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**Decent Work for Poverty Reduction:  
An Agenda for Development in the  
Least Developed Countries**

*Issues paper for  
the Thematic Session on  
Human Resources Development  
and Employment*

**V. Employment policies for poverty reduction in LDCs<sup>1</sup>**

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The analysis of the nature of poverty, the characteristics of employment and the performance in poverty alleviation in the LDCs help identify the components of employment policy for poverty reduction in these countries. The essence of the poverty reduction strategy for the LDCs consists of: (i) a high rate of growth, (ii) inducing a rapid expansion in employment (iii) which is

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<sup>1</sup> The ideas expressed in this section draw upon the draft paper "Employment Policies for Poverty Reduction", Recovery and Reconstruction Department, International Labour Office, Geneva, March 2001.

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*sufficiently remunerative*. Without economic growth, employment expansion is ineffective in reducing poverty. Growth without a high output elasticity of employment is immiserizing because the poor households have few resources other than labour. Employment expansion with declining remuneration for work perpetuates the misery of the working poor. Thus a successful employment strategy for poverty reduction is one of rapid employment expansion which is induced by high growth and which in turn induces (prevents) an increase (a reduction) in remuneration. This section highlights the important components of the strategy.

## **V.1 A high rate of labour-absorbing growth**

The LDCs that have succeeded in reducing the incidence of poverty have all had reasonably high rates of growth. There is no case of successful poverty reduction that has not been associated with a decent rate of growth. The principal obstacle to poverty reduction in the LDCs has been their poor growth performance. As shown above, the LDCs have achieved much slower growth than the developing countries, both overall and in their respective regions. The problem has been particularly acute in SSA in which the LDCs as a group have experienced two decades of uninterrupted decline in per capita income. The reversal of this phenomenon is a necessary precondition for *decent work* for poverty reduction in LDCs.

At the same time growth in the LDCs must be appropriately highly employment- intensive. Indeed it is reasonable to argue that high labour intensity is the only way to achieve high growth and a more equitable distribution of its benefits in LDCs. These countries have very little resources other than labour which is substantially underused. Productive utilization of labour is the most efficient strategy of growth for these countries.

This paper cannot discuss all the facets of the development problem that the LDCs, especially the ones in SSA, face. This has been the preoccupation of the international development community for decades. The failure of generations of “Africa initiatives” has been a source of frustration for the international development agencies and the SSA countries alike. And yet one can identify some of the essential conditions for reversing the dismal trend by analysing the two recent cases of successful poverty-reducing growth in Sub-Saharan LDCs, Ethiopia and Uganda. The beginning of growth in these countries was the establishment of peace by ending the political turmoil that characterized them for decades and improving security. Secondly, both these overwhelmingly rural economies ensured nearly universal access of land to the rural population. Thirdly, they eliminated the grossly discriminatory policies of heavy concealed taxation of agriculture, e.g., unfavourable price of compulsory procurement of coffee in Ethiopia. Plenty of LDCs in SSA still suffer from these problems that Ethiopia and Uganda have overcome. The return to these basic improvements, by no means politically easy, is extremely high, which indicates the absolute urgency of focus on their achievement in the LDCs.

These improvements need to be supplemented by a more sustained effort in making growth more than a matter of recovering from the decline in the past. For the LDCs of SSA a list of priorities reads like a catch-all catalogue of development policies.<sup>2</sup> It must begin by international action to

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<sup>2</sup> For the SSA countries these policies have been discussed in some detail in two ILO studies: Keith Griffin, “Macroeconomic Reform and Employment: An Investment-Led Strategy of Structural Adjustment in Sub-Saharan Africa”, *Issues in Development Discussion Paper No. 16*, ILO, Geneva 1996; and A. R. Khan, “Reversing the

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reverse the declining terms of trade that these countries have encountered in recent years, reduce their external debt by further debt forgiveness, and a more meaningful inflow of net resources. This must be synchronized with broad domestic policies to increase the rate of investment in these countries. While public investment should be concentrated in improving the infrastructure and human capital, carefully designed incentives and access to resources should induce private investment to flow into socially profitable production activities. An incentive system that reflects resource scarcities appropriately will ensure a high degree of labour intensity of growth that will follow.

In South Asia, economic growth, measured by the rate of increase in per capita GDP, actually accelerated during the 1990s. And yet the rate of reduction in poverty declined during this period of higher growth. As shown above, this was largely due to the failure of that growth to be adequately transmitted to agriculture, the sector in which most of the poor are trying to eke out a living, and the overall failure of employment to expand rapidly.

It has, however, been noted that the acceleration of growth in per capita income was very much a consequence of a lower rate of population growth in these countries, especially in Bangladesh, the overwhelmingly dominant LDC in the region. The increase in growth in GDP was very modest despite widespread economic reform implemented in these countries to make the system of incentives market friendly and to facilitate integration with the global economy. Therefore, these countries too need to pay attention to improve their growth performance; they too need to adopt many of the policies discussed in the context of the LDCs in SSA, especially an acceleration of the rate of investment; an improvement of the infrastructure and human capital; and a carefully designed system of promotion to induce a higher rate of private investment directed to socially profitable activities.

An understanding of the last point is important in order to explain why the extensive economic reforms for integration with the globalizing world economy have contributed so little to enhance economic growth in developing countries in general and in LDCs in particular. In the words of Dani Rodrik “*Global integration has become, for all practical purposes, a substitute for a development strategy*”:<sup>3</sup>

“This trend is bad news for the world’s poor... By focusing on international integration, governments in poor nations divert human resources, administrative capabilities, and political capital away from more urgent development priorities such as education, public health, industrial capacity, and social cohesion. This emphasis also undermines nascent democratic institutions by removing the choice of development strategy from public debate.

World markets are a source of technology and capital; it would be silly for the developing world not to exploit these opportunities. But globalization is not a shortcut to development. Successful economic growth strategies have always required a judicious blend of imported practices with domestic institutional innovations. Policymakers need to forge a domestic growth strategy by relying on domestic investors and domestic institutions. The costliest downside of the integrationist faith is that it crowds out serious thinking and efforts along such lines.”

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Decline of Output and Productive Employment in Rural Sub-Saharan Africa”, *Issues in Development Discussion Paper No. 17*, ILO, Geneva 1997.

<sup>3</sup> Dani Rodrik, “Trading in Illusion”, *Foreign Policy*, March/April 2001.

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Development policy must combine market-friendly reforms for integration with the global economy with the systematic *promotion* of socially-profitable economic activities through public provision of infrastructure, services and targeted time-bound support of more direct kind. Mere removal of the past inefficient system of incentives for import-substituting industrialization, in the hope that the rest would be done by the forces operating in the global economy is, in a certain way, an act of abdication which would not help LDCs.

A high rate of growth is essential for a healthy growth in productive and remunerative employment. A high rate of growth does not, however, necessarily or automatically lead to a high rate of employment growth. It can fail to generate high enough a rate of employment growth if the incentive system is distorted and conducive to the promotion of a socially undesirable degree of capital intensity of technology and/or if prevailing institutions foster employment-hostile behaviour on the part of the entrepreneurs. To avoid this, the incentive system must correctly reflect the relative scarcities of factors of production and reform institutions preventing the growth of employment. This is discussed more fully below.

Growth can also fail to generate high enough a *headcount* rate of growth of employment if economic reform leads to a countervailing reduction in the *concealed unemployment* (excess employment) that was often promoted in some LDCs by past policies. As noted in the preceding section, in a number of LDCs the low headcount rate of employment growth during the last decade can be partly explained by the fact that economic reforms for integration with the global economy made it unsustainable for their industries, especially those in the public sector in the past, to continue with their concealed unemployment. In the long run, the completion of this process will benefit all though during the transition it means the loss of livelihood for those who lose or fail to get employment. An orderly conduct of the process can reduce its adverse impact on the poor.

An orderly dismantling of the past systems of inefficient excess employment, however, requires policies like the institution of a transparent system of unemployment insurance or an expansion of public employment under works programme for productive capital construction. Unfortunately, these are rarely feasible for the LDCs especially in the environment of stabilization and retrenchment of aggregate expenditure in which the reform process in these countries is implemented. For most LDCs that face this problem the alternative to finding resources for an expanded public works programme is to permit an increase in the incidence of poverty at least for the duration of the transition leading to the elimination of the concealed unemployment in industries. The process can be lengthy.

## **V.2 Promoting the self-employment of the poor by converting them into productive entrepreneurs**

For the LDCs, with a high proportion of the labour force, particularly women, engaged in self-employment and suffering from severe underemployment, the idea of conceiving economic growth and employment generation as autonomous processes, the former driving the latter, is artificial. In most of these countries, the most effective way of promoting economic growth is to remove the obstacles that prevent the poor from making productive use of their labour. The most effective way of promoting the use of labour is to improve the access of the self-employed to complementary factors of production. In an LDC, with the members of the labour force concentrated in agriculture, the most important asset to which improved access can promote self-

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employment is land. The experience of Ethiopia and Uganda, particularly of the former, shows that this was the largest component of development policy that promoted both growth and poverty reduction.

The problem is that the obstacle of unequal ownership and control of land is often extremely hard to overcome. There is only a handful of countries that have successfully overcome this obstacle. In the case of Ethiopia land reform was instituted in the context of a social upheaval which, for nearly two decades, also inhibited economic growth. It was only after the upheaval was overcome that the benefits of land reform belatedly enabled the poor to employ themselves productively. In Uganda the process was facilitated by the relative abundance of land and favourable traditional systems of land tenure. These things are hard to replicate, for example, in countries like Nepal in which an improved access of the rural poor to land could benefit growth. Realizing the political obstacles to redistributive land reform, institutions like the World Bank are now advocating market-friendly, non-coercive land reforms which essentially provide intermediation for the sale of land by the rich to the poor whose ability to purchase land is enhanced by the provision of credit.<sup>4</sup> The success of such an alternative is yet to be demonstrated. It would require an ability on the part of the LDCs to command large resources that would be needed to institute sufficiently large programmes of this kind and to develop the administrative capability to implement what essentially is a redistribution of assets to the powerless poor through the provision of credit for the purchase of land under terms which must necessarily include large subsidies.

While access to land is of critical importance, the promotion of productive self-employment and entrepreneurship on the part of the poor requires improved access to other resources as well. A second important asset to which improved access results in higher self-employment is credit. Access to technology, services and markets are the other important complementary policies for the promotion of entrepreneurship on the part of the poor in LDCs. In recent years microcredit programmes have become very attractive to the makers of development policy who have seen this as an alternative to land redistribution to endow the poor with access to productive resources. As the widely acclaimed *Grameen Bank* experience of Bangladesh shows, this alternative to endow the poor with assets is not easy to implement. While the programme in Bangladesh must have helped rural income growth, its overall impact was quantitatively not sufficiently large. The programme requires substantial subsidies even after charging the poor a rate of interest that is far higher than the interest rate prevailing in the formal credit market. Also the targeting of the poor by the microcredit programme in Bangladesh became weaker after initial years.<sup>5</sup>

### **V.3 Increasing the productivity of the poor workers both in wage employment and in self-employment**

Increased productivity of workers in wage employment leads to an increase in demand for wage labour which converts itself into higher employment or real wages or both. Increased productivity of the self-employed poor increases their earnings and reduces their underemployment. Thus enhancement of productivity improves the prospect of poor, labour-dependent households to

<sup>4</sup> See IFAD, *op. cit.*, Chapter 2 for the case for such land reforms.

<sup>5</sup> See, Rushidan Islam Rahman, *Poverty Alleviation and Empowerment through Microfinance: Two Decades of Experience in Bangladesh*, Bangladesh Institute of Development Studies Research Monograph 20, Dhaka, 2000.

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escape poverty. The principal instrument for the enhancement of productivity is to improve the human capital endowment of the workers. Targeted public support for the improved access of the poor to education, training, skill development and health services is an effective way to promote the productivity and employment for the reduction of poverty. This instrument is of particular importance for the LDCs in which individual households have a very low capacity to make private investment for the acquisition of human capital. LDCs need to bring about a sharp change in the composition of public subsidies in favour of human capital investment targeted to the poor.

Improving the skill endowment of the poor is not a once-for-all act. The LDCs are no different from the others who face a changing composition of demand for skills both as a result of changing technological opportunities and as a result of changing composition of demand for products in the domestic and export markets. Thus, their skill development must be viewed as a dynamic process that requires continuous updating of investment.

The issue of skill formation and upgrading acquires a special attention in the context of LDCs for a number of reasons: (a) the state of underdevelopment is, by definition, a reflection of low skill endowment of the labour force. With the overwhelming majority of workers locked-up in traditional agriculture and low productivity informal economy, returns to labour are so low as to leave the majority in a low level poverty trap. (b) low skill endowment accounts for low competitiveness by the LDCs in international markets. The majority of LDC exports are raw materials and of low technology content. (c) skills are at the dividing edge in a globalizing world. The LDCs need to catch-up with new technology, especially information technology, if they are to avoid being victims of the “digital divide”.

Human resources development policies and institutions are thus crucial for any development strategy. Caution should be taken against blind emulation of pioneers, and seek innovative approaches tailored to the needs of these LDCs.

#### **V.4 Ensuring favourable terms of exchange for the products of the poor’s labour**

If the terms of trade deteriorate for the products of poor’s self-employment or of the activities in which the poor are employed then, with unchanged physical productivity, the poor will have a reduction in earnings. Much of the increased poverty and declining growth in the LDCs of SSA has been due to the declining terms of trade that those countries faced. Changes in terms of trade are determined by a wide variety of factors, both international and domestic. Often their reversal is beyond the ability of the national governments on their own. Often a reversal of an adverse change in the terms of trade is beyond the available options so that the policy makers must consider offsetting actions, e.g., retraining the poor workers to facilitate their transfer to occupations that are better protected from adverse changes in terms of trade.

Quite apart from protection from adverse *changes* in terms of trade is the issue of enabling the poor to obtain a better price for their products through better access to infrastructure, e.g., roads and information systems. Systematic public investment for the expansion of this kind of infrastructure and the facilitation of the access of the poor to them should have a powerful effect on the ability of the poor to overcome poverty.

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## **V.5 Specially designed employment opportunities for the households with unusual and/or unfavourable labour endowment**

Poor households vary in the characteristics of their labour endowment. Not all of them can compete for employment in the market place. For example, female-headed and/or female-labour-intensive households are typically at a disadvantage in the usual kind of job search and employment activities that require the members of the labour force to seek employment and work at conventional locations of employment. The same is true for communities living in remote and isolated locations. These categories of households are probably more numerous in LDCs, in the countries of SSA where male members of the labour force have been disproportionately affected by AIDS and in large parts of countries poorly connected with the rest due to undeveloped infrastructure. Employment opportunities need to undergo a design change to make it possible for the increased demand for labour to filter down to these disadvantaged households. Subcontracting arrangements linking enterprises in the formal sector with micro-enterprises or cottage enterprises that facilitate work for the disadvantaged groups in or near their homes are examples of possible policies to deal with this problem.

## **V.6 Design of protection of vulnerable workers**

As argued earlier, *decent work* presupposes a feasible degree of protection for the workers. Their *feasibility* is a matter of their consistency with rapid expansion of employment for “*There can be no decent work without work itself*”.<sup>6</sup> Thus, it is normal that labour market interventions for the protection of the vulnerable workers must be carefully designed so as to strike a balance between the need for protection and the rapid expansion in demand for labour. Protection of vulnerable groups of workers must be sought through targeted action to help them overcome their vulnerabilities rather than by an artificial promotion of earnings or conditions of work by segmenting the labour market and thereby reducing the growth of employment. Moreover, there are aspects of *decent work* — e.g., workers’ right to organize, workplace democracy and basic workplace safety which do not involve any trade off — which should be implemented immediately and universally.

## **V.7 Supply-side factors**

The LDCs have a great deal of work to do on the factors affecting labour supply in order to bring down the appallingly high dependency ratio that blunts the effect of employment expansion on poverty reduction. Two policies are obvious candidates for high priority: (a) a reduction of the rate of population growth; and (b) control of the AIDS epidemic.

Even outside the SSA, Bangladesh is about the only LDC which has made significant progress towards demographic transition. Controlling AIDS is clearly a priority in SSA where it has substantially reduced life expectancy (example: from 48 years in 1980 to 42 years in 1998 in Uganda) and increased the dependency ratio. Its prevention is, however, a priority everywhere.

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<sup>6</sup> Juan Somavia, *Perspectives on Decent Work*, ILO, Geneva 2000, p. 32.

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Action over a wide range is needed to reduce population growth and contain AIDS. Both involve medical technology and education as well as broader changes transcending many aspects of development. While these matters are still not completely understood, there is a need for a combination of international and domestic effort to design policy packages and mobilize resources for their implementation.

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