate such opportunities. Direct assistance through business development services (BDS) can also help correcting major market failures and increase SMEs' chances of survival and opportunities to compete.
- There is also a need to promote and support women's self-employment and the development of small enterprises, and the strengthening of women's access to credit, technology, and training through the scaling-up of institutions dedicated to promoting women's entrepreneurship, including non-traditional and mutual credit schemes, and innovative linkages with financial institutions. Particular efforts should also be made to involve women representatives of the informal economy in the policy process, with a view to formulating more appropriate regulations that take into account their necessity to balance productive and reproductive roles and responsibilities.

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<sup>35</sup> See UNCDF & UNDESA (2006). Building inclusive financial sectors for development (Blue Book). Available at: [http://www.uncdf.org/english/microfinance/bluebook/pub/index.php?get\\_page=contents](http://www.uncdf.org/english/microfinance/bluebook/pub/index.php?get_page=contents).

112. *Sustainable Development.* The analysis of the report has shown that employment is a crucial factor for sustained economic growth and social development. Decent work stimulates demand in the economy and provides the crucial link between economic growth and poverty reduction, thereby contributing to more equitable and socially coherent societies. However, with regard to the environmental dimension it has increasingly become evident that the current growth and development path confronts States and individuals with negative environmental effects with national and global ramifications that the international community must address in a cooperative manner. Therefore, it is imperative that employment and growth strategies, at the national and international levels, integrate the three dimensions of sustainable development in a mutually supportive way in order to bring multiple benefits: protecting the environment, improving social welfare, and promoting productivity and economic growth, thus leading to more job generation.

- **At the national level, macroeconomic policies, as well as sector-specific development policies, can encourage the emergence of new economic initiatives compatible with sustainable development – e.g., through incentives promoting more sustainable consumption and production patterns. The encouragement of new non-polluting sectors, especially services and the production of environmentally friendly products, can contribute to converting economic activities towards job creation in environmentally sustainable sectors.**
- **To this end, countries should make the introduction and diffusion of clean technology an integral part of trade and FDI strategies, combining environmental impact assessments for new investments with policies that promote environmentally sustainable consumption and production patterns. Providing financial assistance on softer terms to small enterprises to phase out polluting machinery and chemicals, and invest in more efficient and non-polluting technology or production processes should also be considered as a policy option.**
- **Also, application of various economic instruments on energy products in accordance with associated environmental damages could assist a shift to cleaner sources of energy. In designing taxes or other economic instruments, care should be taken to assess the overall welfare effect on different social groups and the impact on productive factors, bearing in mind interaction with other existing taxes.**
- **The combination of fair-trade – which guarantees higher revenues for small-scale producers in developing countries – and organic labelling could offer further opportunities. At the same time, technical support in the area of testing and standards and in market development can enable producers using sustainable practices to be able to market their goods.**
- **International donors may consider giving greater priority to increasing transfers of concessional resources to fund employment strategies targeted at productive sector development that take fully into account the objectives and goals laid down in Agenda 21 and the Johannesburg Plan of Implementation.**

## ***9.1 Recommendations Concerning Follow-up***

### ***9.1.1 General***

113. At the national level, a broad political commitment of Governments is central to achieving full and productive employment and decent work for women and men. The commitment towards employment must encompass the entire Government, and the different ministries as well as central banks must consider the employment impact of their policy choices.

114. Countries may also consider developing guidelines and checklists, including the setting-up of a peer review process, for use by policy makers to reflect the commitment a country makes and what priority it assigns to the goal of full employment and decent work in its overall policy framework.

115. Governments as a whole can take responsibility for the employment outcomes when they work towards greater coherence between sectoral policies and adopt an integrated strategy towards the goal of decent and productive employment. When actors from civil society, including trade unions and employers' associations, are involved in the process, this can ensure that policies are balanced and find a broad backing among the citizenry.

### ***9.1.2 Intergovernmental***

116. There is a need for continuing efforts towards and focus on the goal of decent employment creation. To this end, the Council may wish to consider launching a Decade for Full and Productive Employment and Decent Work for All.

117. ECOSOC should encourage that further efforts be made to implement the commitments contained in the UN Millennium Declaration and the 2005 World Summit Outcome Document, and during reviews of such efforts, treat full and productive employment and decent work for all and its impact on sustainable development as a central theme.

118. ECOSOC should encourage that employment is made a central policy theme of inter-agency efforts in fulfilment of the commitments of the 2005 World Summit.

119. The subsidiary bodies of ECOSOC should study ways to operationalise the commitment to make decent work a central objective of national and international policies in the context of sustainable development.

### ***9.1.3 Inter-agency activities***

120. As regards inter-agency cooperation, ECOSOC should request all relevant international organisations to consider how their programmes, policies and activities contribute, or could contribute, to the goals of full and productive employment and decent work for all. In this connection, ECOSOC should encourage agencies to actively collaborate in the development and use of the "tool kit" to promote decent work being developed by the ILO at the request of the CEB, and should encourage all UN system agencies to actively support its implementation.

121. Efforts to identify the most appropriate ways of integrating decent work into the agencies' strategic objectives, policies, programmes and activities. At the international level, an appropriate measure would be to ensure that ILO's Decent Work Country Programmes figure prominently in Common Country Assessments (CCAs) and Development Assistance Frameworks (UNDAFs) at the national level.

122. Donor and lending agencies, whether global or regional development banks, or bilateral donors should work with national Governments and social partners to incorporate productive employment and decent work as explicit components of poverty-reducing development strategies, backed by their grants and loans, and together monitor and evaluate progress.