

**Contribution to ECOSOC Annual Ministerial Review - Global Preparatory Meeting
“Promoting Inclusive Growth with Jobs”
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Introduction

The MDG targets to reduce unemployment globally are unlikely to be met by 2015. Between 1990 and 2011, the employment-to-population ratio fell from 62% to 60% per cent. Although the share of the working poor globally declined by 5% between 2007 and 2011, the number of workers living below \$2 (PPP) per day is about 910 million. There are an estimated 1.5 billion own-account and contributing family workers (in vulnerable employment). In most developing countries, labour force growth and rapid urbanization are pushing employment into low-productivity service sectors. New entrants to the labour market often take up low quality contractual jobs. Total unemployment will increase to 206 million in 2016. Long-term unemployment is also worrying in developed nations. For instance, nearly one-third of the unemployed in the United States have been looking for jobs for over one year.¹

The questions are:

1. Why can't we create adequate productive and decent jobs?
2. What are the impacts, if we do not generate enough jobs?
3. What are the policy and programme implications?
4. How does UNDP work to address the jobs challenge?

Why we cannot generate sufficient employment?

First, depressed global demand is not helping. In developed countries, growth has been slow for too long. Fiscal austerity and private deleveraging dampen demand. Developing countries, in order to protect themselves from commodity price volatilities, have built high reserves.

Second, domestic policy coordination may not be conducive. In the Middle East and North Africa (MENA) high educational achievements coexist with high youth unemployment rates. Skills and education policies are not aligned with labour demand. Fostering entrepreneurship seems to be a challenge.

Third, low labour-intensity is a feature of resource-based economies (oil, gas, mineral producers). For instance, about 25% of the growth in real GDP is accounted for by the resource sector in Sub-Saharan Africa (SSA). Typically, the extractive sector absorbs 2-4% of the work force, despite making up over two-thirds of GDP.²

Fourth, demographic transitions mean that an increasing number will enter the labour market in the future. Even if fertility rates decline, a large youth population means ever growing labour force. Rural urban migration also adds to the urban work force. Due to increased longevity, many older adults will work beyond the conventional retirement age.

Fifth, rapid technological advances are unfolding in the form of labour saving mechanizations. This may imply declining labour share in national income as is the case in the United States. This is why most of the consumption in the developed economies was financed by credit expansion and serious leveraging (crisis!).

Six, globalization, such as trade-in-tasks, imply developed economies are entering high skill 'knowledge sectors'. But, education and training schemes are not keeping up with the demand.³ In some developing countries deindustrialization is damaging the employment-intensive sectors. The transition costs due to globalisation are high. There are also short-term negative impacts such as informalization of labour.⁴

What are the impacts of joblessness?

Often, low-income households have labour as their only asset. An economic system that is not intensive in low-income labour is therefore not poverty and inequality reducing. The following are the likely outcomes:

1. **Deterioration in human development and impeded achievement of MDGs:** Income losses from unemployment or poverty wages lead to poor nutritional intake. Added to the mental trauma caused by joblessness, spending by households on healthcare care often declines. Children drop out of school to supplement household income. Parents are unable to afford school fees and uniforms. Depletion of household assets aggravates long-term poverty and vulnerability to shocks.⁵
2. **Curtailed industrial development:** falling share of labour in national income means inequality and consequently low consumption demand and growth. Under unequal income distribution, the demand for high-productivity manufactures will also be lower. Hence, economies are locked in low productivity sectors.
3. **Disruptions in social cohesion:** where income is unequally distributed, workers earn poverty wages and unemployment is high, the level of civil unrest and conflict are also high, which in turn depress investment and growth.
4. **Social exclusion:** the first to lose jobs are minorities. Gender, race, social status determines employability and pay. For instance, women and youth lose jobs first and get it back last. In the United States, African Americans are twice as likely to be unemployed than other majority groups.

What are the policy and programmatic implications?

Boosting global demand: Avoiding austerities and fiscal consolidation in developed countries. There is a consensus now that, in depressed economies (where hysteresis is setting in), the fiscal multiplier is greater than unity (1). There is room for fiscal expansion. Public investment could be in infrastructure (crowd-in the private sector) and employment-intensive environmentally sustainable projects.

Channelling savings from emerging economies: The greatest potential to resuscitate global demand comes from emerging economies. UNCTAD argues 2% world GDP need to be invested to return to pre-crisis employment levels. The African Development Bank (ADB) notes that \$93 billion per year are needed for infrastructure investments in SSA. In terms of consumption, particularly in Asia and the Pacific, household consumption levels can be increased further.

Fostering entrepreneurship: Nearly 70% employment in developing countries is in small- and micro-enterprises. The policy options are facilitating access to credit; resolving bureaucratic hurdles; putting in place social protection; and representation in unions and chamber of commerce's (voice). Ethiopia's initiative is an example, where policy is geared towards establishing micro-enterprise associations, providing training, start-up capital, and linking them to market and public procurement. Germany's apprenticeship programme for young people is another example of enhancing employability and potential for own-business start-ups.

Education and skill development programs: Research shows that one of the main reasons why micro-enterprises develop into small businesses is because the owners have access to secondary and tertiary education. Research shows that, over 90% of small businesses in China are run by persons with secondary and tertiary education.

Industrial upgrading and structural transformation: There is a need for 'new industrial policies' for incentivizing sectors that are notably labour-intensive.⁶ Recent data indicates that wages in China's manufacturing sector is growing rapidly, rising from just over 150 dollars per month in 2005 to around 350 dollars in 2010. In footwear and toys, China is losing market shares in the EU and the US markets, and their shares in total exports have been declining.⁷ But, market shares vacated by China have not yet been taken up by LDC's. Besides domestic policies, international trade regimes need to be conducive to LDC's.

Social protections: globalisation and deindustrialisation effects require smoothing adjustments. Informalization usually results from trade liberalisation and deindustrialisation. Workers in informal sectors require social protection to smooth the transition.

How does UNDP approach the challenge of employment generation?

The global employment portfolio of UNDP consists of over 500 projects and programmes. UNDP's work comes under four areas. These are support to:

1. Macroeconomic policy formulation
2. Vocational education and training
3. Enterprise development (e.g. credit)
4. Public employment programmes

Some examples are:

1. **Sierra Leone:** The Ministry of Finance and UNDP worked together to: 1) study the impact of the global economic and financial crisis; and 2) come up with policies to mitigate the impacts. The impact of the crisis meant that an estimated 15% decline in export earning between 2008 and 2009. A 10% decline in national income. And estimated 12% increase in the level of poverty (at 2003 income distribution). The policy recommendation was a temporary countercyclical measure, a 2% of GDP fiscal stimulus via increases in public expenditure. The expenditure was for expanding labour-intensive public works programme. It was estimated that close to 80 thousand people would find jobs. This is in addition to programmes already implemented by the National Commission on Social Action (NCSA) and the Youth Employment Schemes (YES).⁸

2. **Georgia:** Transition and liberalization of the economy resulted in loss of public sector jobs. Many people lacked the skills demanded by the emerging private sector or start their own enterprises. Not enough institutions existed that could provide training or the certifications needed for employment or to help farmers increase their productivity. UNDP and the Ministry of Education and Science began reforming the Vocational and Educational Training (VET) system. The reform was designed and implemented working with the private sector (a tripartite initiative). The VET projects were tailored to the specific local needs based on prior labour market analysis. For example, they focus on tourism in the area the Black Sea, on information technology in Batumi, on veterinarian services in mountainous areas where people raise livestock, and on agriculture in rural region of Khathi. The recorded impacts of the VET's are that: (a) 70% of the participants obtained employment; (b) the productivity of the self-employed increased by 8%; and (c) the programme was scaled up to other regions - UNDP-supported VET centres are now open across the country.

3. **Mongolia:** The challenge is ensuring high economic growth also reduces poverty. UNDP supported the Government's MicroStart programme, which provided credit and financing to medium- and small-enterprises. The objective was financial inclusion — provision of credit, insurance, and savings schemes for low-income households. Access to credit services expanded across Mongolia's rural areas, and continues to do so with the use of mobile banking services. UNDP provided an initial grant, but subsequently, the Asian Development Bank, Mercy Corporation and other donor agencies became involved. The initiative had evolved into XacBank, an independent commercial bank operating on a market basis, with nearly 85,000 loans. XacBank provides loans at a special rate to UNDP-assisted small- and medium-entrepreneurs. In 2010, XacBank developed a separate eco-products programme, which offers low-interest loans for energy-related products for low-income clients.

Notes

¹ILO (2012) Global Employment Trends, 2012. International Labour Organization. Geneva

²Hailu, Degol, Sara Rendtorff-Smith, Uyanga Gankhuyag and Cosmas Ochieng (2012) Conflict Prevention in Resource-Rich Economies (forthcoming), Discussion Paper, UNDP. New York

³A study of 16 European countries show that “the employment structure has been polarizing over the period 1993-2006 with rising employment shares for high-paid professionals and managers as well as low-paid personal services workers and falling employment shares of manufacturing and routine office workers”. See Goos, Maarten, Alan Manning and Anna Salomons (2010) Explaining Job Polarization in Europe: The Roles of Technology, Globalization and Institutions, CEP Discussion Paper No 1026. Page 40

⁴Shafaeddin, S. Mehdi (2005) Trade Liberalization and Economic Reform in Developing Countries: Structural Change or De-Industrialization? Discussion Paper 179. UNCTAD. Geneva

⁵UNDP (2010) What Will It Take To Achieve the Millennium Development Goals? An International Assessment (2010). United Nations Development Programme. New York

⁶UNCTAD and UNIDO recently made a compelling argument that “development requires structural change from low to high productivity activities and that the industrial sector is a key engine of growth in the development process.” UNCTAD and UNIDO (2011) *Economic Development in Africa: Fostering Industrial Development in Africa in the New Global Environment*. UN Conference on Trade and Development (UNCTAD) and UN Industrial Development (UNIDO). Page 4.

⁷See the work of Justin Lin, World Bank's Chief Economist

⁸Weeks, John (2009) The Impact of the Global Financial Crisis on the Economy of Sierra Leone, Country Study, No. 18, International Policy Centre for Inclusive Growth.