

REPORT OF THE DIRECTOR-GENERAL

# WORKING OUT OF POVERTY

INTERNATIONAL LABOUR CONFERENCE  
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## Preface

This is my third opportunity to offer the Director-General's Report to the International Labour Conference. The first, *Decent work*,<sup>1</sup> revisited our mandate, interpreted it and defined our mission for the world of today, based on ILO values. You subscribed to the agenda we set out, which affirmed that the ILO had to be concerned with all workers, including those beyond the formal labour market.

My second Report, *Reducing the decent work deficit*,<sup>2</sup> examined the gap between people's aspirations about work and the reality. I identified the decent work deficit as a measure of that gap between the world we work in and the hopes that people have for a better life. That Report observed that, for many, decent work is the quality road to poverty reduction and greater legitimacy of the global economy. This year's Report zeroes in on that theme. It focuses on the working poor and the poor who are excluded from work. It shows the "decent work dividends" that accrue to families and societies as a whole through a concerted effort to attack poverty.

Chapter 1 crystallizes my thoughts, commitments and ideas on this vital issue. We have a rich historic mandate that calls us to the challenge of fighting poverty. Our experience on the ground is bringing that mandate to life throughout the world. And we face common challenges as we join with others to provide women and men with the tools and support to work out of poverty. Chapter 1 is my personal exploration of these key issues.

The subsequent chapters are more technical in nature, providing an in-depth and detailed account of the various dimensions of ILO efforts to eradicate poverty. Chapter 2 focuses on the complexity of poverty and the cycle of disadvantage that it creates. Chapter 3 describes ILO action on the ground and tools in the fight against poverty. Chapter 4 examines how rights at work and the institutional structure of the informal and formal labour market relate to employment creation, poverty reduction and competitiveness in a global economy. Finally, Chapter 5 discusses the need for a coordination of policies that focus on different dimensions of the life of people living in poverty.

<sup>1</sup> ILO: *Decent work*, Report of the Director-General, International Labour Conference, 87th Session, Geneva, 1999.

<sup>2</sup> idem: *Reducing the decent work deficit: A global challenge*, Report of the Director-General, International Labour Conference, 89th Session, Geneva, 2001.

We know that work is the best route out of poverty. But one cannot legislate employment in and poverty out. It is a long and complex process that requires all elements of society to work together. Governments, employers and workers each have a unique and crucial role to play in defining a positive consensus. I invite you to emerge from this International Labour Conference with a renewed tripartite commitment to helping free people and societies from the global poverty trap. Tripartism is our strength and unique contribution. Together, let us take the next and needed step on the road out of poverty and to decent work for all.

April 2003

Juan Somavia

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## 1. *Overview: The decent work dividend*

The persistence of poverty is a moral indictment of our times. While there are some signs of progress, the fact remains: never have we seen so much wealth while so many continue to live in abject poverty.

Poverty is a complex, deep-seated, pervasive reality. Virtually half the world lives on less than US\$2 a day. More than 1 billion people struggle on \$1 a day or less. And an even greater challenge lies beyond what statistics can measure – poverty breeds a growing sense of powerlessness and indignity, of being unable to think, plan or dream beyond the daily struggle to survive.

For individuals, poverty is a nightmare. It is a vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy. For families, poverty is a trap. It leads to inadequate schooling, low skills, insecure income, early parenthood, ill health and an early death. For societies, poverty is a curse. It hinders growth, fuels instability, and keeps poor countries from advancing on the path to sustainable development. For all of us – and for all these reasons – the cost of poverty in shattered human lives is far too high.

But there is another face to poverty. People living in conditions of material deprivation draw on enormous reserves of courage, ingenuity, persistence and mutual support to keep on the treadmill of survival. After all, for most people living in poverty, there is no safety net and little state support. Simply coping with poverty demonstrates the resilience and creativity of the human spirit. In many ways, the working poor are the ultimate entrepreneurs.

People in poverty go through each day with the will to survive, but without the support and possibilities to move up the ladder of opportunity. Imagine where their efforts could take them if that ladder were in place. Our common responsibility is to help put it there.

After all, the poor do not cause poverty. Poverty is the result of structural failures and ineffective economic and social systems. It is the product of inadequate political responses, bankrupt policy imagination and insufficient international support. Its continued acceptance expresses a loss of fundamental human values.

To be sure, poverty is a global phenomenon that occurs in every society. No nation is immune. In 20 industrialized countries, for example, over 10 per cent of the population, on average, was living below the poverty line in the

### The decent work dividend

Unlike the peace dividend that disappeared before it was invested, decent work strategies will result in more balanced and sustainable growth for countries and better lives for all people. If pursued, they will yield a real dividend for the poor:

- better lives and livelihoods for families;
- more stable income and productive employment;
- fair rules of the game and fundamental rights in the world of work;
- voice through organization, mobilization and empowerment;
- more stability and peace in local communities;
- basic rights and social protection for those working in the informal economy and bridges towards the formal economy;
- social institutions where voices of the poor are heard and develop out of ownership and participation through dialogue;
- increased wage and self-employment through access to financial services, skills development and training;
- policies to take children out of child labour and into school and to end forced labour;
- an end to discrimination against the poor, especially girls and women, who are most vulnerable and least protected;
- healthier and safer workplaces and homes; and
- more opportunities to develop initiative, creativity and entrepreneurship.

mid-1990s.<sup>1</sup> Wealthier nations are working to take on the poverty fight at home, but the global community has agreed to come together to confront the most extreme forms of poverty in the developing world – and I would add the similar forms of poverty emerging in a number of transition countries. This Report is focused on that challenge.

Specifically, this Report is about how the ILO and its constituents can better respond to the aspirations and everyday needs of people living in poverty. It is about the direct link between decent work as a development agenda and poverty eradication. It is about the fundamental importance of equality – and in particular gender equality – to decent work and defeating poverty. It is about teaming up with other international organizations to implement the poverty eradication and other commitments of the World Summit for Social Development (the “Social Summit”) and the Millennium Declaration. It is about concrete ways of targeting the poverty-fighting impact of ILO policy proposals and technical cooperation programmes. *In short, it is about working out of poverty.*

### *Our mandate*

The ILO is anchored in social justice. The opening phrase of the Constitution of the ILO, drafted in 1919, speaks to the headlines of today: “universal and lasting peace can be established only if it is based upon social justice”.

<sup>1</sup> M.F. Förster: *Trends and driving factors in income distribution and poverty in the OECD area*, Labour Market and Social Policy Occasional Paper No. 42 (Paris, OECD, 2000), table 5.1 (poverty in this case is defined as under 50 per cent of median incomes).

What constitutes one of the biggest obstacles to peace and social justice? The Declaration of Philadelphia, adopted by the ILO in 1944 and annexed to its Constitution, makes it clear: poverty.

As the Declaration states, “poverty anywhere constitutes a danger to prosperity everywhere”. In this time of heightened tension and conflict, this profound truth is more important than ever.

In 1969, the year in which the ILO won the Nobel Peace Prize, my predecessor David Morse put it succinctly: “Let us make it possible for future generations to look back on this great 50th anniversary Conference as marking the beginning of an era – an era when the instincts of solidarity among the peoples of the world were effectively mobilized in a concerted, world-wide attack on poverty.”<sup>2</sup>

These are the issues on which the daily security of people and their families depends.

The ILO’s means of action are knowledge, service and advocacy. The ILO is not a funding institution. We provide policy proposals and advice. We help formulate rules of the game and international standards. We offer technical cooperation for pilot projects and programmes. We leverage our modest resources.

We know only too well that it is precisely the world of work that holds the key for solid, progressive and long-lasting eradication of poverty. It is through work that people can expand their choices to a better quality of life. It is through work that wealth is created, distributed and accumulated. It is through work that people find a dignified way out of poverty. As this Report details, the ILO’s Decent Work Agenda is the crucial underpinning of a broader development agenda for social justice in a richer and globalizing world.

Each of the Organization’s constituents – governments, employers and workers – has a concrete role to play in ending poverty: the State as steward of shared values, growth and distribution and provider of public goods, services and the enabling environment; the private sector as an engine to create jobs, investment and enterprise, and tap new markets using sustainable business models; and workers and their representatives as producers and as defenders of rights, extending organization and taking full advantage of the power of dialogue and collective bargaining. All of them working together to bring progress and hope to our societies.

The reasoning developed in this Report leads to an inevitable conclusion: *We need a decisive tripartite commitment to the eradication of poverty.* Tripartism has national roots embedded in local realities. At the same time, it can also operate globally through the ILO. Tripartism is thus probably the single most important development instrument that countries can utilize to ensure ownership of poverty reduction strategies, stability of national policies and fairness at home and in relations with donors and international organizations.

Together, our role in the international effort to eradicate poverty is to promote public policies, rights, social institutions and market solutions that permit people to earn a decent living, balance family needs and work out of poverty. But to do so, women and men need an enabling environment for empowerment.

<sup>2</sup> ILO: *Record of proceedings*, International Labour Conference, 53rd Session, Geneva, 1969, p. 478.

## From Copenhagen to the Millennium Declaration

In 1995, the Copenhagen Social Summit put the “people’s agenda” back into the forefront of international policy.<sup>3</sup> By stressing the interlinked challenges of poverty, unemployment and social exclusion as central to a global social justice strategy, the Social Summit marked a turning point for the multilateral system.<sup>4</sup> It reinforced the ILO mandate in the world of work and gave new impetus to the promotion of core labour standards.

At the Summit, 117 Heads of State and Government gathered to “acknowledge that the people of the world have shown in different ways an urgent need to address profound social problems, especially poverty, unemployment and social exclusion, that affect every country. It is our task to address both their underlying and structural causes and their distressing consequences in order to reduce uncertainty and insecurity in the life of people”.

For the first time, the international community at the highest political level committed itself to the eradication of poverty as a global objective and called on each country to propose its own national poverty reduction target. No longer was the focus on poverty alleviation – improving things around the margins. Copenhagen put the spotlight on poverty eradication – getting to the heart of the problem and fixing it. The Copenhagen Summit also made a crucial link between poverty eradication, full employment and gender equality.

Since 1995, the United Nations family has increasingly reoriented its development approach to focus on poverty reduction, paying particular regard to the feminization of poverty. The United Nations Development Programme (UNDP) broadened its human development approach to supplement sole reliance on income and gross domestic product (GDP) growth as a measure. In 1997, the World Bank began its departure from the much criticized “Washington Consensus” formula and launched a new Comprehensive Development Framework with a greater focus on debt relief and poverty reduction.<sup>5</sup> The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) also moved in the same direction.

At the United Nations Millennium Summit in 2000, the world’s political leaders committed the community of nations to a concerted, coordinated drive to reduce and eventually eliminate extreme poverty.<sup>6</sup> Following the Summit, United Nations agencies collectively identified a concise set of eight Millennium Development Goals (MDGs), 18 targets and more than 40 indicators to measure progress in their implementation.

These eight goals – eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women;

<sup>3</sup> See the Copenhagen Declaration on Social Development and Programme of Action of the World Summit for Social Development, in United Nations: *Report of the World Summit for Social Development*, doc. A/CONF.166/9 (New York, 1995).

<sup>4</sup> The Social Summit was one component of a major effort by the United Nations in the course of the 1990s to systematically address the most urgent issues of development through global conferences. These include children, sustainable development, human rights, population, gender equality, food, habitat, island and landlocked countries and least developed countries. As a whole, their conclusions constitute the largest agreement ever reached by governments on the needs of women, men, their families and their communities.

<sup>5</sup> J.D. Wolfensohn: “The other crisis”, address to the Board of Governors of the World Bank, Washington, DC, 6 Oct. 1998.

<sup>6</sup> See *United Nations Millennium Declaration*, Resolution 55/2 adopted by the United Nations General Assembly on 8 Sep. 2000.

reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; and develop a Global Partnership for Development – have become an important tool for cooperation in support of national policies to reduce and eliminate poverty, in particular, the target of halving extreme poverty by 2015.

The whole United Nations system has adopted the MDGs as a focus for activity, agreeing on a core strategy to help countries to meet these goals. This strategy is composed of four distinct but complementary elements: operational activities at the country level; advocacy and awareness-raising campaigns (the Millennium Campaign); research activities and identification of the best strategies for meeting the MDGs (the Millennium Project); and monitoring of progress made (global and country levels).

The goals provide a context in which the ILO can raise international awareness on the relevance of the Decent Work Agenda to reducing poverty and social exclusion. The MDGs also create opportunities to highlight the role of the ILO's tripartite constituency and the added value that decent work brings to the development process. The MDGs will not be achieved if the "community of work" is absent from policy formulation and implementation.

In addition, the Millennium Summit gave priority to decent work and put the focus on youth. Specifically, the MDGs call on us to "develop and implement strategies for decent and productive work for youth". Furthermore, women's share of non-agricultural wage employment is used as a key indicator of empowerment. But much more needs to be done to ensure that the indicators used to measure progress reflect the realities of the world of work.

International agencies and donor countries are changing their approach to development to encourage and facilitate a much stronger role for governments of aid-receiving countries. The Poverty Reduction Strategy process initiated by the World Bank and increasingly used by other international and national development agencies responds to a long-standing demand by developing countries to place the main responsibility for policy design and implementation in the hands of the governments of the poorest countries.

The United Nations Development Group is also working to align its planning mechanisms with the poverty reduction strategies set by developing countries. In addition, the new approach encourages governments to consult widely with business and trade unions, parliaments and local authorities and civil society organizations in developing Poverty Reduction Strategy Papers (PRSPs).

The notion of wide-ranging national ownership has been well defined in policy papers but is far from being a reality on the ground. The "we know best" attitude of so many international experts is still present, and many governments are still not engaging in a participatory process of consultation.

The ILO's tripartite constituents should develop strong mechanisms of social dialogue as a vital component of this national ownership process. An important vehicle for this work will be the decent work country programmes developed with ILO assistance. At the global level, the ILO and its constituents should participate actively in the various bodies working on the drive to achieve the MDGs by ensuring that our mandate is fully integrated into a coherent international framework and that the voice of employers' and workers' organizations occupies its rightful place. Employers and workers are the engine of the productive process. They know better than most how policies impact on the enterprise and the workplace. They have shown that when social dialogue is effective, it contributes to stability and security for all. Policy-makers concerned with issues such as financial stability

and trade liberalization need to develop an understanding of the interconnections between employment growth, rights at work, gender equality, social stability and other macroeconomic and development goals.

Yet power does not shift easily. Progress is far too slow, both in ensuring that coherent national policies receive adequate international financial support and in changing the aid relationship from donor conditionality to citizen accountability. If the poorest people living in the poorest countries were polled today, I do not think the overwhelming majority would have felt any major recent improvement in their lives. Our challenge is to focus our resources on ways to make the greatest impact as rapidly as possible. The opportunity cost of going slow is to prolong widespread human suffering.

As things stand today, the MDG of reducing extreme poverty by half in 2015 will not be reached. There is a perverse interaction blocking the way: inequitable national and international income distribution patterns, governance problems from the local to the global level in the public and private spheres, and a model of globalization incapable of stopping the growth of unemployment and the informal economy.

### *Towards a fair globalization*

In recent decades, governments and international institutions focused on opening international and domestic markets to increased competition. The powerful new force of information and communication technology (ICT) was released. Globalization, as it became known, was changing the policy landscape and distribution of power and gains.

While for some globalization has generated wealth and welfare, many see it as a source of persistent inequality and social exclusion. Growing insecurity and a sense that the rules of the game are unfair have given rise to frustrations in the hearts of many individuals and their families. Questions of legitimacy and sustainability have led to increasingly acrimonious exchanges, most visible in the protests that regularly accompany major meetings of international financial and trade institutions. And what are people worried about? Jobs, to begin with.

Official unemployment, which continues to rise, masks the even larger problem of underemployment and billions of people unable to work in ways that fully utilize their creativity or maximize their productive potential. The work of the poor is largely invisible. Far too much of women's work is still uncounted and undervalued. And the greatest failure of the current system is for young people who see no future.

In addition, a large proportion of people living in extreme poverty live in countries that are themselves economically and socially excluded. For example, in 2002, the United Nations Conference on Trade and Development (UNCTAD) estimated that 81 per cent of the population of the least developed countries (LDCs) lived on less than US\$2 a day and 50 per cent on less than \$1 a day.<sup>7</sup> Inequality within many countries and between the richest and poorest worldwide has grown exponentially over the last few decades.

Yet the dominant policy message has been: Grow first, distribute later. Many countries gave this strategy the benefit of the doubt and followed the

<sup>7</sup> UNCTAD: *The Least Developed Countries Report 2002: Escaping the poverty trap* (Geneva, 2002) (using a measure of poverty derived from national accounts data for 1999 rather than the income and consumption surveys used by the World Bank). See Ch. 5 of this Report.

recipe. It has not really worked. Distribution has been slow in coming – threatening social cohesion and making people lose faith in governments, institutions and those with the power to change things. Today, for example, the middle class in Latin America is shrinking and there are more poor and unemployed people than at any time since the Great Depression of the 1930s. Trust in authorities of all sorts has suffered. A recent regional survey<sup>8</sup> found that trust in democracy is flagging in Latin America – a region that spent the 1970s and 1980s struggling to wrest democracy from military regimes.

In 1960, the income gap between the wealthiest fifth of the world's population and the poorest fifth was 30 to 1. By 1999, it was 74 to 1. In 1995, average per capita GDP in the richest 20 countries was 37 times the average in the poorest 20 – a gap that has doubled in the past 40 years.<sup>9</sup> Would growth have been impaired or trade and investment diminished if wealth creation had been more evenly distributed these last 40 years? If we had at least maintained the ratio of 1960?

Certainly not. On the contrary, there would be fewer people living in poverty, a stronger middle class in the world and more stable social and political systems. There would be more consumers, greater demand and a more dynamic global economy. Let us not repeat the mistake. We need growth with equity – a globalization that leaves no one behind. That is the whole meaning of the Decent Work Agenda.

## Our experience

Decent work is a powerful tool in selecting the path to the attainment of the interrelated goals and human development outcomes of the Millennium Declaration. The ILO's four strategic objectives are a contemporary formulation of its mandate and a development strategy that responds to the most urgent demands of families today. Decent work unites the international drive to wipe out poverty with the fundamental right to work in freedom. Within each of the strategic objectives, there are tools to help eliminate poverty.

*Employment.* Poverty elimination is impossible unless the economy generates opportunities for investment, entrepreneurship, job creation and sustainable livelihoods. The principal route out of poverty is work.

*Rights.* People in poverty need voice to obtain recognition of rights and demand respect. They need representation and participation. They also need good laws that are enforced and work for, not against, their interests. Without rights and empowerment, the poor will not get out of poverty.

*Protection.* Poor people are unprotected people. The earning power of those living in poverty is suppressed by marginalization and lack of support systems. The ILO is working to find new ways to provide social protection and reclaim the role of the State in this sphere. Women's capacity to renegotiate the distribution of unpaid work caring for family needs is crucial. Support for people unable to work because of age, illness or disability is essential.

<sup>8</sup> See *Press report: Latinobarómetro 2002 opinion poll*, at [www.latinobarometro.org](http://www.latinobarometro.org)

<sup>9</sup> R.H. Wade: "The rising inequality of world income distribution", in *Finance and Development* (Washington, DC), 38(4), 2001; United Nations Population Fund (UNFPA): *State of World Population 2002: People, poverty and possibilities* (New York, 2002); and World Bank: *World Development Report 2000/2001: Attacking poverty* (New York, Oxford University Press, 2001).

*Dialogue.* People in poverty understand the need to negotiate and know dialogue is the way to solve problems peacefully. The ILO can offer those living in poverty its experience in dialogue and conflict resolution as a way of advancing their interests. We can align our agendas to incorporate the interests of the poorest.

Breaking the cycle of poverty is really about creating a new cycle of opportunity and local wealth creation. The Decent Work Agenda is an essential part of the solution. That Agenda may take different shapes and be built around different priorities in order to tackle different aspects of poverty and groups of poor people. But the promotion of rights, representation, employment and protection is always going to be the heart of successful policies to reduce poverty. In all these areas, we have knowledge and experience that are important for the global effort in which we are a full and willing partner.

In collaborating with the Organization's constituents and other national and international agencies concerned with development, we aim to ensure that the contribution of the decent work approach to poverty reduction is well understood, that the portfolio of ILO technical assistance is made available and, most importantly, that the perspective of the range of social institutions that comprise the community of work forms part of the design and implementation of nationally owned strategies.

Through the years, the ILO has built up considerable practical experience in policies that help to create jobs for women and men living in poverty and addressing the vulnerabilities of daily life. An underlying theme of the Organization's work is the importance of institution building with government, the social partners and in the community to sustain and replicate successful experiences.

A strategy for working out of poverty should include the following:<sup>10</sup>

### *Skills development for sustainable livelihoods*

We all know skills are essential to improve productivity, incomes and access to employment opportunities. Yet a striking feature of most poverty reduction strategies is the absence of vocational education and training – even though the vast majority of working people living in poverty cannot afford and have no access to training opportunities. The ILO is working with its constituents and others to rethink human resource development policies.

In partnership with the United Nations Educational, Scientific and Cultural Organization (UNESCO), the ILO is making the connection between education and the acquisition of skills for a productive working life. At the same time, it is developing new strategies focused on the specific needs of working people living in poverty. In this cause, public-private partnerships are key to understanding the changing patterns of skills demands.

### *Investing in jobs and the community*

The ILO has invested 25 years of pioneering work in the field of employment-intensive infrastructure programmes. It has been successful. It is now widely recognized that these programmes are effective in bringing much needed income to poor families and their communities. These efforts create between three and five times as much employment for the same level of investment.

<sup>10</sup> Each of these areas is further developed in Ch. 3 of this Report.

The ILO's labour-intensive projects respect standards, promote gender equality and encourage enterprise development through contracting systems. And by improving the infrastructure, these projects deliver longer-term impact to the whole community.

### *Promoting entrepreneurship*

The tools developed by the ILO to promote micro and small enterprises can be targeted to meet the needs of the poorest. ILO training courses on how to start and improve a small business attract many thousands of poor people with aspirations and good ideas for a business of their own. Many have already developed some kind of income-generating activity out of pure necessity for survival. Here, our tools and guidance turn their ingenuity and commitment into entrepreneurship and sound management. For example, home-based food processing activities become small restaurants on the roadside, carpenter shops expand their markets with new products, and hair-dressers start small beauty salons. In response to new demands from community groups wanting to improve their living conditions, targeted support helps them to set up sustainable waste collection enterprises or drinking water kiosks. These community-based enterprises are a source of new job opportunities for youth and women with low skill levels. In partnership with local governments, they provide sustainable environmental services which are accessible and affordable for the poor. Blended into the training approach are concerns for job quality, productivity, organization and dialogue – especially when small enterprises start engaging more workers.

### *Making money work for poverty reduction*

It is impossible to build an enterprise without access to credit. Poor people all over the world have little access to formal financial services. Microfinance activities go hand in hand with entrepreneurship, enabling the poor to borrow for productive purposes, save and build their assets. The ILO has advised central banks on the design of laws and regulations for poverty-oriented banks. This has been instrumental in creating an enabling environment for pro-poor banks to emerge and prosper, particularly in Africa.

By connecting the organizational experience of trade unions and employers to the microfinance movement, the ILO is joining others to help extend affordable financial services to the 95 per cent of the working poor who lack access to them. The ILO offers an integrated enterprise-based strategy out of poverty that is firmly rooted in ILO values. It is also part of the Microcredit Summit Campaign and is working with the Consultative Group to Assist the Poorest (CGAP), a consortium of 29 donor agencies.

### *Building local development through cooperatives*

Participation and inclusion are central to a new approach to poverty reduction. Cooperatives are an ideal instrument in such a strategy, and the ILO has long drawn on the strength of the movement. Meeting the challenges of globalization requires strong local communities, strong local leadership and strong local solutions. Cooperatives have proved to be a key organizational form in building new models to combat social exclusion and poverty, for example through local development initiatives. Cooperative members learn from each other, innovate together and, by increasing control over livelihoods, build up the sense of dignity that the experience of poverty destroys.

## Overcoming discrimination

Discrimination is a basis for social exclusion and poverty. The starting point for the ILO's work to overcome discrimination is the right to equality of opportunity and treatment in respect of employment and occupation. This is the subject of this year's Global Report submitted to the Conference.<sup>11</sup> The key to the success of promoting equality in the labour market is the active involvement of trade unions, employers' organizations and other stakeholders. For example, the ILO and its constituents worked together to develop the *Code of practice on HIV/AIDS in the world of work*, a blueprint to fight discrimination against workers affected by the disease. The code has received wide acceptance and is increasingly used internationally. HIV/AIDS compounds gender discrimination and impacts most severely on women who are poor. Throughout the world, gender inequality intersects with economic deprivation to produce more intensified forms of poverty, on average, for women than for men.<sup>12</sup>

Promoting gender equality and eliminating all forms of discrimination at work are essential to defeating poverty. Understanding the particular forms of discrimination at the local level is key to poverty elimination. They vary from country to country and culture to culture.

## Working to end child labour

Child labour is both a cause and a symptom of poverty. In its worst forms, it robs children of their health, their education and even their lives. As long as poverty pushes some families to send their children to work, the next generation is condemned to the same fate. The ILO now has over a decade of experience of working with its constituents to understand the dynamics inside these households, raise awareness and show what can be done. Its efforts go beyond trying to stop children from working. The ILO promotes development by advocating adequate educational alternatives for girls and boys, access to income and security for their parents and stronger laws and enforcement mechanisms. In other words, eradicating child labour takes an integrated, gender-sensitive, family-centred strategy: children out of work and into school – parents into work and out of unemployment. This comprehensive approach is at the heart of the time-bound programme to eliminate child labour by a certain date. El Salvador, Nepal and the United Republic of Tanzania have launched such initiatives, and around ten more countries are preparing to make the same commitment to break the cycle of poverty and give our children hope.

## Ensuring incomes and basic social security

The Declaration of Philadelphia and a number of international labour standards recognize access to an adequate level of social protection as a basic right for all. Yet in many countries, reality falls far short of ideals. Less than 10 per cent of the population in the poorest countries have adequate social

<sup>11</sup> ILO: *Time for equality at work*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 91st Session, Geneva, 2003.

<sup>12</sup> See the *Modular package on gender, poverty and employment* published under the Gender, Poverty and Employment (GPE) programme.

security protection. This has an enormous impact on people's lives and on work itself. We know, for example, that there is a direct connection between health and productive work. Women, in particular, have little access to health protection even though they constitute the majority of the world's poorest populations. The ILO is testing new approaches to open up access. One innovative example is through micro-insurance. This is one element of our integrated strategy to provide social protection based on solidarity.

The importance of universal access to basic health care and primary and secondary education is well recognized by many developing countries. For a poor family, securing a basic income, basic health care and school places for the children is a foundation for participating productively in society and the economy. Secure families build secure communities and stable societies.

As a contribution to new thinking about global solidarity, the ILO is piloting an approach to the extension of social security through a people-to-people Global Social Trust. People in richer nations could choose to contribute about 5 euros a month to the Trust. These funds would then be invested to kick-start basic social protection schemes launched primarily in least developed countries.

### *Working safely out of poverty*

The poorest workers are the least protected. More often than not, prevention of occupational accidents and diseases is missing from the agenda where they work. Hazardous work takes its toll on the health of workers and on productivity. It is unacceptable that the poor must be resigned to facing disproportionate risks to their safety and health because they are poor. South Asian countries are tackling hazards to workers, communities and the environment in the ship-breaking industry, and the ILO is working with them and other international partners to do so. We are showing that improvements can be made in working conditions and the environment in micro and small informal enterprises by low-cost investments that also raise productivity.

For many – and particularly women – their home is their workplace, and they frequently live and work in unsafe and unhealthy conditions. The ILO has shown that it is possible to introduce changes that make the home a safer and healthier place to live and work. We develop partnerships with community organizations to gain access to hard-to-reach workers. We encourage micro-entrepreneurs to organize, which enables them to articulate and act upon their occupational safety and health concerns. Empowering workers and their unions so that they can insist on safe working conditions is also essential.

The ILO's experience of working with national and local governments and employers' and workers' organizations in developing countries over many years has formed and tested a comprehensive portfolio of policy tools founded on enabling communities to work their way out of poverty. These experiences and the lessons they provide contribute to a coherent approach to poverty reduction that connects on-the-ground initiatives with national and international strategies. But no amount of small, unconnected initiatives will do away with poverty. Now the challenge is to scale up these experiences and work together to integrate them fully into national and international policy. Today, scaling up is the name of the game for all international organizations. Again, I believe this is an area in which we should all work together.

## *Our common challenge*

Poverty is not just a problem of the poor. It is a challenge for all defenders of social justice and all seekers of sustainable growth. The goal of a stable and prosperous world economy is only possible if the productivity and consumer power of all its citizens are realized. A successful drive to raise the consuming power of the majority of the world's population, particularly those on the lowest incomes, is fundamental to the broadening and deepening of markets – the lifeline of enterprise and growth. Only when the poor become real consumers will the economy become truly global.

The world community is focused on containing risks of a breakdown of stability and security. Yet political and social stability is hard to envision if a large proportion of the world's people are excluded from the increasingly visible concentration of wealth and see little or no opportunity of ever participating in the benefits of global economic integration. Increased expenditure on preserving law and order nationally and internationally, without investing in tackling the roots of the tensions caused by inequality and lack of opportunity, is not a sufficient answer to growing security concerns. It will not work and – in many ways – it is already failing.

Overcoming these dangers requires a vision of increased international commitment to shared objectives. Decent work is a basic aspiration of individuals, families, communities and nations with widely varying histories and cultures. It is a cause that unifies and pulls people together in collaborative endeavour. It is a dream that can be made a reality by step-by-step progress that builds confidence and trust in our capacity to organize political, economic and social systems to enable people to make full use of their capabilities. It is a pursuit that builds on a new understanding of human security and the need for a social contract to achieve and sustain it.

*The ILO is committed to helping people work out of poverty.* We know this challenge will take new thinking, ideas, approaches and – above all – action. First and foremost, it means removing the barriers of discrimination and accumulated deprivation that trap people in low-productivity and low-paid jobs.

## *Building an employment agenda*

Employment, and the promotion of enterprise that creates it, remains the most effective route to poverty eradication. The objective of full employment is essential – an issue on which the European Union has given political leadership. Most policy prescriptions, however, do not view job creation as an explicit objective of economic and social policies, but rather as a hoped-for result of sound macroeconomic policies. At the ILO, we believe that sound macroeconomic policies are essential for desired growth, but such growth must be employment-intensive to effectively reduce poverty. While the main challenge remains at the national level, development cooperation has a role to play. Donor countries and institutions, especially international financial institutions, should build this in as an integral part of their vision.

It is important for labour ministries and employers' and workers' organizations to be actively involved in national and international poverty reduction strategies. Our challenge is to work together to reinforce tripartism in the negotiations with bilateral donors and with the multilateral institutions at the national level. This will advance the battle to end poverty on several fronts. First, it will ensure that essential elements for the reduction of poverty are not overlooked – such as a high rate of employment generation, and extension of social protection to the poor. Second, the strengthening of

fundamental principles and rights at work and social dialogue will advance democratic governance and the participatory nature of the poverty reduction process. Third, the strengthening of these rights, particularly for women, will also enhance the bargaining position of working people living in poverty and promote greater gender equity. Finally, it will create the enabling environment for entrepreneurship, investment and enterprise creation, which is at the root of more opportunities for employment and sustainable livelihoods.

### *Building a more inclusive global economy*

A strategy that combines local action in a sound national macro-economic framework with an international effort to boost and sustain investment, trade growth and technological transfers could yield a substantial dividend in the form of poverty reduction and growing markets. I would like to flag a few issues.

Everyone has a stake in financial stability, especially the poor. They are usually least able to protect themselves from inflation. But in many cases, tight fiscal and monetary policies have retarded expansion, often for long periods. Furthermore, the scale and volatility of international financial flows, particularly investment in government bonds or emerging stock markets, have caused major swings in exchange and interest rates, disrupting growth and thus poverty reduction. Structural adjustment always hits the weakest the hardest.

The international policy regime to prevent and, if necessary, control sudden swings in capital inflows and outflows needs further strengthening to ensure that developing countries – and the poorest people within these countries – do not carry the costs associated with speculative financial movements. This is possible. It should be done soon. Moreover, the gradual opening up of financial markets according to the actual possibilities and needs of a particular country is essential. This is where classical “one-size-fits-all” policy advice has made major mistakes.

Increased analysis of the socio-economic costs and benefits of export processing zones for developing countries could help identify the best strategies for maximizing the development of foreign direct investment (FDI) and ensuring that they contribute to greater decent work opportunities. Such an analysis might also reveal the scope for South-South cooperation to avoid situations where excessive incentives are offered to the detriment of all countries. We should find ways to work together to reduce and ultimately eliminate unnecessary tax and subsidy competition among developing countries – and particularly among LDCs. The concessions granted to foreign investors significantly reduce the resources available for national poverty reduction strategies.

Market access is also critical. Many low-income countries are already connected to international markets. Exports and imports of goods and services, for example, constitute on average 43 per cent of GDP for the LDCs. However, most of these nations are heavily dependent on exports of non-oil commodities, which in 2001 registered prices averaging half of their level 20 years earlier. Can you imagine the resources that would have been available for them had appropriate policies kept commodity prices at stable levels? This is a key issue for successful trade negotiations.

Opening industrial country agriculture markets and a reduction in high tariffs on processed commodities through the current round of multi-lateral trade negotiations are essential to harnessing trade growth to poverty

reduction. Coupled with investment in the communications infrastructure and education and training needed for a strategy of improving the export revenues of developing countries, trade based on fair rules for all, and special and differentiated treatment for LDCs, can be a powerful engine of growth helping the poorest countries to raise their level of productivity. Clearly, we are not yet there.

Finally, the burden of debt continues to weigh on too many low-income countries – many of which pay more in debt servicing than they receive in aid. In 2000, 59 developing countries paid an average 4.4 per cent of their GDP on debt service, compared to aid disbursements received equivalent to 2.1 per cent of GDP. Although debt service payments for the poorest countries are beginning to fall, significantly more relief is needed in this area.

### *Building partnerships*

I have often talked about the need for team play in the multilateral system to face the challenges of today's world. Most would agree that the multilateral system is underperforming in this respect. We can and must renew our efforts to work together in a true global partnership of mutual responsibility and accountability.

Recently, this consensus has been recognized implicitly in the Fourth Ministerial Conference of the World Trade Organization in Doha and explicitly at the International Conference on Financing for Development in Monterrey and the World Summit on Sustainable Development in Johannesburg.<sup>13</sup> The ILO is ready, willing and able to continue its role as an active team player in the struggle against poverty and for sustainable development.

The challenge of reducing and eradicating extreme poverty calls for policies that focus on different dimensions of the life of people living in poverty.

All too often, well-intentioned measures fail because they only address one aspect of poverty reduction. If poverty-fighting efforts do not result in empowerment, income and work, they fall short.

This requires greater policy integration at the level of different institutions and the development community – by building on our respective experiences and mandates to produce a coherent policy approach to poverty eradication. For example, the ILO is working with the Bretton Woods institutions to build the goals of employment and decent work into country-level poverty reduction strategies. The ILO is leading the Youth Employment Network – a partnership between the United Nations, the World Bank and the ILO to combat youth unemployment. The Organization is working with the UNDP on making employment part of our common strategy for developing countries; with UNESCO on skills development; with UNICEF on child labour; with all regional development banks and the United Nations Regional Commissions; with UNAIDS on HIV/AIDS; with WHO on health and safety at the workplace; with FAO on rural employment; and many others.

The challenge of integration is an internal one as well. The Office is continuing to build upon an integrated approach in which standards, protection, employment creation and social dialogue all contribute in a strategic and unified way. It is a key objective of the next programme and budget.

<sup>13</sup> See the Johannesburg Declaration on Sustainable Development and the Plan of Implementation of the World Summit on Sustainable Development.

## Building bridges

The majority of people in developing countries live and work in the back alleys of the marketplace, the informal economy, the rural subsistence economy and the care economy.<sup>14</sup> This presents a major challenge.

As many as 4 billion people – two-thirds of the world’s population – live largely outside formal legal systems, mainly in developing and transition countries where poverty is most severe. The most fundamental elements of a market economy, such as respect for contracts and recognition of titles to property, are often not available to wage workers, self-employed workers or micro and small businesses in this huge and growing informal economy.

How can we make the most of improved efforts to reduce poverty if only the tip of the iceberg – the formal economy – is under the influence of public policy? Likewise, global markets do not respond to the needs of the poor because with only US\$2 a day, they have little influence on markets.

We need to develop appropriate bridging mechanisms, rules and systems. Decent work is a common framework for a progressive process of upgrading. The main point is not to impose unattainable standards or unrealistic goals, but to recognize that decent work has a moving threshold. It is possible to respect basic standards at all levels of development. Societies can agree on new goals as circumstances change and put in place a process to reach them over time. Above all, this calls for new thinking.

A new approach must be based on the reality that most people live and work in the informal economy not by choice but out of a need to survive. Wage workers, own-account workers and small businesses in the informal economy face similar problems of insecurity and vulnerability. Unable to find other jobs or start businesses in the formal economy, they lack protection, rights and representation, and often remain trapped in poverty. Especially in circumstances of high unemployment, underemployment and poverty where opportunities in the formal economy are scarce, the informal economy is the only source of income-generating work. Although many business people operating in the informal economy display extraordinary creativity, dynamism and innovation, they rarely have the means to cross the threshold into formal recognition and obtain the security it can provide for further investment and the creation of more and better jobs.

A sound poverty reduction strategy must place great emphasis on the participation of working people living in poverty in policies to improve their lives. The ILO has always stood for the transformative power of organizing: whether it is used to organize governments, employers or workers, the freedom for people to band together and develop common strategies and solutions is fundamental to social progress. How can our tripartite experience be helpful to facilitate organizing to end poverty in the rural and urban informal economy?

In addition, just as the property assets of the poorest are too often untitled and therefore not “bankable” or able to be used as collateral for loans at regular banks, the knowledge and skills of the poor are not recognized in the formal market or educational systems. What are the best ways to certify or accredit the skills of people in the informal economy?

<sup>14</sup> See N. Kabeer: *Gender mainstreaming in poverty eradication and the Millennium Development Goals: A handbook for policy-makers and other stakeholders* (International Development Research Centre (IDRC), Canadian International Development Agency (CIDA), Commonwealth Secretariat, 2003).

## *Building trust*

Given the multifaceted and interconnected character of poverty, there is a growing awareness of the need for a range of policies that are specific to the problems faced by different communities and countries. Targeted policies have the most effect when they act in combination to break the poverty cycle. One of the most encouraging aspects of the new approach to poverty eradication is therefore the emphasis on policy coherence based on a comprehensive development framework. In attempting to make sure that the international community acts coherently, it is vital to ensure that poverty reduction strategies are owned and directed by communities and nations living with poverty. Coherence should not be imposed. A “one-size-fits-all” approach has not worked and will not work. We must enable communities and countries to freely create and choose from a range of policy options to meet their priorities.

The twin principles of ownership and participation that must underlie a successful global strategy for poverty reduction imply a substantial degree of decentralization of decisions about priorities, both to countries and, within countries, to communities. However, decentralization without empowerment will keep people trapped in poverty and vulnerable to the arbitrary exercise of power by local elites or inside the home. The foundations for effective ownership and participation in policies and programmes for poverty reduction are the liberty to organize, the power that collective action gives to individuals, and conditions under which real freedom of choice is possible. In a very profound way, it requires a new sense of respect for the opinion of people living in poverty by governments and international organizations.

## *Building together*

Attacking poverty and promoting social integration are not the job of any one country or organization acting alone. They form the inescapable common agenda for today’s world.

We must look at this challenge through the eyes of people and respond to their hopes and needs. Women and men want a global system that enables people themselves to work out of poverty in freedom and dignity. They want a global system that ignites the power of people to organize and create livelihoods that meet the needs of all families without compromising the prospects of future generations. They want a global system that regains its balance through solidarity. This new global system is possible and feasible – the means are there.

Yes, it takes resources. But resources are not just money. They also include the conviction to act, the belief that a better society is possible, the sense of solidarity, the decision not to be morally indifferent to the plight of others. The biggest resource all of us have is within ourselves. It is the values we hold dear.

And so we know people must be the principal drivers. People as creators of life and communities. People as caregivers and receivers of care. People as workers, consumers, and entrepreneurs. People as savers, investors, producers and employers. People as inventors and generators of knowledge. People as citizens and organizers.

This Report develops an agenda for the community of work represented by the ILO’s constituents to mobilize its considerable resources of energy and creativity and put them to the service of the concerted global drive to eradicate poverty.

This strategy is about more than increasing incomes. It is about rights, dignity and a voice. It is about helping women and men join the economic mainstream and build assets and a better life. It is about creating wealth and markets and transforming today's marginalized people into tomorrow's consumers. It is about building an enabling environment for investment and growth. It is about recognizing that we cannot afford to waste a single person and everyone deserves a decent standard of living and the chance to contribute to the common good. Ultimately, it is about the economic, social and political empowerment of people.

Wiping out poverty represents the biggest challenge to multilateralism today. As the multilateral system continues to be put to the test on classical security issues, we simply cannot fail on issues of human security. This is not a bureaucratic challenge. Nor is it a call for cooperation merely on the margins. This is about making the right political choices to improve people's lives. If there is one single way to reaffirm legitimacy of the multilateral system, it is to come together to meet this challenge.

Cynics may thrive on deriding such efforts as unrealistic. "Poverty will always be with us", they tell us piously. Yet we know that in their time, cynics said the same thing about slavery, apartheid, the Berlin Wall, denial of women's right to vote, and so many other systems of social inequity.

Together, we will prove them wrong once again. Another world is possible.

## 2. Work and the life cycle of poverty

### Introduction

Surviving on the poverty line requires considerable ingenuity, courage, self-discipline and endurance. No opportunity to earn some money or payment in kind can be missed. Children and elderly dependants as well as adult members of the family often have to work in some way or other for a bare subsistence income. Hunger is ever present. Sickness or an accident means disaster. Mending the roof, buying clothes, furniture, even exercise books and pencils for school are major investments.

Women and girls frequently make the biggest sacrifices when food is short or a choice is made about how many children the family can afford to send to school. Relatives, neighbours and friends who can help out are a tremendous support. Finding the time, resources and energy to learn a skill that just might increase the family income is very difficult. For families to enjoy some happy times when the worry of finding enough food for the next meal can be forgotten, they need a lot of good luck.

More than half the population of the developing and transition countries live in poverty. About 1.2 billion people, or 23 per cent of that population, were living on US\$1 a day or less in 1999. A further 1.6 billion people live on \$1 to \$2 a day and are thus also poor, insecure and at risk of falling to the level of bare subsistence (see table 2.1).<sup>1</sup>

Looking at global trends over the 1990s, a decline in poverty in China and some other East Asian countries significantly reduced both the proportion of the population and the total numbers living on very low incomes. In South Asia, while the total number of people living in poverty remained more or less stable, this now constitutes a smaller share of the population.

Slow growth in sub-Saharan Africa resulted in a substantial rise in the number of people living in poverty and contributed to an increase in the global total on or below the \$2 a day line. In Latin America and the Caribbean the total number living in poverty increased, and a quarter of the population is still living on \$2 a day or less. The 66 million increase in under \$2 a day poverty in Eastern Europe and Central Asia was particularly dramatic. Since 1999, it is likely that the downward trend of the 1990s continued through

<sup>1</sup> World Bank: *Global Economic Prospects and the Developing Countries 2003* (Washington, DC, 2003).

**Table 2.1. Global poverty trends by region, 1990-99 (percentage share of population, with absolute number in millions in brackets)**

	Under US\$1 a day				Under US\$2 a day			
	1990		1999		1990		1999	
East Asia and the Pacific	30.5	(486)	15.6	(279)	69.7	(1 114)	50.1	(897)
Eastern Europe and Central Asia	1.4	(6)	5.1	(24)	6.8	(31)	20.3	(97)
South Asia	45.0	(506)	36.6	(488)	89.8	(1 010)	84.8	(1 128)
Latin America and the Caribbean	11.0	(48)	11.1	(57)	27.6	(121)	26.0	(132)
Middle East and North Africa	2.1	(5)	2.2	(6)	21.0	(50)	23.3	(68)
Sub-Saharan Africa	47.4	(241)	49.0	(315)	76.0	(386)	74.7	(480)
<b>Total</b>	<b>29.6</b>	<b>(1 292)</b>	<b>23.2</b>	<b>(1 169)</b>	<b>62.1</b>	<b>(2 712)</b>	<b>55.6</b>	<b>(2 802)</b>

Source: World Bank, op. cit.

2000, but it may well have been set back by the subsequent slowdown in growth.

About half of the people living in poverty are of working age (between 15 and 64 years). Although most family members have to contribute in one way or another to the household's welfare, the earning power of adults is a critical determinant of the well-being of the family. This chapter therefore aims to relate our knowledge of the scale and nature of poverty to the centrality of work in people's lives and the development process. It analyses the key stages in people's lives and work, and hence the cycle of deprivation that traps successive generations in poverty. It concludes that to make growth pro-poor and sustainable we need to act on both the demand and the supply side of the labour market in developing countries, while at the same time improving the terms on which developing countries trade with richer countries and obtain investment finance.

Poverty is most easily measured by a comparison of income or consumption against basic material needs for food, shelter and clothing, and this is the basis for the \$1 a day line used by the World Bank and the United Nations to quantify the scale of poverty worldwide.<sup>2</sup> However, fully addressing poverty and relative deprivation requires a wider appreciation of the cumulative effect of a number of other aspects of the lives of poor people.

Life expectancy at birth in the least developed countries is under 50 years, compared to 77 in developed countries. A total of 799 million people in developing countries and 41 million in developed and transition countries are undernourished.<sup>3</sup> The risk of a woman dying as a result of pregnancy is 50 to 100 times higher in the least developed world than in industrialized countries. Preventable diseases take the lives of 30,000 children per day in developing countries. Of the 115 million school-age children not in school, 94 per cent live in developing countries. About 20 per cent of the world's population – 862 million people – is illiterate. Most live in low-income countries.<sup>4</sup>

<sup>2</sup> The measurement of poverty is complicated by the fact that national poverty data are not collected on an annual basis in most developing countries, and year-on-year estimates are obtained by interpolation of intermediate values. Furthermore, some commentators criticize the technique of using 1985 information converted by using purchasing power parity estimates of the value of national currencies in terms of the US dollar to generate internationally comparable data. The most widely quoted poverty figures are those published by the World Bank and used by the United Nations as the principal measure of progress towards the Millennium Development Goal of halving world poverty.

<sup>3</sup> Food and Agriculture Organization of the United Nations (FAO): *The state of food insecurity in the world 2002* (Rome, 2002).

<sup>4</sup> United Nations Educational, Scientific and Cultural Organization (UNESCO): *Education for all: Is the world on track?*, EFA Global Monitoring Report (Paris, 2002).

These are some of the more quantifiable aspects of poverty, but others are much harder to measure. Many surveys reveal that the most injurious and debilitating characteristic of poverty is loss of dignity,<sup>5</sup> because it seriously weakens relationships within families and communities and with persons in authority, and thus the capacity to escape from a cycle of deprivation that can endure for generations. Being able to support oneself and contribute to the family and community through work builds self-respect and the respect of others. Work is thus central to our understanding of both the material and wider dimensions of poverty and how to combat it.

Since 1990 the United Nations Development Programme (UNDP) has developed its analysis of human development through an annual report on a composite index of measures reflecting achievements in the most basic human capabilities – leading a long life, acquiring knowledge and enjoying a decent standard of living. UNDP reports also include a wealth of information on other important factors, including income and gender inequalities, access to safe water, health services and sanitation, food security and nutrition, crime, political freedoms, human rights and fundamental principles and rights at work.<sup>6</sup> In its 2000-01 report, the World Bank enlarged its analysis of poverty using the concepts of opportunity, empowerment and security to develop a broader foundation for its thinking.<sup>7</sup>

This broader view of well-being and the concept of decent work owe much to the view of development as freedom expounded by Amartya Sen, who analyses poverty in terms of various forms of “unfreedom” that prevent people from realizing and enlarging their capabilities. This perspective on development is broad and integrated, encompassing both civil and political liberties and economic and social rights as primary *goals* of development and the principal *means* of progress. The goal of decent work, which embraces rights and dialogue as well as employment and social protection, “situates conditions of work and employment within a broad economic, political and social framework”.<sup>8</sup>

The focus of concern of the international community is rightly on extreme or absolute poverty and the conditions for survival. But poverty is also relative. Extreme poverty in developing countries highlights the gap between the poor and rich globally, but inequality within countries is equally if not more disturbing.<sup>9</sup> In many countries, a small proportion of the population lives in luxury while the majority suffer in conditions that deprive them of the opportunity to fulfil and develop their capabilities. Such inequality divides societies, provoking instability and undermining the poverty-reducing impact of growth. Furthermore, it is increasingly recognized that a high degree of inequality impedes growth by weakening the investments of the poor

<sup>5</sup> This aspect of poverty was confirmed in a large-scale survey by the World Bank, the results of which were published in a three-volume series, D. Narayan et al. (eds.): *Voices of the poor* (New York, Oxford University Press for the World Bank, 2000).

<sup>6</sup> UNDP: *Human Development Report 2002: Deepening democracy in a fragmented world* (New York, Oxford University Press, 2002).

<sup>7</sup> World Bank: *World Development Report 2000-01: Attacking poverty* (New York, Oxford University Press, 2001).

<sup>8</sup> A. Sen: “Work and rights”, in *International Labour Review* (Geneva), 2000, Vol. 139, No. 2, based on his speech to the 87th Session of the International Labour Conference (1999).

<sup>9</sup> The difference in per capita incomes between the top and bottom 20 per cent of the world’s income distribution was 30 to 1 in 1960 and 74 to 1 in 1999. See also R.H. Wade: “The rising inequality of world income distribution”, in *Finance and Development* (Washington, DC), 2001, 38(4).

in productive assets.<sup>10</sup> Combating poverty therefore ties in closely with the struggle for social justice to which the ILO is wedded by its Constitution.<sup>11</sup>

The goal of decent work for all helps to focus research and policy action on practical measures that can both have an immediate impact on poverty and build the infrastructure for longer-term progress. It is also a means of mobilizing broad support for policies that require the commitment of the non-poor and the poor themselves in order to succeed. Increasing opportunities for decent work is about incomes, but it is also about the economic, social and political empowerment that flows from acting to overcome vulnerability and exclusion.

The ILO, like all actors in the development process, must learn what to do by listening, and learn from the experience of taking action. Identifying the key stages of life when people are vulnerable to falling into poverty is the starting point for understanding the dynamics of life and work of poor communities. Some of the main issues are brought out by looking at the following:

- child labour and school attendance;
- youth unemployment;
- gender inequality;
- low incomes from agricultural work;
- insecure livelihoods in urban informal economies;
- poor health and hazards at work; and
- poverty and the elderly.

### *The cruel dilemma of school or work*

The education and preparation for working life of the current generation of children are of key importance to the drive to reduce and eradicate extreme poverty. Access to basic education has improved in a large number of countries, but the poor have benefited much less than those who are better off. Over 115 million school-age children, mainly in low-income countries, were not in school in 1999; 56 per cent of them were girls. On current trends, a large number of South and West Asian and African countries are unlikely to achieve the Millennium Development Goal of ensuring that all children complete a full course of primary education by 2015.

A low level of educational attainment is not conducive to a productive working life or to the acquisition of the skills needed to avoid falling into poverty. As the pace of technological change increases, the capacity to learn throughout working life is increasingly important. The children of the poorest families are least likely to have access to primary education, with girls more likely than boys to be kept at home. Children from families living on poverty incomes often start work at the age when their better-off counterparts are beginning to read.

One in six children between the ages of 5 and 14 (211 million) were doing some form of work in 2000. Of these, 186 million were engaged in forms of child labour that the ILO is committed to abolishing and 111 million were doing hazardous work classified by the ILO as the worst forms of child labour likely to harm their health, safety or morals. The highest incidence of child work was in sub-Saharan Africa, where 29 per cent of this age group

<sup>10</sup> See T. McKinley (ed.): *Macroeconomic policy, growth and poverty reduction* (London, Palgrave, 2001) for an overview of this issue. This volume contains a series of papers commissioned by the UNDP and the ILO.

<sup>11</sup> The ILO Constitution begins "Whereas universal and lasting peace can be established only if it is based upon social justice ...".

worked. In the Asia and Pacific region a total of 127 million children, or 19 per cent of all 5 to 14 year olds, were working. Only about 10 per cent of child workers also find time to attend school.<sup>12</sup>

Child labour leads to the perpetuation of household poverty across generations and, if widespread, slows economic growth and social development. Untangling the social, economic and cultural dynamics affecting families' decision whether a child should work or go to school is an important step towards effective action to combat child labour and cycles of poverty.

Not all children even in the poorest families work, and many poor children do go to school. Although there are enormous differences between and within countries, many parents want to give their children a good start in life, better perhaps than they themselves had, and believe that the skills learnt at school are valuable. However, families on the margins of survival have to weigh this investment against the value to the household of the work that a child might do. One of the goals of policies to eliminate child labour is to make it easier for families to choose education over work.

If the option of attending school is in practice not available, families are much more likely to try to find some economic activity for their children. Access to school places is therefore vital. This is not just a matter of the distance from home to school, but also depends on whether the school has a teacher, books, tables and chairs and offers an environment in which children can learn. If parents have to pay a fee for their children's enrolment, in addition to other costs such as school clothing, books and pens or pencils, this can make education prohibitively expensive for poor families.

In many low-income countries, the education service is in crisis. Usually the hardest hit are schools in the poorest areas, often in remote rural regions where poverty is most entrenched. Teachers go unpaid for months and have to find jobs on the side to survive. Equipment is not renewed and buildings not repaired for years. Not surprisingly, poor parents see schooling in such conditions as a waste of time they cannot afford. Therefore, improving the education service to give teachers a chance to teach and children a chance to learn is a priority.

On the other side of the balance, family income is a determining factor in parents' decision whether a child has to work. A steady income that meets the basic necessities of daily life and allows for some savings for occasional big expenses will make it easier to forgo a child's earnings. Family indebtedness is often closely associated with child labour, including one of its worst forms, bonded labour.<sup>13</sup>

Furthermore, if schooling is seen as likely to help the child obtain a decent job and, in due course, help out the parents as their earning power diminishes with age, the education option starts to look increasingly attractive. The availability of decent work for adults is thus an important determinant of child labour.

Acting on the supply side of child labour, however, is not enough to break the poverty cycle in which it is a key link. In many communities, employers see children, including their own, as a cheap and uncomplaining source of labour, even though many countries now have laws regulating the

<sup>12</sup> ILO: *A future without child labour*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 90th Session, Geneva, 2002.

<sup>13</sup> See ILO: *Stopping forced labour*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 89th Session, Geneva, 2001.

work of school-age children.<sup>14</sup> The vast bulk of child labour is in the informal economies of developing countries, on farms and in micro and small enterprises.

Although child labour is found in some large-scale commercial sectors such as plantation agriculture, many of the businesses that use child workers operate on the margins of the economy, with simple technologies and little capital. Children are employed on time-consuming and relatively unskilled work, and are paid very little. In family businesses and farms, children may not be paid at all, and most of their work serves to release time for adult members to increase household earnings. Nevertheless, even in the context of the family, child labour can be hazardous and constitute a barrier to school attendance or performance.

Reducing the demand for child labour has both a cultural and an economic aspect.<sup>15</sup> In many societies certain tasks, such as herding animals, are accepted as child work. Some employers also regard employing children as a social responsibility to help poor families and may offer a sort of informal apprenticeship in the skills of the business. Nevertheless, the underlying reason why small informal entrepreneurs use child labour is that the productivity of their businesses is so low that they cannot afford to pay all the adult workers they need, and children's wages are much lower.

Improving work performance and other aspects of small business operations by raising profitability helps move such enterprises from the margins of the market to a more secure position where the higher productivity of better-paid adults is more useful than the low wage costs of less productive children. Furthermore, if all or most of the businesses in a local economy start out on a path of improving productivity and wages and employing more adult workers, family incomes in the community begin to rise, reducing the need for the supplementary earnings of children.

For many small businesses in poor communities, risk avoidance has proved to be the best survival strategy. Investing in a new farm tool or an improvement to a workshop is a big step, which can be catastrophic for the family if it does not work. The business culture of poor communities, of which child labour is part, is under pressure from the rapid technological and economic changes that all countries, including the poorest, are experiencing.

Reforms to make it easier for micro and small businesses to secure title to their assets are often a vital stage in helping entrepreneurs move out of informality and into a more secure business culture, where risk taking is rewarded rather than penalized. Reducing and eliminating child labour is most likely to be successful where a broad-based community effort to increase access to schools, improve family incomes by providing more earning opportunities for adults and change employer and family attitudes to the work of children are combined with the implementation of laws controlling child work.

### *Wasting opportunities: Youth unemployment*

The transition from school to work, from childhood to adult life, can determine a person's chances of escaping poverty. About 100 million young

<sup>14</sup> The two main ILO Conventions on child labour, the Minimum Age Convention, 1973 (No. 138), and the Worst Forms of Child Labour Convention, 1999 (No. 182), have been ratified by 123 and 135 countries, respectively, which have thus undertaken to apply their principles in national law and practice.

<sup>15</sup> On the latter aspect of child labour, see R. Galli: *The economic impact of child labour* (Geneva, International Institute for Labour Studies, 2001).

people enter the global workforce every year, mainly in developing countries. With more than 1 billion of the world's population today between 15 and 25 years of age, this trend is set to continue through to 2015 and beyond. If, as they reach adulthood and themselves become parents, they are able to find decent and productive employment, a huge step can be made towards reducing and eliminating extreme poverty.

Current trends are not encouraging. In most developing countries, young women and men face the choice of informal work or no work. The ILO estimates that around 74 million young women and men are unemployed throughout the world, accounting for 41 per cent of all the 180 million unemployed persons globally,<sup>16</sup> and many more young people are working long hours for low pay, struggling to eke out a living in the informal economy. An estimated 59 million young people between 15 and 17 years of age are engaged in hazardous work.<sup>17</sup> Young people actively seeking to participate in the world of work are two to three times more likely than older generations to find themselves unemployed. In many countries, young women are more likely to be unable to find work than young men.<sup>18</sup> Those with less than 12 years' schooling and a low level of educational attainment are also particularly disadvantaged.

Young workers, especially those seeking their first job, are acutely affected by the overall state of demand for labour. When the business cycle turns down, employers first stop hiring, then lay off those most recently taken on. Youth unemployment is about 30 per cent in Panama, Uruguay and Venezuela and about 40 per cent in Argentina and Colombia. The worst affected are the poor. In 1997, before the onset of the current crisis, open youth unemployment in Argentina from poor urban households was 55 per cent, compared with a national average for all young people of 24 per cent.

With seven out of ten new jobs in Latin America created in the informal economy over the decade of the 1990s, income earned by young people aged 20 to 24 is half that of adults and, for those under 19, only 30 per cent. In Africa, where up to 55 per cent of the population is under 18 years old in some countries, youth unemployment is 56 per cent in South Africa and between 30 and 40 per cent in Algeria, Egypt and Morocco. In Asia and the Pacific, the ILO estimates that about 30 per cent of the region's 650 million young people are not in regular work.<sup>19</sup>

The cost of youth unemployment to economic and social development is extremely high. It perpetuates the inter-generational cycle of poverty and is associated with high levels of crime, violence, substance abuse and the rise of political extremism. In some countries virtually the only paid occupation open to many young men is to join the various armed groups involved in civil conflict. For young women, the dangers of entrapment in the sex industry are widespread.<sup>20</sup>

Yet the current generation of young workers are the most educated in human history. Their expectations are high, fuelled by the images spread by the international entertainment industry. In September 2000, the Millennium Summit resolved to "develop and implement strategies that give

<sup>16</sup> ILO: *United Nations initiative on youth employment*, Governing Body doc. GB.286/ESP/5, 286th Session, Geneva, Mar. 2003.

<sup>17</sup> ILO: *A future without child labour*, op. cit., fig. 3.

<sup>18</sup> ILO: *Youth and work: Global trends* (Geneva, 2001), p. 4.

<sup>19</sup> Unpublished background papers prepared for the Expert Group Meeting on Jobs for Youth: National Strategies for Employment Promotion, Geneva, 15-16 Jan. 2003.

<sup>20</sup> See Lin Lean Lim (ed.): *The sex sector: The economic and social bases of prostitution in South-East Asia* (Geneva, ILO, 1998).

young people everywhere a real chance to find decent and productive work". This is a pledge that the world cannot afford not to honour.

### *Women workers and the work of women*

Today's girl child is tomorrow's older woman worker, and it is her opportunities and experiences now that will shape her ability to obtain and maintain decent work throughout her adult life, and enjoy security and protection in her old age. If girls, compared to boys, face negative cultural attitudes and practices and discrimination from birth, they will grow up to be women with greater constraints and few choices and opportunities. In turn, they will be less able to influence positively the lives of their daughters and sons, so that poverty is likely to be passed on from one generation to the next.

The links between a vicious cycle of poverty and gender discrimination against the girl child start at the earliest stages of life within families. Throughout life, from birth to old age, gender discrimination contributes both to the feminization of poverty and to the perpetuation of poverty from one generation to the next.

About half a million women die each year as a result of pregnancy and childbirth – the vast majority of them in developing countries. Young women face greater difficulties finding employment than young men, with unemployment rates sometimes 50 per cent higher. The school-to-work transition is harder for young women than for young men, but more and more women have been entering the labour force – as much out of need as of choice.

About two-thirds of the female workforce of the developing world, outside agriculture, are active in the informal economy, with the figure reaching 84 per cent in sub-Saharan Africa. Most are own-account workers involved in home-based work or street vending, which are generally the most insecure and unremunerative forms of informal work. Informal women entrepreneurs similarly have fewer assets than their male counterparts and face even greater problems in gaining access to credit or title to their property. For those in wage employment, a large gap persists between male and female earnings, despite the increasing adoption of equal pay legislation.

There has been a tremendous rise in dual-income families and single-parent households, but societal perceptions of work and family have changed little.<sup>21</sup> Women continue to have primary responsibility for housework, childcare and unpaid work, so that increasing participation in paid employment in many cases simply means women work extra long hours.<sup>22</sup>

To balance work and family responsibilities, women tend to move in and out of the labour force several times over the course of their lives. Here again, they lose out to men, not only in terms of accumulated social security but also in terms of opportunities for lifelong learning and continuous training – without which they have lower employability. Ageist and sexist discrimination in the world of work appears to be occurring at earlier ages. In a growing number of countries, women over 35 years of age are finding it increasingly difficult to get jobs or be rehired – and thereby fall into poverty.

<sup>21</sup> See M. Daly (ed.): *Care work: The quest for security* (Geneva, ILO, 2001).

<sup>22</sup> Surveys in selected developing countries showed that women spent 34 per cent of their time on paid work and 66 per cent on unpaid care work. For men, the figures were 76 per cent and 24 per cent, respectively. UNDP: *Human Development Report 1999: Globalization with a human face* (New York, Oxford University Press, 1999).

For the many female-headed rural households, remittances from the wages of urban-based family members are often an important but unreliable source of income. Compared to those in urban areas, rural families are large, increasing the number of people dependent on low and intermittent incomes. Women marry at an earlier age, and infant and maternal mortality is higher than in urban areas. In addition to suffering discrimination in pay and access to land, legacies and credit, women also carry the double burden of care of the elderly and children and household tasks, as well as being expected to work in the fields.

### *Agricultural workers and rural communities*

A better understanding of the social and economic dynamics of rural communities is critical to the reduction and eradication of poverty. The world's poorest countries are those most dependent on agriculture. Three-quarters of the people in extreme poverty live in rural areas,<sup>23</sup> usually those remote from the main centres of economic activity or with the least productive land. The lack of opportunities in villages drives women and men to urban areas where life is almost as difficult, but there are more chances to earn a little more money in the informal economy – as well as more risks.

The starting point for such an analysis is an understanding of the seasonal nature of farming and the high risk of crop failures, which cause large fluctuations in the generally low incomes of rural populations, particularly in areas with unreliable rainfall and poor soils. Agriculture is the core industry in most rural areas, employing between half and two-thirds of the workforce in the world's poorest countries and generating between a quarter and a third of national output in many developing countries.

Work on farms accounts for 60 to 75 per cent of rural work and, together with associated industries and services, is central to the livelihoods of many of the world's communities. Many rural families do not have access to adequate sanitation, safe drinking water, health services and school places. Their villages are often isolated, lacking road, electricity or telephone connections. Hazardous child labour is pervasive.

The share of wage employment in agriculture, especially the number of wage-dependent smallholders in agriculture, is continuing to increase in virtually all regions, and accounts for some 40 per cent of the world's agricultural workforce. Of the 450 million workers in agricultural wage employment, 20 to 30 per cent are women.<sup>24</sup> Indigenous people and migrants form a significant part of this workforce.

Wage workers in agriculture are particularly vulnerable to poverty, as are many of the small and marginal farmers in developing countries. Indeed, since many wage workers farm small plots and many smallholders work away from their own land for considerable parts of the year, the distinction between the poor who are landless and poor smallholders is hard to draw in practice. Rural poverty is closely correlated to periods of forced inactivity

<sup>23</sup> See International Fund for Agricultural Development (IFAD): *Rural Poverty Report 2001: The challenge of ending rural poverty* (New York, Oxford University Press, 2001).

<sup>24</sup> Because their employment is often of a casual and seasonal nature, "wage" work by women in agriculture is subject to considerable measurement difficulties. For example, women and children often join the men in work gangs paid on a piecework basis to bring in the harvest.

typical of employment in agriculture, which create a large reserve pool of labourers desperate for any form of work to sustain their families.<sup>25</sup>

The lack of economic and social infrastructure needed for the sustainable development of rural areas leaves rural workers marginalized, even when they represent a majority of the workforce. Agricultural workers and their families, whether on large-scale plantations or smallholdings or within peasant communities, face many disadvantages in terms of access to credit, markets, social services, labour protection and social security but, lacking voice and representation in local, national and international politics, are often overlooked in poverty reduction strategies.

Some countries specifically exclude the agriculture sector from their general labour legislation. In others, general protective legislation may not be fully applicable to the agriculture sector, or may simply not be applied. For example, exclusions based on the size of an undertaking or on the contractual status of the worker are common. In many cases, labour laws are not applied because employers and workers are unfamiliar with the details of the law; application is found to be impractical in agricultural enterprises or enforcement is weak. Typically, casual, temporary or seasonal agricultural workers do not enjoy labour protection equal to that of permanent employees.

Hours of work in agriculture tend to be extremely long during planting and harvesting, with shorter hours at off-peak times. During rush periods, field work can last from dawn to dusk, offering little chance for rest breaks. Because the distance from home to field may be great, many field workers have no opportunity for a proper meal in the course of the day, increasing their fatigue and undermining their productivity.

Minimum wages tend to be low or non-existent for agricultural workers in general. Many casual, temporary or seasonal workers are paid at least in part on a piecework basis, for instance per kilo of crop picked, row weeded, or hectare sprayed. If rates are low, this can lead to people working very long hours to earn a subsistence income.

Rural workers – both wage labourers and small farmers – face many difficulties in forming and joining unions and other forms of workers' organizations to improve their living and working conditions. Legislation protecting the right to organize, and in particular prohibiting discrimination against activists, is often weak or inadequately enforced.

Large landowners and wealthy families tend to dominate the power structures of rural communities and can intimidate workers to deter them from building collective organizations, for example by threats of eviction, the calling in of loans or violence. Access to protection by the police and the courts is time-consuming and expensive, even when such mechanisms for protecting civil and political rights are not in the hands of local elites. Challenging the status quo in rural societies is risky, and with so many other sources of insecurity in their lives, only the most courageous take such action.

Yet despite all these difficulties, rural societies have the capacity to change, given the chance. Rural cooperatives and other collective self-help organizations of various kinds are important features of rural life in many countries and an essential mechanism for building some degree of social and economic security. Networks of public and private institutions, including

<sup>25</sup> See ILO: *Sustainable agriculture in a globalized economy*, Report for discussion at the Tripartite Meeting on Moving to Sustainable Agricultural Development through the Modernization of Agriculture and Employment in a Globalized Economy, Geneva, 2000.

rural employers' and workers' organizations, cooperatives and farmers' associations, have demonstrated that rural poverty can be overcome.

In many countries, land reform policies have shown that larger, more industrial agricultural production combined with smaller intensively farmed units that the poor can work productively for themselves can yield increased productivity and better livelihoods. Along with the generation of non-farm rural employment, the construction of better communications infrastructure and the provision of vital social services such as health and education, improved agricultural performance is a significant force in the fight against poverty.<sup>26</sup>

### *Living and working in the urban informal economy*

Street vendors in Mexico City; rickshaw pullers in Calcutta; jeepney drivers in Manila; garbage collectors in Bogotá; and roadside barbers in Durban – those who work on the streets or in the open air are the more visible occupational groups in the informal economy. The streets of cities, towns, and villages in most developing countries – and in many developed countries – are lined with barbers, cobblers, garbage collectors, waste recyclers, and vendors of vegetables, fruit, meat, fish, snack foods, and a myriad of non-perishable items ranging from locks and keys to soaps and detergents, and clothing. In many countries, head-loaders, cart pullers, bicycle peddlers, rickshaw pullers, and camel, bullock, or horse-cart drivers jostle to make their way down narrow village lanes or through the maze of traffic on city streets.

Less visible informal workers work in small shops and workshops. Down the crowded lanes of most cities, towns, or villages are small workshops that repair bicycles and motorcycles; recycle scrap metal; make furniture and metal parts; tan leather and stitch shoes; weave, dye, and print cloth; polish gems; make garments; sort and sell cloth, paper, and metal waste – and more.

The least visible informal workers, most of them women, sell or produce goods from their homes: embroiderers; incense-stick rollers; cigarette rollers; paper bag makers; kite makers; hair band makers; food processors. Other categories of informal work are casual workers in restaurants and hotels; subcontracted janitors and security guards; casual or day labourers in construction and agriculture; and temporary office helpers or off-site data processors.

The informal economy has been described in a number of ILO reports.<sup>27</sup> Work in the informal economy is characterized by low levels of skill and productivity, low or irregular incomes, long working hours, small or undefined workplaces, unsafe and unhealthy working conditions, and lack of access to information, markets, finance, training and technology.

Workers in the informal economy are not recognized, registered, regulated or protected under labour legislation and social protection, often because their employment status is ambiguous. They are generally not able to

<sup>26</sup> Studies suggest that a 1 per cent improvement in agricultural productivity leads to a reduction of between 0.6 and 1.2 per cent in the share of the population living in poverty. C. Thirtle et al.: *The impact of changes in agricultural productivity on the incidence of poverty in developing countries*, DFID Report No. 7946 (United Kingdom, Department for International Development, June 2002).

<sup>27</sup> ILO: *Decent work and the informal economy*, Report VI, International Labour Conference, 90th Session, Geneva, 2002; idem: *Women and men in the informal economy: A statistical picture* (Geneva, 2002); and idem: *ILO compendium of official statistics on employment in the informal sector* (STAT Working Paper No. 1, Geneva, 2002).

exercise or defend their fundamental rights. Facing great difficulties in organizing themselves, they have little or no collective representation vis-à-vis employers or public authorities. Although most at risk and therefore most in need, workers in the informal economy have little or no social protection, either from an employer or from the government. Workers in the informal economy are often excluded from education, skill building, training, health care and childcare, which are particularly important for women workers.

Migration to the city does not break family ties. Most low-income families have a foot in both the rural and urban labour markets. Indeed, many casual labourers work for part of the year away from home in urban areas but return for busy periods to farming; if the urban job becomes more remunerative they may return only occasionally but send back money to support the family. As national income rises, the share of household budgets spent on food falls and this, coupled with increased productivity, creates a long-run structural decline in employment in agriculture.

This shift is leading to rapid growth of urban settlements and the informal economy, placing considerable economic and social strains on families and communities in many developing countries.<sup>28</sup> Discrimination based on gender, age, ethnicity or disability also means that the most marginalized groups tend to end up in the informal economy. They are vulnerable to harassment, including sexual harassment, and other forms of exploitation and abuse, such as corruption and bribery. One of the basic problems faced by most workers and small businesses in the informal economy is that they cannot prove title to their property, which deprives them of access to both capital and credit.

### *Hazards at work, health and the poverty trap*

Inadequate housing and food, unsafe water, poor sanitation, hazardous working conditions and little or no access to health care – all of these contribute to ill health which is one of the main brakes on poverty-reducing development. Complications arising from undiagnosed or untreated diseases prevalent in many low-income countries and especially among rural populations (such as malaria, tuberculosis, gastro-intestinal disorders, anaemia and HIV/AIDS), combined with the health consequences of hazardous work, can be deadly and are certainly debilitating.

A vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy is a typical outcome in the absence of social interventions addressing the underlying problems of irregular and low-quality employment, low pay, and lack of social protection.<sup>29</sup> Disability as a result of hazardous work is a major cause of poverty, affecting entire families.

According to ILO estimates, there are about 335,000 fatal workplace accidents worldwide each year. Mortality rates have remained consistently

<sup>28</sup> ILO: "Cities at work: Promoting employment and social inclusion in urban settlements in developing countries", Background paper for the United Nations General Assembly Special Session on "Istanbul +5", 6-8 June 2001.

<sup>29</sup> The WHO Commission on Macroeconomics and Health estimated that the economic gains from a drive to control the main communicable diseases and reduce mortality by improving essential health care could add 1 percentage point to the annual growth rate of low-income countries. During the period 2015-20, economic benefits could amount to roughly US\$360 billion per year. See WHO: *Macroeconomics and health: Investing in health for economic development* (Geneva, 2001).

high over the past decade, particularly in developing countries. Some 170,000 agricultural workers are estimated to have been killed in 1997.<sup>30</sup>

Much agricultural work in developing countries is physically demanding, involving long periods of standing, stooping, bending and carrying out repetitive movements in awkward body positions. Poorly designed tools, difficult terrain and exposure to the elements increase fatigue and the risk of accidents. Even when technological change has mitigated the physical drudgery of agricultural work, it has introduced new risks, notably those associated with the use of sophisticated machinery and the intensive use of chemicals without appropriate safety measures, information and training. In developing countries, the risks are increased by the use of toxic chemicals that are banned or restricted in other countries, unsafe application techniques, poorly maintained equipment, lack of information available to the end-user on the precautions necessary for safe use, inadequate storage practices, and the reuse of old chemical containers for food and water storage.

One of the distinguishing characteristics of agricultural work is that working and living conditions are interwoven. Workers and their families live on the land, where there is much environmental spillover from the occupational risks mentioned above. Wider community exposure to pesticides may occur in the form of contamination of foodstuffs, the misuse of containers for food or water storage, the diversion of chemically treated seeds for human consumption, and the contamination of groundwater with chemical wastes. Rural communities often lack the education and information they need to respond appropriately to risks. Many workers may never see a doctor, as none is available within a reasonable distance.

Conditions in urban informal economies are no better. The majority of urban informal sector workers live in poor conditions and lack basic health and welfare services and social protection. A combination of undesirable living and working conditions results in vulnerability to diseases and poor health. The conditions under which most informal workers operate are precarious, unhealthy and unsafe. Many of the micro-enterprises in which they work have ramshackle structures and lack sanitary facilities, potable water or adequate waste disposal.<sup>31</sup>

### *Growing old in poverty*

Multi-generational relationships have sustained family and community life for centuries. Increasingly, however, older people have to rely on themselves to meet all their needs. In most developing countries, retirement is a luxury few older people can afford. About 40 per cent of people aged over 64 in Africa and about 25 per cent in Asia are still in the labour force, mostly in the agricultural sector. In many countries, a high proportion of older women work in the informal economy, partly because they can more easily combine work with family responsibilities, and partly for reasons related to discrimination encountered in the formal economy.<sup>32</sup>

<sup>30</sup> ILO: *Safety and health in agriculture*, Report VI(1), International Labour Conference, 88th Session, Geneva, 2000. The incidence of occupational hazards in agriculture in most countries is poorly recorded and documented. In many countries, agricultural workers are excluded from any employment injury benefit scheme, because none exists for them or because agricultural workers are specifically excluded from general schemes. In the case of illness and injury associated with agrochemicals, poor reporting is compounded by the difficulty of establishing a correct diagnosis.

<sup>31</sup> See V. Forastieri: *Improvement of working conditions and environment in the informal sector through safety and health measures*, Working Paper (Geneva, July 1999).

<sup>32</sup> See ILO: "An inclusive society for an ageing population: The employment and social protection challenge", Paper contributed by the ILO to the Second World Assembly on Ageing, Madrid, Apr. 2002.

Among older people, it is women who are most likely to end up in abject poverty. Nearly everywhere in the world, women live longer than men and account for the majority of single-person households. In many countries, public expenditures on social security and health care have been cut, often in the mistaken belief that families and communities will take care of their aged.

The sad fact is that there has been a reversal in inter-generational care. Older women who have already spent their lifetime looking after other people increasingly cannot expect to be cared for in their twilight years. In many least developed countries, the impact of the HIV/AIDS pandemic has left older women with responsibility for caring for their infected children and, later on, their grandchildren. HIV/AIDS now leads to wider gender inequalities, both at the beginning and at the end of a woman's life cycle, and also accounts for the increasing feminization of poverty.

Particularly in Africa, older women are finding that their care-giving role is increasingly required by a range of relatives in addition to their children and grandchildren, with little support from government. The "invisible burden" of the care economy is increasingly concentrated on older women.<sup>33</sup>

Poverty amongst the elderly is closely correlated to work in the informal economies of urban and rural areas. Low and fluctuating incomes throughout working life, coupled with poor coverage of social security schemes, means that the likelihood of poverty in old age is high. Health risks, including those resulting from hazardous working conditions, also mean that many people have to live and work with disabilities that impair their earning power. Since a large part of the economic contribution of women is through household and informal economy activity, they benefit less from pension schemes.

Women have a higher chance of losing their partners, and are less likely to remarry than men. Women over 60 who have lost their partners greatly outnumber their male equivalents. In some countries, widows are often denied access to or control over resources. In addition, women's inheritance rights are poorly established in many societies. In some countries, the deceased husband's resources, including house, land, equipment and money, may be distributed among other family members. In these countries, widowhood is usually accompanied by a loss of status and therefore means more than the loss of a husband – it also involves the loss of a separate identity. The increasing number of widows over the next century will challenge societies, not only to provide the necessary immediate support, but also to ensure opportunities to become more self-supportive.

People who have been working in the informal economy are unlikely to have made provision for their income security in old age. This is not a new problem but, as the informal sector has recently been expanding, it will become even more serious in the years ahead. In sub-Saharan Africa and South Asia, statutory social security personal coverage is estimated at 5 to 10 per cent of the working population and in some cases is decreasing. In Latin America, coverage varies widely from country to country, ranging from 10 to 80 per cent. However, there does seem to be a general stagnation. In South-East and East Asia, coverage varies between 10 and almost 100 per cent. Moreover, in many countries an increasing mortality rate amongst prime-age providers as a result of the HIV/AIDS pandemic is severely weakening already fragile social security systems.

<sup>33</sup> See ILO: *Realizing decent work for older women workers* (Geneva, 2001).

Worldwide, the number of people aged 60 and over is growing faster than all other age groups. Although developing countries still have a relatively young population, the speed at which their populations are ageing is faster than in the industrialized world. There is a pressing need to find effective ways to extend social protection to begin to address poverty in old age as well as other vulnerabilities. Minimum pension schemes are particularly relevant for women workers after a life of low-paid jobs and a heavy and continuing burden of family responsibilities.

### *The foundations of a decent work strategy for poverty reduction*

Most analysts of the nature and causes of poverty agree that growth in per capita income is essential to reducing poverty and that persistent growth failures are accompanied by a persistent failure to reduce poverty. However, they have not found a stable relationship between the rate of average per capita growth and the rate of poverty reduction.

Rapid economic growth is more effective than slow growth in reducing poverty. Yet what matters most is the character of economic growth, which is determined in part by the structure of the economy and in part by government policy. When increases in output are concentrated in economic sectors in which most of the poor work and this generates more income for people living in poverty, growth is pro-poor. Put another way, pro-poor growth leads to an improvement in the conditions of the poor proportionately greater than that for the population as a whole. Understanding the channels which link growth to improving the lives of people living in poverty is therefore essential to the design of sustainable pro-poor growth strategies.

A faster pace of sustainable growth is likely to increase the demand for labour across the economy, including that supplied by poor workers. However, a 1 per cent rise in production does not necessarily yield a 1 per cent increase in jobs. This relationship, termed the elasticity of employment, varies considerably between countries and at different periods in the same country. Although more research is needed to understand why the elasticity of employment varies, we do know that a high ratio of job growth to output growth produces conditions that increase the rate of poverty reduction.<sup>34</sup> Analysing work and life cycles of family poverty helps identify how an upward spiral of increasing economic and social security can replace the vicious circle of accumulated deprivations and generate pro-poor growth.

Improving the availability of opportunities to work and raising the incomes that the poor are able to generate from the work they can find poses three policy challenges:<sup>35</sup>

- increasing the demand for labour and raising the productivity and incomes of people living and working in poverty;
- integrating socially excluded communities into the labour market and overcoming discrimination, particularly against women and girls;
- improving the terms on which developing countries trade with richer countries and obtain investment finance.

<sup>34</sup> See S.R. Osmani: "Exploring the employment nexus: Topics in employment and poverty", report prepared for the Task Force on the Joint ILO-UNDP Programme on Employment and Poverty (unpublished document, May 2002).

<sup>35</sup> See also R. Islam: "Employment-poverty linkages: Issues and experiences", ILO, Recovery and Reconstruction Department (EMP/RECON) (unpublished presentation, 2002).

One of the main problems in boosting the pace of employment growth is that, although developing countries face a shortage of capital and an abundance of labour, past development strategies have often favoured capital- rather than labour-intensive investment. Investments in communications, energy and water infrastructure often use capital-intensive techniques even if equally effective labour-intensive methods are available. Although micro and small entrepreneurs have the largest potential impact on job creation, they encounter many difficulties in obtaining finance to get started and survive.

Rural industries and services are frequently disadvantaged by comparison to urban sectors, despite the need to expand work opportunities for the rural poor and avoid increasing the pressure of migration to already stressed urban environments. Agricultural policies have often favoured production by capital- and land-intensive larger farmers and trading companies rather than targeting the needs of small farmers and landless labourers. Redressing these imbalances are key elements of pro-poor growth and must be combined with an intelligent use of capital-intensive technologies specific to the resources and needs of particular countries.

Raising educational and skill levels is vital to overcoming many of the barriers that exclude and disadvantage poorer workers on the labour market. This must start with a renewed drive to increase access to primary education, but must also include a much stronger emphasis on vocational training so that school leavers and adults are able to acquire competencies that the market demands. Combating preventable diseases, stopping the spread of the HIV/AIDS pandemic, and increasing the availability of primary health care have a direct impact on the capacity of poor people to earn a regular income. Access to credit for investment in small-scale production and to meet occasional family needs, such as the purchase of school clothes or funeral expenses, promotes both job creation and the ability of the poor to overcome shocks to the family budget.

Perhaps most vital of all is the struggle against discrimination in all its forms. Race, religion and caste barriers condemn many communities to the margins of society and the economy. Pervasive gender discrimination makes it even more difficult for women to escape poverty than men.<sup>36</sup>

The relationship between poverty reduction and sustainable growth is circular. Integrating measures to stimulate the demand for labour and improve the responsiveness of the supply side of the jobs market, with a particular focus on boosting the earning power of the poor, enhances the growth potential of the economy. Increasing the productivity of the working people living in poverty removes a restraint on the overall capacity of the economy and stimulates demand by raising the purchasing power of a large group of consumers.

Furthermore, the poverty-reducing quality of growth is enhanced if it is stable. Recessions can push millions of families into a state of poverty in which they can become trapped even in a subsequent recovery.<sup>37</sup> Alongside macroeconomic policies to promote a stable pattern of growth, mitigating the vulnerability of the poor in episodes of slow growth is an important part of strategies for poverty reduction. However, many of the causes of instability originate in the international economy. National policies are unlikely to

<sup>36</sup> See ILO: *Time for equality at work*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 91st Session, Geneva, 2003.

<sup>37</sup> See ILO: *Employment policies for poverty reduction during Indonesia's economic recovery* (Geneva, 2002).

succeed fully unless the architecture of global markets for trade and finance is reformed. The international dimensions of strategies to reduce poverty and promote employment-generating sustainable growth are discussed in Chapter 5.

## *Conclusions*

For people living in poverty, discrimination and multiple deprivations cumulate to create a cycle of disadvantage. Recurring themes of the experience of poverty are the low returns to work of women and men in socially excluded communities and barriers to finding decent work opportunities.

Policies to reduce and eradicate poverty therefore need to address both the demand and supply sides of the labour market in developing countries, at the same time as shaping strategies for stable and sustainable growth. Strong community-level action, responsive to local needs and backed up by a supportive framework of laws and public policies, is a basic building block for progress. By breaking life cycles of family deprivation on a large scale, the economy as a whole can move on to a virtuous spiral of sustainable growth and poverty reduction.

The decent work approach to analysing poverty helps to reveal the key targets for community-based action and thus can inform and strengthen national and international partnerships to achieve the Millennium Development Goals. Within such partnerships, the ILO is dedicated to finding ways to end social exclusion and enlarge opportunities for more and better jobs.

The ILO's experience of working with national and local governments and employers' and workers' organizations in developing countries over many years has formed and tested a comprehensive portfolio of policy tools founded on enabling communities to work their way out of poverty. The following chapter reviews this experience and the lessons it provides for a coherent approach to poverty reduction that links grass-roots initiatives to national and international strategies by mobilizing people to form and join organizations of various types, including cooperatives and community groups, trade unions and employers' organizations, and other business associations.

### *3. Community action for decent work and social inclusion*

#### *Introduction*

Global and national strategies for poverty reduction should provide a framework for local strategies to escape cycles of low incomes from work and social exclusion. The ILO has considerable practical experience of community actions that create more and better jobs for women and men living in poverty and improve their chances of securing a life free from deprivation. Much of this work is in developing countries, but these approaches have also proved to be easily applicable in a number of transition and industrialized market economies.

It is sometimes argued that a low-income developing country can have either more or better jobs for the mass of the working poor, but not both. Similar arguments are also used to suggest that the provision of social services for education, health and income support must await the achievement of a reasonably high level of national income. In practice, however, these distinctions are hard to draw. Increasing and stabilizing the earnings of low-income workers requires an approach that combines improved productivity and remuneration with increased purchasing power and a stronger social infrastructure in local communities. “A job at any price” is not a strategy for a sustainable reduction in poverty. Breaking cycles of poverty is thus really about creating a new cycle of local wealth creation, in which step-by-step progress towards more and better jobs and social inclusion are mutually reinforcing.

Communities all over the world are changing rapidly as a result of the powerful forces of technological innovation and economic integration, as well as social and cultural factors such as the assertion of women’s rights, improved education and the wider availability of information and ideas. Migration for work is a growing phenomenon in virtually all parts of the world, with many families now relying on the earnings of members who have left home in search of better opportunities and no longer live permanently with their families. The challenges posed by increasing migration for work will be examined in the context of a general discussion on migrant workers at the 92nd Session of the International Labour Conference in 2004. The ILO’s work on migration will add a further dimension to our understanding of how creating opportunities for decent work relates to strategies to overcome poverty.

This chapter describes some of the main policy tools developed by the ILO to respond to the needs and aspirations of people living in poverty. It highlights the interaction between training, investment, enterprise, finance and social inclusion policies and the way they address the priorities of particular communities. Developing the capacity of trade unions, employers' organizations and cooperatives to work together with public authorities, local communities and other forms of voluntary associations to adapt and use decent work policy tools is key to broadening and deepening action to achieve a sustainable reduction of poverty. To reduce poverty substantially, as called for by the Millennium Summit, requires a major scaling-up of community-level action across the developing world.

Accordingly, the ILO has developed policy instruments in the following areas:

- training and skills development;
- investing in jobs and the community;
- micro and small enterprises;
- microfinance;
- cooperatives;
- social security;
- hazards at work;
- eliminating child labour;
- overcoming discrimination.

### *Skills development for sustainable livelihoods*

It is a commonplace in debates about how to reduce poverty to assert that poor people's main or only asset is their labour. It seems obvious that training has a critical role to play in improving productivity, incomes and equitable access to employment opportunities. Yet a striking feature of most poverty reduction strategies in developing countries is that the vocational education and training component is largely absent.

Training is in crisis nearly everywhere in the developing world.<sup>1</sup> Existing systems are underfunded and widely criticized for catering mainly to the needs of formal sector enterprises, with programmes for traditional trades mainly taken up by those able to afford the investment of time and forgone earnings in lengthy courses in mainly urban training centres. At the same time, governments are gradually coming to realize the need for substantial reforms. Training is no longer a once-and-for-all investment at the beginning of working life, but is a process of lifelong learning in which skills are constantly renewed and adapted.<sup>2</sup>

The distinction between "education" at school or in colleges and universities and "training" at work or through separate skill formation institutions is becoming blurred. Ensuring that young women and men learn core work skills that equip them for a wide variety of potential jobs is particularly vital to the economically vulnerable and socially excluded. The foundation of a lifelong learning approach to training is learning how to learn. It is easier said than done, however. Governmental responsibilities for education and training are often spread over several ministries. Employers or private and

<sup>1</sup> See P. Bernell: *Learning to change: Skills development among the economically vulnerable and socially excluded in developing countries*, Employment and Training Paper No. 43 (Geneva, ILO, 1999).

<sup>2</sup> See ILO: *World Employment Report 1998-99: Employability in the global economy: How training matters* (Geneva, 1998).

public agencies have a direct role in providing training, and in many countries voluntary bodies such as unions, charities and non-governmental organizations (NGOs) are also active. Rationalizing these dispersed institutions into a coherent system that is focused on the needs of working people, especially the poor, while acknowledging the institutional interests of education and training providers, is a major policy challenge.

The ILO is tackling these issues from two directions. First, it has launched a major drive to help its constituents rethink human resource development policies. In partnership with the United Nations Educational, Scientific and Cultural Organization (UNESCO), the ILO is seeking ways to ensure that expansion and reform of school systems are linked to a strategy for improving the skills needed for a productive working life. Second, it is working on the ground in a number of countries to develop new delivery techniques focused on the needs of the working poor.

The first step in reorienting policies for education and training was a general discussion at the International Labour Conference in 2000 on human resources training and development.<sup>3</sup> Amongst other things, the Conference called for a review of the Human Resources Development Recommendation, 1975 (No. 150).<sup>4</sup> A first discussion on this subject will take place at the current session of the Conference, followed by a second discussion in 2004, with a view to the adoption of a new instrument.<sup>5</sup> As part of this process, the ILO has compiled a database on national policies on vocational education and training providing information on different approaches to reform worldwide.<sup>6</sup> The ILO has also collaborated closely with UNESCO on the preparation of a new Revised Recommendation concerning Technical and Vocational Education, adopted in 2001 by the UNESCO General Conference.<sup>7</sup>

It is now widely recognized that education and training systems must make it easier for working people, especially the economically vulnerable and socially excluded, to take up decent work opportunities and refresh their skills throughout their working life. The ILO has highlighted the following key issues:

- Recognition that the primary responsibility for investment in training rests with governments but has to be shared with enterprises, the social partners, and individuals so that education and training are closely linked to economic and employment growth strategies and programmes.
- Urgent reforms are needed to improve basic education and literacy of women and men in the poorest countries. The development of core work skills (such as communication and problem solving) is an important part of a reform package to prepare individuals for the knowledge- and skills-based society.
- Training systems need to become more flexible and responsive to rapidly changing skill requirements. Reforms should focus on how learning

<sup>3</sup> See ILO: *Training for employment: Social inclusion, productivity and youth employment*, Report V, International Labour Conference, 88th Session, Geneva, 2000.

<sup>4</sup> Resolution concerning human resources training and development, adopted by the 88th Session of the International Labour Conference (2000).

<sup>5</sup> ILO: *Learning and training for work in the knowledge society*, Report IV(1), International Labour Conference, 91st Session, Geneva, 2003 and *Learning and training for work in the knowledge society: The constituents' views*, Report IV(2), International Labour Conference, 91st Session, Geneva, 2003.

<sup>6</sup> *idem*: *Revision of the Human Resources Development Recommendation* (CD containing the abovementioned reports and approximately 500 examples of national training policy initiatives).

<sup>7</sup> ILO and UNESCO: *Technical and vocational education and training for the twenty-first century: UNESCO and ILO Recommendations* (2002).

### Learning to read and improving work skills in Honduras

Nearly half the population of Honduras live on US\$2 a day or less. Deep-seated poverty was further exacerbated by the devastating consequences of Hurricane Mitch in 1998. The lack of community organization and the low level of education, coupled with inadequate work opportunities, perpetuate low income and living conditions for many families, especially in rural areas.

A quarter of adult Hondurans are illiterate. The ILO project "Education for Work" (POCET) was launched to help meet the education needs of farmers aged between 15 and 49 years having incomes lower than the minimum wage. By combining occupational training with learning to read and write, the project equips participants to solve some of the day-to-day problems of earning a living. It also includes training in the skills needed to set up and run small businesses, including cooperatives.

The ILO's local partner in this endeavour is the National Centre for Education for Work (CENET). After five years of ILO technical assistance, the Centre now has the institutional, financial and methodological capacity to continue the work of rural poverty reduction. The lessons learned in working with poor communities about the design and implementation of mixed literacy and vocational training are being applied in many rural and some marginalized urban areas. The Centre's diploma programme in Education for Work provides a strong foundation for training trainers.

Source: ILO Regional Office for the Americas, Lima.

can be facilitated, not just on training for specific occupational categories. School-to-work schemes for young people should integrate education with workplace learning.

- The social partners must be more closely involved in discussions on training policy and skills development, if the desired reforms and increased investment are to become a reality. Experience demonstrates that a strong social dialogue process generating a powerful political constituency for training underpins the more successful systems.
- People should have their skills recognized, however they were acquired, as part of a national qualifications framework. This is particularly important in developing countries, where many of the "unskilled" have in fact learnt skills but do not have the certificates that many employers require.

The foundation of the ILO's work on skills formation for employment and income generation for working women and men living in poverty is its community-based training (CBT) methodology.<sup>8</sup> It consists of a set of procedures for systematically identifying employment- and income-generating opportunities at the local level, designing and delivering appropriate training programmes, and providing necessary post-training support services, including credit, technical assistance and market information.

An integrated programme at community level generally requires the support of several agencies, and vital components include an interministerial committee and consultations with the social partners. By taking responsibility for training of local programme staff, such bodies help to ensure that the methodology is transferred into the national training policies. Similarly, local training committees in the selected areas are key to identifying opportunities and needs, and provide the best means of organizing delivery. In the

<sup>8</sup> See H.C. Haan: *Community-based training for employment and income generation: A guide for decision-makers* (Geneva, ILO, 1994).

## Community-based training in Cambodia

Working from eight provincial training centres scattered around Cambodia, an ILO/UNDP project on vocational training for the alleviation of poverty, and its predecessor project, trained over 8,000 women and men in a diverse range of skills from 1993 to 1999. Follow-up surveys over the 12 months after completion of training showed that over 82 per cent of trainees had work using their new skill and were earning US\$33 a month on average, well above the average per capita GDP of about US\$22 a month. Over half of the trainees were women and over a third were women heads of household. Many were unskilled farm workers, often having little or no cash income prior to participating in the project.

A key to the success of this project was that it did not offer predetermined courses. Rather, the project staff worked with the local community to find out what skills were in short supply locally. Then people with the scarce skills, recruited from among those trained in the border refugee camps, were asked to help train others, but only enough to satisfy the needs of the local community. The project wanted to make sure that trainees could make a living with their new skill, and an over-supply would lower their earnings.

Many of the successful courses were not typical of ILO training programmes, for example, pig rearing and vaccination, duck rearing and vaccination, incense-stick making and vegetable growing. Duck vaccination proved particularly attractive, as graduates of the course were much in demand to quell an outbreak of disease that was decimating farmers' flocks. Hairdressing was another winner with over 90 per cent of graduates still using the skill after a year and earning US\$65 a month on average.

All told, 35 skills courses were offered and, since a majority of the trainees ended up as self-employed people, they all acquired basic business skills too. Courses were run as close as possible to the trainees' homes in the villages at times most suitable to them. Course length varied, but usually consisted of several hours' training a week over two or three months. This was particularly important to ensuring a high participation by women in the programme.

An essential part of the project strategy was to build the capacity of Cambodian counterparts to implement a flexible system of skill training linked to identified employment opportunities. A total of 76 government staff received various forms of training support while working on the project. Responsibility for the provincial training centres was handed over to the Cambodian Government at the end of the project, with the aim of integrating their operations into the permanent services provided by the public authorities.

A number of other countries have launched projects and programmes based on the ILO community-based training approach, including Azerbaijan, Bangladesh, Belarus, China, Jamaica, Kenya, Nepal, Nigeria, Pakistan, Philippines, the Russian Federation, Sri Lanka, the United Republic of Tanzania and Uganda.

Source: ILO InFocus Programme on Skills, Knowledge and Employability (IFP/SKILLS).

**implementation phase, flexibility is essential. Training should be delivered as close to the clients as possible, with particular attention to ensuring that women benefit fully from programmes. Important aspects in this respect are training of trainers, selection of trainees and finding sources of credit to make up lost income during training and help start up small businesses based on the new skills.**

**Good organization, rather than large amounts of money, is needed to apply the ILO methodology. Experience in more than 20 countries over the last ten years shows that the rewards are considerable, with a very high percentage of trainees using their skills to earn a better income. In addition, a**

number of countries, including Cambodia, Jamaica, Nepal, and the Philippines, have integrated the CBT methodology into their national training policies.

### *Investing in jobs and the community*

Spending on infrastructure represents about 20 per cent of total investment in developing countries, and from 40 to 60 per cent of public investment, according to the World Bank. A reorientation of policies on infrastructure investment to ensure that technically viable and cost-effective employment-intensive options are used speeds the reduction of poverty by generating productive and decent employment. The challenge is to develop the appropriate mix of capital- and employment-intensive investment techniques according to each country's needs and resources.

The employment-creating and poverty-reducing impacts of employment-intensive infrastructure investment depend to a great extent on the design of the programmes and local conditions. A distinction needs to be drawn between employment-based safety nets, sometimes termed workfare, and labour-based productive and cost-effective infrastructure programmes aimed at offering fair work.<sup>9</sup> The ILO is increasingly focusing on programmes aimed at developing poor regions and communities in a sustained fashion. But safety net projects, often run in collaboration with the World Food Programme, are also useful as an emergency mechanism for counteracting food shortages, as was the case during the drought in southern Africa in 2002, and following disasters like the floods in Mozambique in 2000 and Hurricane Mitch in Central America in 1999.

Building on this work, the ILO emphasizes community-based approaches to infrastructure investment by developing the organizational and negotiating capacities of local communities, producers and service providers. Community organizations formed around infrastructure projects remain in place for their management and maintenance and have often prompted other collective initiatives, such as health insurance.

The approach is particularly useful in addressing the needs of women in poverty. By promoting the objectives of equal pay for work of equal value and equal access to jobs and training, it combats discrimination. Involvement of women in the technical and supervisory functions of projects can help overcome biases against the recruitment of unskilled women workers. Special criteria for the selection of investment schemes target concerns of women, such as access to productive resources, land development, water, firewood, rehabilitation of health centres and schools. In this connection, emphasis is also placed on the inclusion of women on decision-making committees, such as those of community-based organizations, village development committees and economic interest groups.

Pilot and large-scale labour-based infrastructure programmes carried out in countries as varied as Cambodia, Ghana, Lao People's Democratic Republic, Lesotho, Madagascar, Rwanda, Thailand and Zimbabwe show that labour-based approaches:

- are between 10 and 30 per cent less costly in financial terms than more equipment-intensive techniques;

<sup>9</sup> See S. Devereux: *From workfare to fair work: The contribution of public works and other labour-based infrastructure programmes to poverty alleviation*, Issues in Employment and Poverty, Discussion Paper No. 5 (Geneva, ILO, 2002).

### Boosting jobs and connecting communities in Mozambique

Over the last ten years ILO work with the Government in Mozambique on a nationwide employment-intensive Feeder Roads Programme (FRP) has rehabilitated some 7,000 km of feeder roads. These roads open up access to markets, stimulate the use of cash crops and bring services within reach of local communities. The use of labour-based methods creates employment and reinvigorates the rural economy by ensuring that much of the inputs, in terms of wages and local materials, remain with the local rural populations.

The project benefited poor households in rural Mozambique, hit particularly hard by civil war. Among the project's main achievements were the training of 34 work brigades, including small contractors, and of government engineers and foremen in labour-based road rehabilitation; the building up of a culture of fair labour practices and consideration of labour rights in provincial and national centres dealing with gender and social issues; increased participation of women, from an initial 2 per cent in 1992 to 20 per cent of the project's workforce by the end of 1998; and the creation of over 1 million workdays of temporary employment in 1998, equivalent to some 6,200 jobs. Furthermore, the techniques used in the programme at the national level are now being applied by the National Roads Board and large-scale donor programmes.

Source: ILO Employment Intensive Investment Programme (EIIP).

- reduce foreign exchange requirements by between 50 and 60 per cent; and
- create between three and five times as much employment for the same investment.

The typical worker on a labour-based infrastructure programme is an underemployed casual labourer. Care is taken to ensure that the wage is set at a level to help lift workers' families out of severe poverty but avoid attracting employed workers away from other income-generating activities. In this and other aspects of the design of the project, consultation with local communities has proved the most effective way of targeting the creation of job opportunities on those most in need, as well as ensuring that the infrastructure built meets local priorities. Embedding such projects in the community is vital to future maintenance, which can also be designed to use labour-intensive techniques.

Poverty is reduced in the short term by the increased incomes of workers on the project and in the longer term through the provision of public goods vital to increasing income-earning prospects for the community as a whole. The average employment period is often around 100 days; with an estimated average daily wage level of US\$1.50, this implies a transfer of \$150 per participant. In rural areas during the "hungry" season, this is a sizeable income transfer to households on the poverty line.<sup>10</sup>

By improving the infrastructure of communities, labour-intensive infrastructure investments boost the growth of the local economy and enhance access to social services. For example, the economic benefits of a rural road linking a village to a local market town are savings in transport time and costs, which translate directly into higher farm incomes. Water supply or drainage schemes, schools and health posts lead to an improvement in the

<sup>10</sup> This finding comes from an evaluation of programmes and projects in countries including Cambodia, Madagascar, Mali, Mozambique, Nicaragua, the United Republic of Tanzania, Togo and Uganda, in ILO: *Thematic evaluation report: Employment-intensive investment and poverty alleviation*, Governing Body doc. GB.286/TC/1, 286th Session, Geneva, Mar. 2003.

health and skills of the whole area. An evaluation of the impact of upgrading drains in poor informal urban settlements in Uganda found that the completion of a main channel, in addition to the employment and income generated, brought about a reduction of waterborne diseases, an improvement in housing and latrines and important increases in land and rental values.<sup>11</sup>

After 25 years of pioneering work in the promotion of employment-intensive infrastructure investment,<sup>12</sup> the ILO has learnt a number of important lessons. First and foremost, a sustained impact on poverty depends on good policy design and local capacity building. The ILO concentrates on developing training systems for government ministries, project consultants, small contractors and communities. This has helped to spread knowledge and skills so that the large number of national and international agencies involved in infrastructure work are aware of the labour-based option and its developmental advantages. Second, a key phase is the drafting of procurement conditions. Such documents can determine whether or not small national contractors have a chance in competition with international companies. Third, the impact on poverty is enhanced when local communities are fully involved in deciding what is being built, how and by whom. Fourth, a national strategy, involving the relevant departments and the social partners, and backed by international development agencies, is needed to garner the full potential for poverty reduction of the labour-intensive approach to infrastructure investment. Fifth, labour-intensive investment can open doors for community development and provide a temporary boost to the incomes of people living in poverty, but sustaining progress requires linked action to promote longer term employment opportunities, for example in micro and small enterprises.

### *Supporting entrepreneurship in micro and small enterprises*

Small enterprises constitute a large and growing share of employment in the developing world, and are generally more labour intensive than larger firms.<sup>13</sup> In many countries, a business with more than ten workers is already quite large, while in others an enterprise with fewer than 50 employees is considered small. In Latin America, small businesses with fewer than 20 employees accounted for 51 per cent of total urban employment in 1998, up from 48 per cent in 1990.<sup>14</sup> In Thailand, 90 per cent of all private establishments employ under 20 persons. Informal enterprises provide work for seven out of ten people in non-agricultural employment in India.<sup>15</sup>

Furthermore, between 60 and 70 per cent of workers in the non-agricultural parts of the informal economies of the developing world are self-employed, in effect one-person businesses.<sup>16</sup> Home-based workers and

<sup>11</sup> UNDP/ILO: *In-depth evaluation report: Kalerwe community-based drainage upgrading project, Uganda*, UGA/92/006 (ILO, 1994), cited in GB.286/TC/1, op. cit.

<sup>12</sup> The Employment-Intensive Investment Programme (EIIP) is the focal point of the ILO's work in this area.

<sup>13</sup> Comprehensive and up-to-date data to support these widely held perceptions is largely unavailable, mainly because most micro and small enterprises operate in or on the margins of the informal economy. Furthermore, although there is no standard definition of the boundary between small and medium-sized firms, the statistics usually cover one-person enterprises which might in some cases also be counted as self-employed persons.

<sup>14</sup> ILO: *Panorama Laboral 1999* (Lima, 1999), cited in G. Reinecke: *Small enterprises, big challenges: A literature review on the impact of the policy environment on the creation and improvement of jobs within small enterprises*, SEED Working Paper No. 23 (Geneva, ILO, 2002).

<sup>15</sup> ILO: *Women and men in the informal economy: A statistical picture* (Geneva, 2002), p. 34.

<sup>16</sup> *ibid.*, p. 20.

street vendors make up the largest groups in urban areas, but many workers are employed in small workshops, often in or adjoining dwellings, making garments, processing food and engaging in other forms of small-scale manufacturing and assembly work. Categorization of the women and men involved in such businesses is an invidious task. Some work for somebody else, others on their own account, while still others employ people as well as working themselves. Many may pass to and fro through these categories during their working life. Often the business unit is the family, with perhaps three generations working together and pooling earnings.<sup>17</sup>

Not all workers or employers in the informal economy are poor; but many are, or live with the constant risk that some event may push them into poverty. ILO research in Latin America suggests that most of the self-employed workers in the informal sector are essentially unemployed, and venture into any business activity just to survive. Many of these self-employed persons operate at a very low level of productivity. Only about 15 to 20 per cent are active in micro-enterprises which, for one reason or another, are not part of the formal economy, but offer employment to the working poor and have the potential to grow.<sup>18</sup>

The size of the small business sector depends, amongst other things, on the “birth” and “death” rates of enterprises. Both statistics are high, varying according to the rate of economic growth and the availability of other employment opportunities.<sup>19</sup> If the conditions for small businesses to escape from the struggle to survive and start to grow were improved, their employment-creating potential could become a key component of a pro-poor growth strategy.

Since most women and men earn their living in micro and small enterprises, in self-employment and as homeworkers, improved policies, regulations, business training, market development and organization building can have a major impact on poverty reduction.<sup>20</sup> By improving job quality in small enterprises, increasing economic opportunities for women, promoting association building of employers and workers in the sector and upgrading employment for workers in the informal economy, the goal is to unlock the potential for creating more and better jobs in the small enterprise sector.

For micro and small businesses, acquiring the management skills to survive and grow is vital. The ILO assists partners in building national and local capacity in cost-effective and sustainable business development services, such as management training, access to finance, information on technologies, export and domestic market access, and inter-firm linkages. The ILO “Start and improve your business” (SIYB) methodology is used in more than 80 countries. By following an institution-building strategy, working with existing local and national organizations to train trainers from partner organizations, who in turn train the micro and small-scale entrepreneurs, the programme reaches large numbers of people and is sustainable.<sup>21</sup>

<sup>17</sup> The report submitted for general discussion at this session of the International Labour Conference addresses the question of what is an employment relationship and how the growth of the informal economy and of subcontracting arrangements is impacting on legal concepts: ILO: *The scope of the employment relationship*, Report V, International Labour Conference, 91st Session, Geneva, 2003.

<sup>18</sup> See Micro and Small Enterprise Promotion Centre of Central America (CENPROMYPE): *Programa regional: Centro para la Promoción de la Micro y Pequeña Empresa en Centroamérica* (Aug. 2001).

<sup>19</sup> See Reinecke, op. cit.

<sup>20</sup> The framework for ILO policy in this area is provided by the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189).

<sup>21</sup> The ILO’s InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) is the focal point for this work.

### Improving working conditions and profits in the brassware industry

The brassware sector in Moradabad, India, includes 25,000 micro and small enterprises and produces 80 per cent of India's output. It generates badly needed employment and income for about 200,000 people, most of whom are poor artisans. Much of the work takes place in small, unventilated shops, where the owners and their few workers inhale the smoke from smelting and casting processes. This results in short- and long-term health problems. It is work, but it is not decent work.

Poor health is not the only problem arising from smoky conditions, however. Because the work environment is unpleasant, it hampers the capacity of workers to complete their tasks. This reduces productivity, which adversely affects the profitability and indeed the viability of the enterprises. In this and similar cases, promoting decent work can improve the lives of workers at the same time as it increases efficiency.

One of the solutions involves erecting locally designed chimneys on the workshops to channel the smoke away from workers. In some cases, this simple improvement can lead to productivity gains of up to 50 per cent. It can also improve relations between workers and employers, as the latter are seen as being concerned with the welfare of their employees.

In September 2000, the ILO's InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) began working with local organizations and people to improve job quality in the brassware sector. Sensitizing the artisans to the benefits of better ventilation was one aspect of a wider programme to improve the welfare of workers while making the sector more competitive. This involved collaboration with the Enterprise Development Institute of India to understand best practices at the better-run, more efficient brassware firms. These practices were incorporated into training and awareness seminars on job quality with the artisans at the Institute, as well as in practical instruction at their workplaces. Instruction included better handling systems for hot castings, improved work layout to reduce physical strain and increased use of protective materials. Awareness-raising activities have included presentations on issues such as the need to eliminate child labour. In addition, an association of artisans is being developed to better represent their interests.

Brassware from Moradabad contributes about US\$500 million to the country's export earnings, but the sector is facing increased competition from other developing countries. IFP/SEED is working with local training institutes and government departments to improve quality and consistency so that market share can be maintained. The effort involves a "high-road" strategy of improving quality and thus the value of products, rather than a "low-road" approach based on limiting the wages of poor artisans and workers.

Source: ILO InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED).

**The marginalization of small enterprises is often the result of insufficient institutional support and limited interaction with other economic actors and labour market institutions. In working with individual small enterprise and worker associations, federations and support organizations, the ILO has developed an approach that is based on the following principles:**

- **building on existing networks and self-help initiatives;**
- **identifying associations through partners that have local roots and enjoy trust;**
- **resource sharing right from the start;**
- **allowing group-building processes the time they need;**

## Cleaning up the city and creating jobs in the United Republic of Tanzania

Since 1997, the ILO has assisted the Dar es Salaam city council in privatizing and rationalizing waste management by contracting local enterprises to process solid waste in the city. Management advice and Start-Your-Waste-Collection Business training has helped extend collection to previously unserved low-income areas of the city. Collection, transport and recycling of solid waste in the city of Dar es Salaam now provides more than 2,000 jobs, mainly for women and youth.

These “franchisees”, about 70 in all, are private enterprises, associations and community organizations. Sensitization campaigns, neighbourhood meetings and support from the local elected ward leaders were crucial in ensuring direct fee payment by the serviced households and businesses. These fees provide a living wage for the waste collectors and cleaners. Moreover, the official recognition and praise they receive has boosted their self-esteem and feeling of belonging to the local economy. They have formed the Dar es Salaam Waste Management Association (DAWAMA). Sound contracts, recycling and safe and healthy working conditions are key concerns of its members.

Other municipalities in the United Republic of Tanzania, Kenya and Uganda are following the project’s lead to tap the huge potential of jobs in making their cities clean. The multi-agency Collaborative Working Group on Solid Waste Management in Low- and Middle Income Countries has selected Dar es Salaam for its biannual workshop in 2003 to learn from this promising model. Under the title “Solid Waste Collection that Benefits the Urban Poor” the meeting is intended to focus on how best to link environmental sustainability with poverty reduction through job creation in urban communities.

Source: ILO InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED).

- making provision for addressing gender issues;
- seeking long-term commitments from partners and support agencies.

The SIYB programme thus reaches large numbers of entrepreneurs and, when donor funding stops and pilot projects are phased out, local and national institutions continue delivering the support small businesses need. A module on improving job quality has proved that increasing productivity helps businesses survive and grow and offer better conditions of employment. To help overcome urban poverty, a special programme supports the development of local public-private partnerships between municipal governments and the private sector through a participatory planning process.

In most developing regions of the world, about two-thirds of workers in the non-agricultural informal economy are women, mostly self-employed street vendors or home-based workers. Women face many of the same problems as male entrepreneurs, but even more acutely. For example, women have difficulty in obtaining access to finance, and when they do, they receive smaller loans than men. In addition, many women wanting to start or improve their business are overburdened with looking after their families, earning an income and overcoming the many social and cultural obstacles to successful entrepreneurship.

Networks and associations of self-employed women and female-headed small businesses can provide much-needed support for new and emerging women entrepreneurs, that takes account of women’s reproductive and household responsibilities, as well as existing gender relations and

### Improving market access for informal women entrepreneurs

Providing skills training, entrepreneurship development, microcredit, business development services and capacity building to women producers and own-account workers in the informal economy helps improve earnings. But without access to viable markets, these women may still not be able to get out of poverty. A recent ILO GENPROM-SEED project is conducting action research on how women in the informal economy in different parts of the world can: (i) enhance their knowledge of appropriate and effective channels and strategies for entering and participating competitively in domestic and international markets, including through equitable participation in value chains; (ii) overcome the product-market divide in terms of product development and design, quality assurance systems and production and logistics capacities to guarantee a viable volume of business; and (iii) be empowered to seize these market opportunities and get out of poverty.

The action research currently covers the promotion of women's entrepreneurship through trade fairs and subcontracting initiatives in Ethiopia; the dissemination of information on markets for Caribbean women entrepreneurs through a Web-based resource guide; the promotion of rural tourism and a handicraft incubator for women in marginalized rural communities in Estonia; the upgrading of food vendors to food processors in the United Republic of Tanzania; the development of a milk production chain through a women's cooperative in Nicaragua; and the dynamics and operations of a weekend market in Thailand where women sell a wide range of products with innovative designs and quick turnover to local, tourist and international buyers.

Source: ILO Gender Promotion Programme (GENPROM) and Women's Entrepreneurship Development and Gender Equality (WEDGE).

**roles between women and men. Better relations with such networks provide a great opportunity for representative associations such as employers' organizations to increase their women's membership. Women's mobility is restricted in that they often have to work close to home, have limited access to transport and need to take personal safety considerations into account. Initial experience with programmes in several countries shows that support services specifically designed to help women can have an important impact, especially where they tie in to women's small business associations or women's sections of associations open to both sexes.<sup>22</sup>**

Support to micro and small business is most effective where the legal and regulatory environment provides both security and opportunity. ILO research in Chile, Guinea, Pakistan, Peru, South Africa, the United Republic of Tanzania and Viet Nam is aimed at informing a policy action programme to create a new, more effective balance of incentives and disincentives for small businesses. A policy and legal environment that lowers the costs of establishing and operating a business, including simplified registration and licensing procedures, appropriate rules and regulations, and reasonable and fair taxation, will help new entrepreneurs to start in the formal economy and existing informal businesses to enter it. Furthermore, the security that formality provides will facilitate access to commercial buyers, more favourable credit terms, legal protection, contract enforcement, appropriate technology, subsidies, foreign exchange and local and international markets. A coherent legal, judicial and financial framework for securing property rights, especially

<sup>22</sup> Women's Entrepreneurship Development and Gender Equality (WEDGE) spearheads SEED's work in this field. Reports and Working Papers on women's entrepreneurship development in a number of countries have been published under the WEDGE programme.

for women, to enable “hidden” assets to be turned into productive capital through sale, lease or use as collateral is a high priority in many countries.<sup>23</sup>

### *Making money work for poverty reduction*

The incomes of working people living in poverty are not only low, but also volatile. Poor people, aware of the risks of not having sufficient earnings to meet daily needs, tend to save proportionally more than families with more secure, higher incomes. However, most banks do not offer savings and loan facilities to poor people. Many must hide their savings in cash somewhere and, when they need a loan, resort to the local moneylender for credit at onerous rates of interest. Microfinance is the provision, on a sustainable basis, of financial services such as credit, savings, insurance, payments and guarantees to poor people generally outside the reach of the formal financial market.

Traditional banks are reluctant to cater to poor people for four main reasons. First, self-employed people and micro-enterprises rarely have legal title to assets that banks can use as collateral. Second, banks recover the costs of researching the business prospects or income security of a client by charging it to the interest on the loan, but the costs of research for a small loan are similar to those for larger loans that will yield a much higher return. Third, small businesses in the informal economy, especially those just starting up, are rarely able to provide statements of accounts required by banks. Fourth, taking small deposits from a large number of poor people requires maintaining an extensive and costly network of branch offices in poor communities. By comparison, a small number of branches catering to wealthier clients is a much more attractive business proposition.

Microfinance institutions (MFIs), however, approach the provision of financial services with a different logic. First, they know that most poor people are very diligent in meeting repayments because they may have to borrow again and they want to stay out of the clutches of loan sharks. Second, small membership-based MFIs have a strong sense of collective self-discipline which rests on kinship and community ties. Third, being much closer to their clients, MFIs do not need to carry out costly research. Their experience enables them to take the risk of lending small amounts with little or no collateral because the risk of default is, on average, acceptably small. Finally, because they are often run in part by volunteers, the costs of collecting deposits and managing loans can be kept very low and adapted to the needs of members.

These powerful advantages have led to a rapid growth in microfinance. At the end of 2001, 2,186 microfinance institutions reported reaching 55 million clients, of whom 27 million were among the poorest when they took their first loan. This is up from the 7.6 million poorest clients identified by the Microcredit Summit Campaign when it was launched in 1997 with the goal of reaching 100 million of the world’s poorest families with credit for self-employment and other business and financial services. The expansion of microfinance was encouraged by the formation of a 26-member donor network on microfinance, the Consultative Group to Assist the Poorest (CGAP), that includes the ILO and the World Bank. The attractiveness of microfinance to development finance agencies lies in its potential to reduce poverty without perpetual subsidies by expanding the market for financial

<sup>23</sup> See H. de Soto: *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else* (London, Bantam Press, 2000).

services to the poor. Many MFIs started with a public or charitable subsidy, and some still require outside support to cover their operating costs with operating revenue. However, MFIs worldwide are moving towards higher degrees of cost recovery and subsidy independence by refining and constantly improving tools for monitoring sustainability.

Microfinance makes an important contribution to the ILO's decent work approach to poverty reduction in three ways:

- *Job creation:* Small investments in fixed assets and the provision of working capital to micro and small enterprises facilitate the creation of jobs in poor communities.
- *Enhanced security:* Savings, emergency loans and insurance products stabilize income levels and reduce the vulnerability of people living near the subsistence level.
- *Empowerment:* Group formation and other delivery techniques in microfinance develop a sense of responsibility, strengthen social capital and empower the poor, especially women.

The ILO seeks to enhance the capacity of decision makers in government, workers' and employers' organizations and banks and private sector agents to develop and implement policies that optimize the social benefits of sustainable microfinance.<sup>24</sup> One of the key issues is the adaptation of banking regulations to the needs of MFIs. For example, the support programme for mutual benefit societies and savings and credit cooperatives (PA-SMEC), carried out jointly by the ILO and the Central Bank of West African States (BCEAO), also involves grass-roots initiatives, such as village banks and women's savings groups. The aim of the partnership is to advance microfinance through exchange of information, data collection, training, advisory services, and the creation of an appropriate, incentive-based regulatory framework. Microfinance is now a macro business in Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo, with over 300 MFIs serving 4.2 million members representing one out of five households in the region. A microfinance database covers all major MFIs in each of the seven countries, and a "training of trainers" programme, in collaboration with a Cooperative Training Centre (ISPEC) in Benin, strengthens the capacity of MFIs to implement their own training programmes.

The success of microfinance lies in the mutually reinforcing effect of financial resource pooling and social organization. Microfinance institutions overcome the handicap of individually insignificant transactions and bring people together in mutual support. As money is involved, there has to be a measure of trust for such groups to work. The building of trust, or social capital, is vital to the struggle of the working poor for political rights and representation and economic opportunities. By bringing years of experience in building voluntary associations of the cooperative movement, employers' organizations and trade unions to the microfinance movement, the ILO can contribute to extending the availability of cheap financial services to the 95 per cent of the working poor who, according to estimates by the Micro-credit Summit Campaign, still do not have access to banking systems.

### *Building local development through cooperatives*

The participation of people living in poverty in policies to improve their livelihood and counteract social exclusion and vulnerability is increasingly emphasized in poverty reduction strategies. Village self-help groups, farmer-

<sup>24</sup> The ILO Social Finance Programme manages these services.

owned businesses, savings and loan associations and other forms of member-driven community organizations are frequently advocated as effective means of organizing to meet the needs of workers and entrepreneurs in the rural and urban informal economies. Capacity building, improvements in literacy and health, opportunities for income generation, access to existing institutions and public services, policy advocacy – all depend on there being some kind of cooperative organization of the poor on which to build. Why, then, are there so few explicit references to cooperatives in the literature on poverty reduction?

One of the main reasons is that the word “cooperative” has been badly misused in the recent past. In many countries, state-controlled “cooperatives” failed to mobilize members, who perceived them as being controlled by government-appointed managers. The cooperative vision of enlarging the economic power of individual members through membership-driven entrepreneurship was devalued and discredited. However, the rich legacy of cooperatives and its value to community-based models of sustainable development should not be discarded. Development strategies need to rediscover cooperation as a model for local development. The 90th Session of the International Labour Conference adopted the Promotion of Cooperatives Recommendation, 2002 (No. 193), providing a framework for the renewed growth of the movement.

Cooperatives are in fact a very significant part of the global economy. Ranging from small-scale to multi-million dollar businesses across the globe, they are estimated to employ more than 100 million women and men and have more than 800 million individual members. Because cooperatives are owned by those who use their services, their decisions balance the need for profitability with the wider interests of the community. They also foster economic fairness by ensuring equal access to markets and services for their members, with membership being open and voluntary. Cooperatives mainly operate in agricultural marketing and supply, finance, wholesale and retailing, health care, housing and insurance. This is a strong base to build on.

The ILO has had a close relationship with the cooperative movement since its earliest days.<sup>25</sup> Because they are both enterprises and associations, cooperatives bring together in very practical ways the vision of social organization to create opportunities for decent work as a key to individual and community well-being. The work of the ILO is thus focused on providing individuals, communities and micro-enterprises with the organizational tools that enable them to help themselves through collective action and mutual assistance.<sup>26</sup> This approach has proved to be particularly appropriate for indigenous communities, and the ILO has a special programme (the INDISCO programme) targeting the needs of this group of the poorest of the poor.

The core tools cooperatives need in order to flourish are advice on capacity building, entrepreneurship development, leadership training, market research, accessing loan finance and grant aid, inter-cooperative networking, and federation building. For such grass-roots support to work effectively, cooperatives need a secure legal framework governing their status. Since 1994, the ILO has assisted over 60 member States in reforming

<sup>25</sup> For an overview of the development of the International Co-operative Alliance (ICA), see J. Birchall: *The international co-operative movement* (Manchester, Manchester University Press, 1997). ICA has more than 250 member organizations from over 100 countries, representing more than 760 million individuals worldwide.

<sup>26</sup> The ILO's Cooperative Branch (COOP) provides policy advice and technical cooperation to ILO constituents; organizes international meetings; produces documentation and information to increase public awareness of cooperatives; and promotes cooperative values and principles. The technical cooperation activities cover a wide range of themes from cooperative legislation and human resources development to job creation, poverty alleviation and local economic development.

### Tribal people's cooperatives in Orissa, India

In the Indian State of Orissa, where 50 per cent of rural inhabitants live below the poverty line, 32 million tribal people – 22 per cent of the population – are the most disadvantaged. They farm small paddy fields and live with the constant risk of crop failures caused by uncertain rainfall and degradation of the forests. The tribal people have to cope with the problems faced by small farmers everywhere: how to procure farm inputs at a reasonable cost, and how to market their produce at a fair price – plus the added disadvantage of discrimination. Most of the tribals are illiterate, many are landless, and they are exploited by outside moneylenders. Within their communities, tribal women work harder and longer hours than men, and girls' education is particularly neglected. Indebtedness is widespread and infrastructure remains poorly developed. Yet the area is rich in materials providing opportunities for the growth of cottage industries.

With an NGO partner, the Social Science and Development Research Institute (SSADRI), the ILO implemented a pilot project involving ten villages, with a total population of over 3,000 people, starting by holding meetings to identify people's needs. Backed up by socio-economic surveys, this led to a focus on income generation for women. Self-help groups (called *Mahila Mandal*) were organized in each village by the women, who received training and started making leaf cups and plates for sale. This led to electrification, setting up of work sheds and installation of machines. Then training courses were extended to silkworm rearing, weaving, marketing, typing and tailoring.

The key to sustainability was a revolving loan fund, which reached 46 per cent of the total population. Increased income was invested in industries such as vegetable cultivation, garment making and animal husbandry, and in starting businesses such as groceries, cycle repair and bee-keeping. The extra income generated then led to spending on schooling and medicines. Encouraged by the low default rate on loans from the revolving fund, local banks are now lending to villagers.

Trained village support workers from the community are in daily contact with village-level institutions formally constituted as cooperatives and linked together in an apex cooperative, the Multi-purpose Labour Cooperative Society. Participatory self-evaluations enabled the villagers to take part in measuring progress and identifying impediments to action.

The involvement of women strengthened the institutions by transforming previously passive labourers into active organizers. In consequence, women have gained respect and status. From modest beginnings, the cooperatives have stimulated a burst of community activity to help tribal people overcome illiteracy, ill health and the degradation of the local forest and grasslands. The final stage is the gradual withdrawal of support from the project, which will test the durability of the new community-driven social organizations. The prospects are encouraging, not least because the network of cooperatives has empowered this indigenous community to lead the process of social inclusion while maintaining their own sense of identity and culture.

Source: ILO Job Creation and Enterprise Development Programme: Cooperatives Branch.

**cooperative policy and legislation and equipping teams of national experts to provide practical assistance to new and existing cooperatives.**

**The ILO programme on organizational and cooperative support to grass-roots initiatives (ACOPAM) implemented in Burkina Faso, Cape Verde, Mali, Mauritania, Niger and Senegal exemplifies what cooperatives can do where they have the support of government policies and a secure legal environment. Over a period of 20 years, more than 85,000 men and women in rural areas, in over 2,000 grass-roots organizations, benefited from**

the programme. The objective was to enable producers to express and defend their interests by helping them adapt their organization to the changing needs and different experiences and know-how of the members. In practical terms, the cooperative structure ensured that local people were in charge and decided what was to be done and how to use the external experts and extension workers available to them through the project. The main areas of intervention were self-managed cotton markets, village cereal banks, women's savings and credit schemes, community irrigation and land management schemes, and mutual health insurance schemes.

Cooperatives empower people by enabling even the poorest segments of the population to participate in economic progress; they create job opportunities for those who have skills but little or no capital; and they provide protection by organizing mutual help in communities. Furthermore, by creating a platform for local development initiatives they bring together a range of community institutions to foster opportunities for decent work and social inclusion. Cooperative members learn from each other, innovate together and, by increasing control over livelihoods, restore the dignity that the experience of poverty destroys.

## Securing incomes

Societies at all levels of development face the challenge of organizing systems to provide security against contingencies such as sickness, accident, death of the main breadwinner, disability, old age, maternity and unemployment that make individuals, families and communities vulnerable to poverty. Through solidarity and fair burden sharing, social security systems contribute to human security, dignity, equity and social justice. They are also a foundation for political inclusion, empowerment and the development of democracy. Half of the world's population is excluded from any type of social security protection, with the rate of coverage varying from almost 100 per cent in some industrialized countries to less than 10 per cent in the poorest developing countries.

In June 2001, at the 89th Session of the International Labour Conference, governments, employers and workers reached a new consensus on social security. They agreed that the highest priority should be given to "policies and initiatives which can bring social security to those who are not covered by existing systems". The Conference therefore proposed that "a major campaign should be launched in order to promote the extension of coverage of social security".<sup>27</sup>

ILO work with developing countries over many years demonstrates that progress is possible, especially where a strategy of gradual expansion of systems is planned and integrated with other strategies to combat social exclusion. The ILO is currently providing technical advice on the extension of social security in more than 30 countries. It is also working with eight developing and transition countries on social protection expenditure and performance reviews that help in the design of policies aimed at closing coverage and protection gaps within given fiscal and financial limits.<sup>28</sup>

<sup>27</sup> Resolution and conclusions concerning social security, adopted at the 89th Session of the International Labour Conference, in ILO: *Social security: A new consensus* (Geneva, 2001).

<sup>28</sup> The Financial, Actuarial and Statistical Services Branch (SOC/FAS) of the ILO offers assistance to governments in analysing social protection expenditure and financing problems. Using a methodology which integrates projections regarding population, the labour force and the economy, it also helps countries to quantify the implications of social protection policy options for revenues and expenditure.

In conjunction with a growing economy and active employment policies, social security is an instrument that can enhance productivity and support sustainable social and economic development. Social security facilitates structural and technological changes that require an adaptable and mobile labour force. As globalization intensifies, effective social security systems support people through changes in the world of work. Well-designed systems improve economic performance and thus contribute to the comparative advantage of countries on global markets.

Each society must determine how best to ensure income security and access to health care and the pace at which systems are introduced. However, experience shows that the most effective systems are underpinned by certain basic principles. In particular, benefits should be secure and non-discriminatory; schemes should be managed in a sound and transparent manner, with administrative costs as low as practicable; and the social partners should have a strong role. Public confidence in social security systems is a key factor for their success, making good governance essential.<sup>29</sup>

The issue in many developing countries was, until recently, whether they could afford a social security system; in the wake of the 1998-99 Asian financial crisis, however, countries are now facing the question whether they can afford *not* to have a system. The Republic of Korea, for example, decided that if the country were to recover from the impact of a sudden increase in unemployment and at the same time prepare for the risk of future sharp economic contractions, it needed to invest in more extensive social protection.<sup>30</sup> For China, too, faced with the challenge of massive restructuring, social security is a priority.

In most low-income developing countries, not more than 10 to 25 per cent of the working population and their dependants are covered by statutory social insurance, mainly for pensions and sometimes for health-care costs. By extending such systems to all regular workers and some workers in the informal economy, perhaps another 5 to 10 per cent of the workforce could be covered. At the other end of the income spectrum are the 30 per cent of poor households that probably cannot afford even very low insurance contributions on a regular basis. They need some form of solidarity income transfers. However, about 40 to 60 per cent of the working population with incomes above the poverty line have some contributory power. Experience and research in many countries show that people in this group are interested in joining social insurance schemes tailored to their needs, within which health care and protection in the event of death and disability are seen as priorities.<sup>31</sup> Many in this group have low incomes and are vulnerable to falling into poverty.

Particularly in low-income countries, micro-insurance and mutual health organizations have emerged to provide members with health-care coverage. They are often rooted in self-help or cooperative movements, and aim to contribute to local development. The advantage of such schemes is that contribution rates are often low because they focus on providing only those benefits that are perceived by members as urgently necessary. The disadvantages are that they are rarely large enough to cover costly medical expenses and cannot offer a replacement income in the event of incapacity to

<sup>29</sup> See E. Reynaud: *The extension of social security coverage: The approach of the International Labour Office*, ESS Paper No. 3 (Geneva, ILO, 2002).

<sup>30</sup> See J. Yang: "The rise of the Korean welfare State amid economic crisis, 1997-99: Implications for the globalization debate", in *Development Policy Review*, Vol. 18 (2000), pp. 235-256.

<sup>31</sup> W. van Ginneken: *Extending social security: Policies for developing countries*, ESS Paper No. 13 (Geneva, ILO, 2002).

work. However, they need outside help and technical assistance to be sustainable and increase their coverage.<sup>32</sup>

Micro-insurance is therefore most likely to succeed where a public agency is able to provide financial and technical support for local initiatives. Such support can include help with set-up costs, including the training of administrators, subsidies in the form of matching contributions to extend the risks insured and reinsurance of the whole scheme.<sup>33</sup> In Ghana the ILO is currently testing a system to enhance the enrolment rates of the poor by subsidizing the premiums they are able to pay. It is also important that governments create a regulatory framework to ensure, amongst other things, democratic and economically sound financial management of micro-insurance schemes.

The low administrative costs of micro-insurance need to be weighed against the low coverage of such schemes and the risk that they may fail. Compulsory schemes enlarge the pool of contributors, the number of people covered and the risks insured, but entail higher administrative costs in ensuring compliance. Many developing countries have compulsory schemes, usually for public sector employees and larger private enterprises. Such schemes were often envisaged as a starting point for more comprehensive systems. This ambition was rarely achieved for various reasons, including a limited administrative capacity to cope with a much larger number of small employers, often on the margins of formality, and the self-employed, and the lack of health-care facilities outside the urban centres. In addition, the weak political voice of the uninsured, combined with financial constraints, has left proposals for extension low on the list of government priorities.

The vision of universal social insurance schemes was and continues to be based on the idea that workers and employers should provide for themselves in the event of being unable to work. As well as appealing to a wide constituency, including higher income groups, the insurance principle has the advantage of insulating – at least to some extent – the steady long-term flow of contributions needed for actuarial soundness from the annual vicissitudes of budget making. Since benefits are usually linked to contributions, those unable to contribute regularly or at all are not covered. This group includes many of those most in need, such as women who have worked at home caring for children or other family dependants, casual labourers and persons with disabilities. Countries with a large informal economy also face a major problem of linking the extension of social insurance systems to the measures needed to integrate progressively micro and small businesses, own-account workers and the rural sector into formal systems of labour market governance.

Social insurance systems therefore need to be supplemented with tax-financed social assistance programmes to provide for the needs of those unable to contribute regularly or at all. Such benefits are usually less generous than those under the social insurance scheme and are sometimes means-tested. Targeting of social assistance in this way is costly, however, and often fails to reach many in need because they resent the social stigma involved in applying for welfare, are unaware of their rights, and find the process too complicated and time-consuming. In addition, the discretion left to administrators by means-tested systems can give rise to problems of clientelism and discrimination. For most developing countries, means-tested welfare is not a

<sup>32</sup> The ILO Strategies and Tools against Social Exclusion and Poverty Programme (STEP) provides technical assistance, training and research services on micro-insurance.

<sup>33</sup> See D. Dror; A.S. Preker (eds.): *Social reinsurance: A new approach to sustainable community health financing* (Geneva and Washington, DC, ILO and World Bank, 2002).

realistic option, given the needs of those who are unlikely to be brought within a comprehensive system for many years.

One of the most cost-effective means of tackling family poverty is through the provision of a flat-rate child benefit paid to all mothers and a minimum old-age pension. In developing countries where modest basic universal pension schemes exist, such as Botswana, Namibia and South Africa, they have proven to be beneficial to whole family units.<sup>34</sup> The simplicity of such schemes makes administrative costs relatively low, although of course some expenditure will go to families that do not need extra income. In some countries child benefit payments are conditional on school attendance for children of school age. By contrast with more narrowly conceived “safety net” policies, insurance and minimum income systems offer an entitlement rather than temporary relief, thus avoiding the danger of stigmatizing the poor as welfare recipients. The ILO is studying the fiscal implications of basic tax-financed schemes in developing countries to determine the extent to which external subsidies would be needed.

Extending social security to the poorest in developing countries will require an integrated mix of schemes that can be progressively enlarged as the administrative capacities and economic resources of the country grow. Technical expertise and advice are important, but the most vital ingredient is the cultivation of a broad societal consensus on needs and the best mechanisms for meeting them. This requires trust in the institutions for the delivery of social solidarity – yet there is frequently lack of confidence in the government as a provider of social services and income security. However, successful incremental growth of social security schemes will show that solidarity works and will build confidence and enlarge the scope for more ambitious measures. Wealthier countries can accelerate this process by increasing financial transfers to supplement nationally generated resources.<sup>35</sup>

The four main components of a medium-term strategy for extending social security in developing countries are:

- Support to various forms of micro-insurance schemes and local mutual health organizations to secure their financial stability, professional quality and sustainability. Promotion of federation of such organizations, so as to extend their coverage and to develop their negotiating strength towards other socio-economic groups and the government.
- Governments and international partners should consider introducing tax-financed minimum income schemes, such as a universal old-age pension and child benefits paid to mothers in cash and conditional only on regular attendance at school.
- Reform and extension of existing compulsory social insurance schemes to include employees of smaller enterprises, based on sound actuarial assessments of social expenditure resources and affordably low contribution rates. International donors should be ready to pledge predictable multi-annual grants for a given period of time to such schemes to ensure that benefits are set at attractive levels and sustainability can be developed.
- Establishment of national social security advisory committees, including representatives of trade unions and employers’ organizations, to help governments and voluntary institutions develop a broad social consensus on the implementation of a medium- to long-term strategy aimed at achieving social security for all.

<sup>34</sup> See A. Barrientos; P. Lloyd-Sherlock: “Non-contributory pensions and social protection”, Annex 2 to ILO: *A Global Social Trust network: Investing in the world’s social future* (Geneva, 2002).

<sup>35</sup> See *A Global Social Trust network*, op. cit.

## Tackling work-related health hazards

Most workers living in poverty lack basic health and welfare services and work in an unhealthy and unsafe working environment. For many, their home and workplace are one and the same place. Vulnerability to disease and poor health thus result from a combination of poor living and working conditions. Most workers in the informal economy work in precarious and unsafe conditions, without sanitary facilities, potable water or proper waste disposal. Every year, more than 2 million people die of work-related accidents and diseases. In many developing countries, death rates among workers are five to six times those in industrialized countries. More than 160 million workers fall ill each year as a result of workplace hazards. The poorest and least protected – often women, children and migrants – are among the most affected.

According to surveys carried out by the ILO in Nigeria, the Philippines, Senegal and the United Republic of Tanzania, while hazards varied according to occupation, some of the most prevalent problems in micro and small informal enterprises were poor lighting, lack of ventilation, excessive heat, poor housekeeping, inadequate work space and working tools, lack of protective equipment, exposure to hazardous chemicals and dusts and long hours of work. The most prevalent health impairments were musculoskeletal disorders and lower back pain, allergic reactions and other respiratory disorders, physical strain, fatigue and stress. Injuries with tools were also frequent. High production demands, poor work organization and inadequate tools and equipment used for lifting and transporting materials are amongst the most common causes of health problems. This, combined with repetitive movements, carrying of heavy loads and awkward postures, adds up to a physical workload which may reach unacceptable levels, causing unnecessary strain and fatigue, and contributing to injuries. Hazardous working conditions not only harm workers' health but also diminish productivity and therefore income. Yet many of these risks can be reduced by low-cost investments that also yield improved productivity.<sup>36</sup>

The ILO is working with governments and the social partners to create worldwide awareness of the dimensions and consequences of work-related accidents, injuries and diseases and to stimulate and support practical action.<sup>37</sup> Documenting and publicizing the human suffering and the cost to society, as well as the potential benefits of protection, such as enhanced productivity, quality and cost savings, is the starting point. Such research leads to recognition of the importance of prevention as an efficient and cost-effective way of providing safety and health protection to all workers. The priorities are work in especially hazardous sectors, such as agriculture, mining and construction and the informal economy as a whole, and protection of those who are exposed to abuse and exploitation at work, such as women, children and migrants.

The ILO draws on its extensive experience in the development of standards, codes of practice and technical guides to help countries set objectives and targets for the protection of workers in hazardous conditions, giving particular attention to strengthening the advisory and enforcement capacity of labour inspectorates. Extending the scope of existing legislation and other protective measures to the large majority of workers whose conditions are most in need of improvement is essential, and is especially effective when

<sup>36</sup> V. Forastieri: *Improvement of working conditions and environment in the informal sector through safety and health measures* (Geneva, ILO, July 1999).

<sup>37</sup> The ILO's InFocus Programme on Safety and Health at Work and the Environment (SafeWork) coordinates this work.

coupled with specific programmes to promote the capacity of enterprises and workers to act to reduce and eliminate hazards.<sup>38</sup>

A basic element of such an approach is developing practical safety and health training programmes and tools for small and medium-sized enterprises and strengthening the effectiveness, efficiency and coverage of labour inspection systems. Important aspects of this work are the development and use of guidelines for the extension of labour protection to rural and urban informal economy workers and partnerships with community organizations and others to develop and implement approaches for reaching out to hard-to-reach groups of workers.

Work by the ILO to address hazards in the ship-breaking industry<sup>39</sup> illustrates the way in which international action linked to work on the ground with communities in developing countries can address the grave hazards faced by workers and their communities. Approximately 1,500 large ships and 2,500 smaller ones are broken down each year in dangerous and back-breaking working conditions. Most of the work is done by poorly paid contract labourers who tear ships apart with gas torches and their bare hands on beaches, mainly in India, Pakistan and Bangladesh. Safety goggles and other protective equipment are rare. Workers are routinely exposed to extreme heat, flammable gases and dangerous chemicals. Most ships contain asbestos, lead, mercury, polychlorinated biphenyls (PCBs) and other organic pollutants, dioxin and sulphuric fumes. In addition, the majority of sites in developing countries have no waste management systems or other facilities to prevent pollution. As a result, pollutants find their way into both the air and the groundwater, causing severe long-term health and environmental damage. The ILO has initiated programmes in South Asia which include working with governments to improve occupational safety and health regulations and inspection services, training workers and employers on good workplace health and safety practices, and upgrading technical facilities. A UNDP-funded project is being launched in Bangladesh as a first step towards this goal. In addition, the ILO is working with the International Maritime Organization (IMO), the secretariat of the Basel Convention, the World Bank and others to address the international dimensions of the occupational and environmental challenges posed by ship-breaking.

### *Working to end child labour*

Ensuring that children have a chance to break out of the cycle of poverty is a cause that has attracted worldwide support. The latest ILO estimates for 2000 are that some 352 million children between the ages of 5 and 17 were economically active. Many, however, were aged 12 years and older and performing light work a few hours a week. Of the 246 million involved in what the ILO defines as child labour, which is to be eliminated, highest priority is given to the 171 million child labourers working in conditions that are hazardous and can cause irreversible physical or psychological damage, and even threaten their lives.<sup>40</sup> The ILO contribution to the campaign to remove these children from danger and offer them a better start in life is significant and has grown rapidly over the last decade.

<sup>38</sup> See the Occupational Safety and Health Convention, 1981 (No. 155).

<sup>39</sup> A. Rahman; A.Z.M. Tabarak Ullah: *Ship-breaking*, background paper prepared for the ILO's Sectoral Activities Programme (Dhaka, 1999).

<sup>40</sup> ILO: *IPEC action against child labour: Highlights 2002* (Geneva, Jan. 2003).

Launched in 1992, the International Programme on the Elimination of Child Labour (IPEC) now has 30 donors and operational activities in 82 countries. Backing up the projects and programmes, and feeding into regional, sectoral and global policy debates and partnerships to combat child labour, is a wealth of new statistical information, research, training materials and good practice guides. In addition, ratification of the Minimum Age Convention, 1973 (No. 138), has dramatically increased since 1995, while the speed of ratification of the new Worst Forms of Child Labour Convention, 1999 (No. 182), is unprecedented in ILO history, indicating both a major improvement in the legal tools for combating the problem and considerably enhanced awareness and commitment. Every four years, a Global Report under the ILO Declaration on Fundamental Principles and Rights at Work provides an opportunity to measure progress and the scale of the challenge ahead.<sup>41</sup>

Combating child labour is intrinsically linked to strategies for the reduction of poverty. As described in Chapter 2, child labour is both a cause and a symptom of poverty. Although over 1 million child workers<sup>42</sup> have benefited from the direct action component of ILO-supported programmes, this is a tiny fraction of the more than 171 million children working in hazardous conditions. It is likely that many more have been helped indirectly by the ILO's work, but to achieve a future without child labour it is vital that steady progress be made towards the Millennium Development Goals for poverty reduction. Linking the ILO's work on child labour to the global drive to lift people out of extreme poverty is essential.

Our work has shown the value of a step-by-step approach, working with the government, unions, employers and other groups, that starts by building awareness of the costs to families and societies of child labour and an assessment of the legal and administrative framework. Often backed up by research, this phase helps to develop the political will in government and a constituency of support that drives successful action.<sup>43</sup> Perhaps the biggest success of the ILO's work over the last ten years is overcoming the barrier of denial.

The action phase involves capacity building and specific projects aimed at releasing children from work, reintegrating them into school and the family, and preventing child labour at its source. By working with employers, unions, teachers, and NGOs and directly with communities where child labour is prevalent, local action groups are formed to design and implement programmes specific to their needs.<sup>44</sup>

There are an estimated 500,000 child weavers throughout Pakistan. An IPEC demonstration project aimed at progressively eliminating child labour in the carpet industry in the Sheikhpura and Gujranwala districts in Pakistan's Punjab province provides an example of the ILO's community-based approach. Without affordable schools nearby, most child weavers received no education. Many were illiterate. The project's new education centres condense five years of schooling into three years, and use interactive "friendly" teaching techniques to prepare students for more formal education. Village committees of community leaders, carpet contractors, fathers and mothers

<sup>41</sup> See ILO: *A future without child labour*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 90th Session, Geneva, 2002.

<sup>42</sup> Latest IPEC estimates of the number of children who benefited from ILO action between 1992 and 2001.

<sup>43</sup> IPEC has developed an innovative technique for rapid assessment surveys that gives quick up-to-date information on the worst forms of child labour. By the end of 2002, it had completed 40 rapid assessments in 20 countries. More complete surveys of what is frequently a hidden problem are under way in 32 countries.

<sup>44</sup> See ILO: *Good practices in action against child labour* (Geneva, 2001).

### Community ends child labour in Philippines footwear production

Every Friday afternoon, dozens of parents holding blue social services cards bring their children to a local multi-purpose community centre for cost-free examination and care by volunteer Dr. Rosauro Santa Maria. The blue card signifies that the family's children are no longer involved in hazardous footwear production and are eligible for project services. The doctor is just one of many individuals, health care societies, educational institutions, and other groups that have contributed to the goal of combating child labour.

Largely conducted in small, poorly ventilated homes in which workers live, footwear production exposes children to fumes from solvents and hot glues. This causes dizziness and respiratory difficulties. Chronic fatigue and aches are common. As the Biñan footwear industry shrinks, families sensitized by the programme are prepared for change, and their children are protected from new forms of labour.

With its local partners, an ILO-IPEC project is able to meet many needs of children and families in Barangay de la Paz and Barangay Malaban, the two targeted communities in the Biñan district. Biñan Medical Society members, for example, provide free services in their own clinics to children participating in the project. The Children's Medical Centre conducts a monthly medical mission, and offers free tuberculosis (TB) screening and medication. Service organizations give supplemental nutrition to malnourished children, and students from the Saint Michael's College of Laguna lead free weekly tutorial sessions for children. The project's implementing agency, Open Heart, contributes half the costs of teachers' salaries for the Early Childhood Development Programme, school supplies, transportation and uniforms for older students.

The project's beneficiaries serve as volunteers as well. Through training workshops, parents in the footwear sector have acquired skills needed to assume responsibility for managing savings activities, monitoring TB medication intake and assisting nutrition programmes. They have also formed People's Organizations that implement their own initiatives for building the community and eliminating child labour. Together with the Biñan Child Labour Committee (composed of local stakeholders and the League of Biñan Leaders), these people's organizations will be able to sustain project efforts – expanding resources and services so that child labour here will become permanently unnecessary, socially unacceptable and virtually non-existent.

Source: InFocus Programme on Child Labour (IPEC).

**build and manage the centres and monitor school attendance and performance. The projects have enrolled more than 10,250 child carpet weavers and their siblings in school, withdrawing them from or preventing them from engaging in child labour. These results have led to the project's next phase – expansion to the rest of Punjab.**

**Encouraging as it is, this example also illustrates the challenge of scaling up and replicating the experience of relatively few communities to a nationwide programme. While direct action projects and programmes aimed at the withdrawal from the labour market and rehabilitation of selected groups of children are essential, this is only part of the solution. Even more important, given the sheer magnitude of the problem, is ensuring that the development process includes actions and policies to curb and prevent both the supply of and demand for child labourers. A sustainable and comprehensive approach therefore has to place concern about child labour in the broader framework of a country's development.**

**Freedom from child labour is an inalienable right. Eliminating child labour is a challenge to develop accessible, quality education and to tackle**

the absence of jobs or other sources of sufficient income for parents. Both aspects underscore the need to integrate child labour elimination programmes closely with efforts to improve employment and income generation, gender equality and skills development. ILO Convention No. 182 requires member States to implement time-bound measures for eliminating the worst forms of child labour. Time-bound programmes (TBPs) combine policy-related upstream interventions aimed at creating an environment conducive to eliminating child labour with downstream service-oriented activities at the community level. They also focus on building coalitions at national, regional and international levels to shape an environment in which information, analysis and research support advocacy, as well as policy and programme development, implementation, monitoring and evaluation.

During 2002, the first three national TBPs in El Salvador, Nepal and the United Republic of Tanzania moved from the preparation phase to implementation. Programmes in ten more countries are in the pipeline. Capacity building for key IPEC partners and the development of the knowledge base for programme development and implementation are a core feature of the design of TBPs. In this way the TBP concept is designed to meet the need for large-scale interventions in many countries. National agencies and institutions will increasingly take the lead in programme development and implementation, including resource mobilization, with a reduced role for IPEC in the management and execution of projects.

The mobilization of resources is crucial to the extension of the TBP strategy. The scale required puts this outside the means of the ILO acting alone. Beyond the funding possible from national budgets and aid programmes, other options meriting consideration include the pooling of resources through a consortium of donors and the possibility of channelling debt credits into TBPs in countries participating in the World Bank and the International Monetary Fund's (IMF's) heavily indebted poor countries (HIPC) initiative and the Poverty Reduction Strategy Papers (PRSPs) process. An example of this is the Ghana Poverty Reduction Strategy, completed in 2002, which states the Government's intention to work with IPEC in designing and implementing interventions to address child labour in major towns and to increase funding for the Free Compulsory Basic Education programme. Other possible sources include grant and loan funding from the international financial institutions.

Broadening and deepening the drive to eliminate child labour, the ILO is promoting national, regional, sectoral and global networks and partnerships of constituents, technical institutions and professional associations that can act to combat child labour. Several interregional networks are being set up, with gender as the cross-cutting theme. The purpose of the Development Policy Network for the Elimination of Child Labour (DPNet) is to promote the integration of child labour action into larger development and poverty reduction efforts. The Hazardous Child Labour Network (HCLNet) seeks to focus the concern of the public and policy-makers on children involved in dangerous work and enlist the expertise of occupational safety and health organizations. Collaboration with the World Health Organization (WHO), the United Nations Children's Fund (UNICEF), and the World Bank and contacts with universities are being strengthened.<sup>45</sup> Partnerships in the garment, sporting goods, tobacco and cocoa/chocolate industries have started. They are typically

<sup>45</sup> The ILO, UNICEF and the World Bank initiated the joint inter-agency research programme "Understanding Children's Work and its Impact" (the UCW Project) in December 2000. It is based at the Innocenti Research Centre (IRC) in Florence, Italy. The UCW Project aims to address the crucial need for more and better data on child labourers. Its web site contains the information stemming from UCW activities, and from the ILO, UNICEF and the World Bank.

### Involving consumers in action to stop child labour

A number of innovative partnerships with employers and unions link consumer concern about working conditions in the supply chain to action on the ground to eliminate child labour. Two examples which connect children as consumers to children as workers are soccer balls and chocolate.

Since 1997, the ILO's InFocus Programme on Child Labour (IPEC) has worked to eliminate child labour in the soccer ball industry. The programme is located in Sialkot, Pakistan, where almost 10,000 children aged between 5 and 14 were estimated to be involved in soccer ball production.<sup>1</sup> Participating manufacturers of the Sialkot Chamber of Commerce and Industry transferred their stitching work from home-based production to more easily monitored stitching centres. Manufacturers supply data on all of their stitching centres, including those operated by their subcontractors. From this database, teams select a site to monitor each day. They update as needed a manufacturer's compliance rating. Reduced ratings are then shared with the International Federation of Association Football, potentially affecting the manufacturer's soccer ball sales. Manufacturers representing more than 95 per cent of the export production of soccer balls from Sialkot have joined the programme. Monitoring is undertaken by the Independent Monitoring Association of Child Labour, which includes representatives from trade unions, national and local governments, and participating NGOs. After considerable success in ending child labour in the football industry in the town, the next challenge is to counter a trend to relocate stitching to neighbouring villages where child labour is still found.

On 1 July 2002, a partnership of leading global chocolate manufacturers, unions and other non-industry partners established a foundation to lead the International Cocoa Initiative – Working towards Responsible Labour Standards for Cocoa Growing. It aims to eliminate child and forced labour practices in cocoa cultivation and processing. The ILO is an adviser to the foundation. Surveys have been carried out to clarify the incidence and nature of hazardous child labour on cocoa plantations in the West African countries most directly concerned and a report was published in July 2002. IPEC provided advice and supervised these surveys. Parallel to the consultative process and the investigations, IPEC elaborated a US\$6 million three-year programme of concrete action to eliminate child labour in cocoa production in the countries directly concerned. This undertaking combines awareness raising among families and communities; capacity enhancement of producers, inspectorates and workers; removal of children from work and their enrolment in education and training programmes; income-generating measures for families; and an active child labour monitoring and feedback system.

<sup>1</sup> The partners in the programme are the Sialkot Chamber of Commerce and Industry, UNICEF, Save the Children – UK, Pakistan Bait-ul-Mal, the Bunyad Literacy Community Council, the All Pakistan Federation of Trade Unions (APFTU) and the United States Department of Labor.

Source: InFocus Programme on Child Labour (IPEC).

**governed by multi-stakeholder arrangements in which the employers' and workers' constituencies figure prominently. Beyond consultation and coordination, these partnerships are aimed at a better understanding of the problem of child labour and its elimination, as well as monitoring other core labour rights, and at implementing pilot projects on child labour issues.**

### *Overcoming discrimination*

**All too often people living in poverty are not treated as equals by the rest of society. "Poverty is humiliation, the sense of being dependent, and of**

being forced to accept rudeness, insults, and indifference when we seek help.”<sup>46</sup>

Like poverty, discrimination is also multifaceted. The impact of poverty is compounded by discrimination based on race, caste, ethnic origin, skin colour, religion, gender, sexual orientation, health status and disability. This chapter has catalogued ways in which promoting opportunities for decent work can contribute to eliminating these barriers. Just as discrimination at work is one of the most damaging aspects of unequal treatment, so can the chance to work productively in decent conditions begin to break down the prejudices that often underlie social exclusion.<sup>47</sup>

The starting point for all the ILO’s work to overcome discrimination is the right to equality of opportunity and treatment in respect of employment and occupation, reflected in the Discrimination (Employment and Occupation) Convention, 1958 (No. 111). One of the most highly ratified of all ILO Conventions, it is a remarkably far-sighted and comprehensive instrument which continues to inspire national legislation and other measures. Equal access to job opportunities requires that national and local action increasingly emphasize positive and inclusive duties to promote equality and not just negative duties to avoid discrimination, and that systems of regulation involve the empowerment or participation of the disadvantaged groups.<sup>48</sup> The key to the success of an inclusive approach to promoting equality in the labour market is the active involvement of trade unions, employers’ organizations and other stakeholders in challenging discrimination and proposing constructive remedies.

Gender inequality is pervasive, and invariably impacts most severely on women who are poor. Consequently, gender inequality intersects with economic deprivation to produce more intensified forms of poverty for women than men. Working for gender equality is part and parcel of measures to eradicate poverty.<sup>49</sup> One of the targets of the United Nations Millennium Development Goals is an increased share of women in wage employment in the non-agricultural sector as an indicator of gender equality and women’s empowerment. Although discrimination is clearly an obstacle to the efficient use of labour in production systems, free market systems have failed to end the patterns of exclusion of certain social groups and women in general that transmit poverty from one generation to the next.

The ILO’s Gender, Poverty and Employment (GPE) programme, a capacity-building programme for employment promotion, gender equality and poverty eradication, aims to increase awareness of the importance for the eradication of poverty of eliminating gender-based discrimination at work. The GPE strategy is to mainstream gender awareness into relevant ILO programmes being adapted to specific country and regional activities. It involves three steps: building a knowledge base; dialogue and consensus building among the social partners and other stakeholders, including representatives of beneficiaries of ILO programmes; and support in translating

<sup>46</sup> D. Narayan; with R. Patel; K. Schafft; A. Rademacher; S. Koch-Schulte (eds.): *Voices of the poor: Can anyone hear us?* (New York, Oxford University Press for the World Bank, 2000).

<sup>47</sup> For a comprehensive review of the scale and nature of discrimination and action by the ILO and its constituents to promote equality of opportunity, see ILO: *Time for equality at work*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 91st Session, Geneva, 2003.

<sup>48</sup> B. Hepple: “Equality and empowerment for decent work”, in *International Labour Review* (Geneva), Vol. 140 (2001), No. 1, pp. 5-18.

<sup>49</sup> See N. Kabeer: *Gender mainstreaming in poverty eradication and the Millennium Development Goals: A handbook for policy-makers and other stakeholders* (International Development Research Centre (IDRC), Canadian International Development Agency (CIDA), Commonwealth Secretariat, 2003).

gender-based analysis into pilot activities.<sup>50</sup> This approach is being used by the municipality of Santo André in the suburbs of São Paulo, Brazil, which, in collaboration with trade unions, business, NGOs and local academics, aims to enhance employment opportunities for women and blacks. The GPE programme is also working with the social partners in China, Nepal, the United Republic of Tanzania and Uganda to improve their capacity to integrate gender analysis into national poverty reduction strategies.

The impact of HIV/AIDS adds a new dimension and urgency to the fight against poverty. The pandemic is dramatically affecting the care economy. Women, themselves highly vulnerable to infection, are also often the main carers. Poor women – the elderly, adolescents and working-age women – are currently struggling to find ways of surviving and coping with the pandemic over and above their existing burdens. In Africa, 58 per cent of those infected with HIV/AIDS are women. AIDS killed almost 2.5 million Africans in 2002 and has left 11 million African children orphaned since the pandemic began.

AIDS is eroding the health of African women and the skills, experience and networks that keep their families and communities going. Even before falling ill, a woman will often have to care for a sick husband, thereby reducing the time she can devote to planting, harvesting and marketing crops. When her husband dies, she is often deprived of credit, land rights, property or distribution networks. When she dies, the household will risk collapsing completely, leaving children to fend for themselves. The older ones, especially girls, will be taken out of school to work in the home or on the farm. These girls, deprived of education and opportunities, will be even less able to protect themselves against HIV/AIDS. The ILO is collaborating with the United Nations Development Fund for Women (UNIFEM) to explore strategies and social protection frameworks to address the crisis of HIV/AIDS and the care economy, particularly in countries where poverty levels are high and where there is a high prevalence of HIV/AIDS.

Underpinning these strategies is a focus on integrating care economy issues into the PRSP process and the work of multilateral agencies and donors to ensure that resources currently targeted on HIV/AIDS not only are geared towards prevention and treatment, but also address the social and economic impact of the pandemic – which is hitting women harder than anyone else.

### *Conclusions: Organizing to overcome poverty*

The ILO portfolio of policy advice includes a range of interventions that act directly on the quantity and quality of jobs for the poor and the main expressions of social exclusion. The organizational base provided by trade unions and employers' organizations is frequently at the core of action to bring together a variety of social institutions with government and public agencies in a common endeavour for sustainable community development.

The ILO is therefore implementing a programme on local economic development that brings together the decent work "toolkit" described in this chapter, in an integrated and participative approach. In 14 countries in different parts of the world, through a process of discussion, exchange of ideas and coordination of initiatives by the local actors, the ILO has helped local

<sup>50</sup> A *Modular package on gender, poverty and employment* has been published as a training and awareness-raising resource.

### The ILO's local economic development toolkit

If development is to be sustainable, it must be owned by the local stakeholders. Through a six-stage process, tested in 14 countries, the ILO acts as facilitator to enable local stakeholders to develop and apply community-driven initiatives by building their own organizations and learning from ILO experience with the decent work toolkit.

- (1) The *diagnosis* phase is aimed at acquiring knowledge about the local economy and its resources. It comprises a preliminary analysis of the major socio-economic data of the territory and the objectives and activities of the different local social institutions and the dynamics among them.
- (2) *Sensitizing* generates participation and social dialogue and is directed at stimulating stakeholders' involvement and commitment in the local development process.
- (3) *Promoting a local forum* fosters coordination and cooperation among all local stakeholders. A forum is typically composed of the most important local stakeholders, contributing to the exchange of ideas and cooperation.
- (4) The *common design* of a strategy helps to secure the sustainability of the local development process by working towards a shared vision, objectives and targets as well as a mix of strategy options.
- (5) The *coordination/creation of implementing structures* maps out the responsibilities of the participating institutions, drawing on existing resources and structures or creating new ones, such as a local development agency.
- (6) A *set of activities* represents the integrated answer to the development challenges identified by local stakeholders and often includes financial or non-financial services, training, investment attraction, infrastructure investments and networking.

Using this approach the ILO is working with the Government of Fiji and the social partners on an Integrated Human Resource Development Programme for Employment Promotion. The programme is being piloted in the Sigatoka district. The aim is to demonstrate the potential of collective efforts by government, unions and employers, civil society organizations and donors to create decent employment in the formal and informal sectors of both rural and urban areas for all unemployed people. It includes a tripartite commitment for local action to develop policy frameworks on small and micro-enterprise development, youth employment and labour market information.

Sources: ILO Regional Office for Asia and the Pacific; Job Creation and Enterprise Development Department.

**stakeholders develop and apply community-driven initiatives by building their own organizations and learning from ILO experience.**

The ILO uses a similar approach when called upon to assist in reconstruction programmes in the aftermath of natural disasters, crises and armed conflicts. In such situations, it is vital to link measures that improve incomes to work rebuilding the economic and social infrastructure. The ILO's crisis response programme thus aims to involve communities affected by disasters, through their own local organizations, in quick-acting measures to ensure that the risk of increased poverty is avoided.<sup>51</sup>

**Broadening and deepening the use of decent work policies and programmes raises productivity, increasing national resources and the incomes**

<sup>51</sup> See ILO InFocus Programme on Crisis Response and Reconstruction publications: *Crisis response rapid needs assessment manual* and *ILO generic crisis response modules* (Geneva, ILO, 2002).

of people threatened by poverty. Integrated community-based programmes break the downward spiral of deprivation and replace it with a virtuous cycle in which the beneficial effects of social inclusion plus more and better jobs work in combination to build the human, social and physical infrastructure for sustained progress in reducing poverty. But to achieve a substantial reduction in poverty across the developing world, a considerable scaling-up of community action is required.

Spreading and replicating successful projects on the scale needed to reduce poverty substantially is only feasible where the institutional capacity is in place in communities across the developing world. Dynamic and effective social institutions, including trade unions, employers' organizations, community groups and governmental agencies, need an enabling environment based on respect for fundamental principles and rights at work and other human rights. Partnerships between the public, private and voluntary sectors, coupled with partnerships between national and international agencies, are essential to ensure the sustainability of policies.

By focusing directly on creating the conditions for people living in poverty to work for a better future, the decent work approach mobilizes the broad spectrum of support across society needed to maintain progress and reach all poor communities. Furthermore, addressing the multifaceted features of poverty in communities and workplaces promotes integrated action by a variety of public, private and voluntary institutions for a common goal. Step-by-step progress towards decent work for all builds confidence in the capacity of people to take the future in their hands through cooperation. It restores the self-respect and dignity that poverty undermines.

## *4. Sustainable pro-poor growth and the governance of the labour market*

### *Introduction*

It is revealing to look at the challenge of reducing and eventually eliminating poverty from the perspective of the drive to create decent work for women and men. Such a viewpoint helps to focus the attention of public authorities, from the local to the global level, the social partners and relevant groups in civil society on how to make institutions and markets serve better the needs of those most at risk of being trapped in poverty.

The ILO approach to poverty reduction through decent work, described in Chapter 3, has considerable potential. But a wide process of institutional change is needed to create the conditions in which businesses, trade unions, cooperatives, communities and public authorities act together to overcome exclusion and discrimination and open opportunities for productive and decent work. It is central to poverty eradication for societies and economic systems to be organized in a way that enlarges the freedoms and opportunities of people living in poverty, who need to be able to work in conditions of equity, security and human dignity.

This chapter situates the work of the ILO in the context of the debate about the appropriate institutions for poverty-reducing development. It looks at the importance of the universally accepted values reflected in the ILO's Declaration on Fundamental Principles and Rights at Work. By giving people title over their own labour, these serve as a foundation enabling governments, employers and workers to build fairer and more efficient governance mechanisms for the labour market. The chapter examines how weaknesses in governance result in a large informal economy where development is inhibited by barriers to investment, enterprise development and increased employment in decent conditions. It also discusses how social dialogue can facilitate the formulation and reform of labour laws and collective bargaining systems by helping to balance the twin imperatives of flexibility and security. These are inherent in creating decent work opportunities in a rapidly changing global market. The chapter concludes that the ILO's tripartite constituency is in a position to mobilize its considerable energy and creativity to connect local action to combat poverty to national strategies for equitable development and the international drive to achieve the Millennium Development Goals.

## *Institutions, markets and development*

One of the leading thinkers about the importance of institutions and rules to making markets work for development, Nobel laureate Professor Douglass North, has explained that societies evolve institutions to “reduce uncertainty by providing a structure to everyday life”. He argues that this is essential to organizing the productive division of labour and that “institutions affect the performance of the economy by their effect on the costs of exchange and production”. He also stresses that many of the rules guiding daily behaviour are informal and that effective institutions for governing markets are a blend of socially accepted norms and laws underpinned by shared values.<sup>1</sup>

The debate about how to generate and maintain pro-poor growth is increasingly focusing on how to construct a framework of public and private institutions that improves the functioning of the decentralized decision-making that characterizes markets as well as the mechanisms available to governments and communities for coordinating action for economic and social goals.<sup>2</sup> The role of communities, or “social capital”, and the conditions under which various forms of association contribute to improving the situation of particular groups, notably the poor, and economic and social performance in general have also attracted renewed interest.<sup>3</sup> In these debates the term “governance” is used to mean the regulating influence of the set of institutions, norms and policies that determine the functioning of an economy and society. It is a wider concept than that of the structure of political authority and government, and includes the role of a variety of public, private and voluntary economic and social institutions.

The continued existence of poverty on a large scale shows that institutions, including those that govern labour markets, are not performing well for large numbers of people in many countries. Often worthwhile micro actions targeted on the poor and macro strategies aimed at financial stability are disconnected and fail to generate an overall pattern of steady growth that helps the poorest most and reduces inequality. The challenge is to create formal rules that mesh with the widely accepted values and evolving informal norms to reduce uncertainty and mistrust, thus improving the functioning of markets. The quality of the institutions that constitute the governance framework for labour markets is central to strategies to promote productivity, growth and sustainable development and ensure that poverty is reduced and eventually eradicated.<sup>4</sup>

The ILO’s decent work strategy offers an integrated framework for promoting institutional change, founded on universal values, that can help countries shape the governance of the labour market to promote opportunities for women and men to obtain productive work in conditions of freedom, equity, security and human dignity. This is a complex process, not least because the institutions to solve today’s problems are built on those established in the past. Since many institutions are deeply embedded in society, serve the interests of powerful groups, and take time to change even if the circum-

<sup>1</sup> See D.C. North: *Institutions, institutional change and economic performance* (Cambridge, Cambridge University Press, 1990).

<sup>2</sup> See S.J. Burki; G.E. Perry: *Beyond the Washington consensus: Institutions matter* (Washington, DC, World Bank, 1998).

<sup>3</sup> See S. Bowles; H. Gintis: “Social capital and community governance”, in *Economic Journal* (Oxford), Nov. 2002.

<sup>4</sup> See W. van der Geest; R. van der Hoeven (eds.): *Adjustment, employment and missing institutions in Africa: The experience in eastern and southern Africa* (Geneva, ILO, 1999); and G. Rodgers (ed.): *Workers, institutions and economic growth in Asia* (Geneva, ILO, International Institute for Labour Studies, 1994).

stances in which they were originally formed have altered, formulating and implementing new approaches are unlikely to proceed smoothly. There is no single model applicable to all countries. Nevertheless, for most families the main route out of poverty, and the key to reducing the risk of falling into poverty, is decent and productive work for women and men. This focus provides an agenda for building up a broad agreement on priorities for action.

A major challenge for the ILO is to help its constituents address the often neglected issue of the governance of the labour market. As many as 4 billion people, two-thirds of the world's population, live largely outside formal legal systems, mainly in developing and transition economies where poverty is most severe. The most fundamental elements of a market economy, such as respect for contracts and recognition of title to property, are often not available to wage workers, self-employed workers or micro and small businesses in the huge and growing informal economy.<sup>5</sup> Furthermore, employment growth in the formal economy is sluggish in many countries, failing to offer enough jobs to match the expansion of the labour force and the shake-out of jobs in larger firms, especially state-owned and newly privatized enterprises.

### *Rights at work and development*

A successful strategy for strengthening the governance of labour markets must recognize that they are different from other markets because they concern people. We all live in societies in which social status and self-esteem are strongly tied to both occupation and income. The way others look at us, and the way we look at ourselves, are both related to the work we do and the way we are treated at work. As Robert Solow says, "employment and the income it brings are not simply *equivalent* to a set of bundles of consumer goods (and savings)".<sup>6</sup> The basic difference, as asserted in the ILO's Constitution, is that labour is not a commodity and people have the right to be treated with respect.<sup>7</sup>

Furthermore, people's perception of whether they are treated fairly affects work performance. Employers know that equity and perceived equity are indispensable characteristics of systems for determining working conditions that promote high morale, low staff turnover, low absenteeism and high productivity. Union organizers know that underlying most grievances at work is a sense of injustice. Regrettably, much orthodox economics overlooks the fact that labour markets work better where there are widely accepted standards of what constitutes fairness.<sup>8</sup>

An important and long-standing pillar of the work of the ILO is the discussion and definition of principles that governments, employers and workers can use to design labour market systems that incorporate benchmarks of fairness. These discussions are practical, real-world debates that produce standards which can be used in a wide variety of countries and cir-

<sup>5</sup> See H. de Soto: *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else* (London, Bantam Press, 2000).

<sup>6</sup> R.M. Solow: *The labour market as a social institution* (Oxford, Basil Blackwell, 1990).

<sup>7</sup> Declaration concerning the aims and purposes of the International Labour Organization (Declaration of Philadelphia) annexed to the Constitution of the ILO (article I).

<sup>8</sup> Sir John Hicks highlighted that for the wage-for-labour contract to be efficient, "it is also necessary that there should not be strong feelings of injustice about the relative treatment of different employees (since these would diminish the efficiency of the team), and that there should be some confidence about fair treatment over time (which is necessary in order that the individual worker should give of his best)". J.R. Hicks: *The theory of wages* (New York, St. Martins Press, 1963).

cumstances by workers and enterprises that have to thrive and survive in the marketplace.<sup>9</sup>

When one surveys the labour laws and practices of countries around the world, it is evident that the influence of the ILO's standards is pervasive. This is not because the Organization has enormous power to force governments, employers and unions to abide by its Conventions and Recommendations, but because these standards make good sense and reflect widely held values. Ratification of an ILO Convention is a commitment to other member States, backed up by a system of international supervision. More than that, it is a promise to a country's citizens to use an international benchmark of fairness as a guide for the national governance of the labour market.

The list of ILO standards is extensive, and the Governing Body of the International Labour Office has been rationalizing them to identify those that are now obsolete or superseded. A few of these Conventions were singled out as particularly important by the World Summit for Social Development in Copenhagen in 1995.<sup>10</sup> For the first time, at the highest political level, the international community as a whole agreed to promote a set of core labour standards based on seven ILO Conventions. This was a historical breakthrough. It put labour standards on the global political agenda in a clearly developmental context as an integral part of poverty eradication, full employment and social cohesion. The ILO Declaration on Fundamental Principles and Rights at Work adopted in 1998 then established an obligation on all Members of the Organization to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of Conventions<sup>11</sup> concerning:

- (a) freedom of association and the effective recognition of the right to collective bargaining;
- (b) the elimination of all forms of forced or compulsory labour;
- (c) the effective abolition of child labour; and
- (d) the elimination of discrimination in respect of employment and occupation.

These instruments were selected because they are universally applicable and constitute a set of rights which enable people to claim freely and, on the basis of equality of opportunity, their fair share of the wealth which they have helped to generate, and to achieve fully their human potential.

Respect for these internationally recognized fundamental human rights at work is widely accepted as essential to ensuring equity, social progress, the eradication of poverty, and universal and lasting peace.<sup>12</sup> They provide a standard of fairness on which all countries can build an institutional framework for national labour markets that is appropriate to their circumstances and which also constitute a commonly accepted floor for the global econ-

<sup>9</sup> See W. Sengenberger: *Globalization and social progress: The role and impact of international labour standards* (Bonn, Friedrich-Ebert-Stiftung, 2002).

<sup>10</sup> Following the Summit the ILO launched a campaign to increase ratification of these Conventions that has encouraged over 400 new ratifications.

<sup>11</sup> Forced Labour Convention, 1930 (No. 29); Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98); Equal Remuneration Convention, 1951 (No. 100); Abolition of Forced Labour Convention, 1957 (No. 105); Discrimination (Employment and Occupation) Convention, 1958 (No. 111); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182).

<sup>12</sup> At the time of writing, 86 States had ratified all eight Conventions and 134 at least one in each of the four categories. The number of ratifications of the eight Conventions have now reached 1,189, which is 85 per cent of the total possible if all 175 ILO member countries were to ratify all eight. The annual global reports to the International Labour Conference under the Declaration review progress in promoting respect for these principles and rights.

omy. The values expressed in the ILO Declaration on Fundamental Principles and Rights at Work form part of the freedoms that are both a primary end and a principal means of development.<sup>13</sup>

These rights are universally recognized basic human rights and do not need any economic or other justification. This does not mean, however, that they cannot stand the test of economic efficiency. Transactions in a free market are voluntary exchanges of titles to property. The right to own property is a basic element of market economies, because where title to property is not guaranteed in law, contract enforcement breaks down and markets fail. In many ways, the ILO Declaration expresses the basic rights working women and men need to assert title to their own labour. They enable the development of the legal tools needed for a system of contracts that ensure that the exchange of people's main – and often only – asset, their labour, for the means to live a decent life is conducted in non-coercive conditions.

The fundamental principles and rights reflected in the ILO Declaration are thus a foundation for the governance of labour markets in open economies and open societies. Indeed, where these principles and rights are denied, labour effectively becomes a commodity, and the dignity and respect that all people have the right to expect from society are compromised. If this essential human dimension of labour markets is ignored, social cohesion is damaged, the productive potential of the workforce is diminished and, most importantly, the freedom of people to develop their capabilities is restricted.

Fundamental principles and rights at work are particularly vital in the market for unskilled labour that is the main source of income for the poor. Discrimination in employment and occupation often exacerbates or perpetuates poverty, while poverty furthers discrimination at work in a vicious cycle.<sup>14</sup> Unskilled women and men in poor countries with large-scale unemployment and underemployment have little option but to take work at the price and conditions offered. The development of systems for the governance of labour markets that ensure that workers who must find some form of work to survive can assert their fundamental rights is central to improving the returns they are able to get for their labour. This reality is increasingly recognized in the multilateral system. As the World Bank states, “adherence to core labour standards promotes effective labour market institutions that can contribute to economic growth and reduce workplace risks faced by the poor”.<sup>15</sup>

The decent work approach is based on the conviction that creating the conditions in which people have the freedom to realize their own capabilities is a primary goal of development and the main means of eradicating poverty. Removing the barriers to freedom requires action on many fronts. Enlarging civil and political liberties needs to go hand in hand with realization of social, cultural and economic rights. To quote the *Human Development Report 2000*, “human development is essential for realizing human rights, and human rights are essential for full human development”.<sup>16</sup>

Respect for fundamental principles and rights at work is a foundation for building legal codes and collective agreements to govern labour markets

<sup>13</sup> See A. Sen: “Work and rights”, in *International Labour Review* (Geneva), Vol. 139, No. 2 (2000).

<sup>14</sup> See ILO: *Time for equality at work*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Right at Work, Report I(B), International Labour Conference, 91st Session, Geneva, 2003.

<sup>15</sup> World Bank: *Core labor standards toolkit for staff preparing country assistance strategies*, available through the World Bank web site at [www.worldbank.org](http://www.worldbank.org)

<sup>16</sup> UNDP: *Human Development Report 2000: Human rights and human development* (New York, Oxford University Press, 2000).

and workplaces. Governments, employers and trade unions in countries with widely differing levels of development frequently use as a reference for this purpose the Conventions and Recommendations of the ILO. They cover a wide variety of topics, many of which are directly relevant to the reduction of poverty, including human resources development, employment policy, social security, occupational health and safety, labour relations in the public service, labour administration, migration for employment, indigenous and tribal peoples, rural workers' organizations, promotion of cooperatives, protection of wages, minimum wage fixing machinery, maternity protection and home work. These and many other issues covered in the ILO's international labour code are part of daily work and life in all countries. Where fundamental principles and rights at work are respected, the institutional framework essential for the application in practice of the range of ILO standards can develop.

### *Informal labour markets: A strategy for improving governance*

Most workers and many small enterprises struggle to escape the uncertainties of life and work in the informal economy to try to earn a decent living. Although it would be wrong to say that informal economies are unregulated, the norms used by informal economic units are mainly set and applied by informal means. In some cases these norms are benign and incorporate widely accepted community values concerning fairness. However, some of the rules are determined by locally powerful individuals or groups to serve their own interests. Furthermore, although not all formal laws and regulations are ignored in the informal economy, their application is often arbitrary and uneven.

Informality is principally a governance issue. The absence of an appropriate framework for the governance of markets in general, and labour markets in particular, creates an environment of insecurity which prevents the accumulation of physical, financial, human and social capital. Without a strategy for the gradual extension of formal regulations to meet the needs of informal workers and enterprises in the developing world, the productive potential of the world's working poor will remain untapped, acting as a brake on growth and a source of increasing social tension.

A new approach must be based on the reality that most people live and work in the informal economy not by choice but out of a need to survive. Wage workers, own-account workers and small businesses in the informal economy face similar problems of insecurity and vulnerability. Unable to find other jobs or start businesses in the formal economy, they lack protection, rights and representation, and often remain trapped in poverty. Especially in circumstances of high unemployment, underemployment and poverty, where opportunities in the formal economy are scarce, the informal economy is the only source of income-generating work. Although many businesses operating in the informal economy display extraordinary creativity, dynamism and innovation and are producing to meet the needs of poor consumers for accessible and low-priced goods and services, they rarely have the means to cross the threshold into formal recognition and obtain the security it can provide for further investment and the creation of more and better jobs.

Crime and corruption are major problems facing workers and enterprises in the informal economy. The absence of effective mechanisms for the enforcement of basic laws to protect individuals from theft and violence is a barrier to the growth of productive employment. The fact that although most

informal workers and businesses produce legal goods and services, they are unable to comply with procedural legal requirements (for example regarding registration of enterprises) compounds the problem of extending the rule of law to people who are most in need of its protection.

Reducing poverty through decent work requires the elimination of the negative aspects of informality, while at the same time ensuring that promoting the incorporation of workers and economic units into the mainstream economy does not destroy opportunities for livelihood and entrepreneurship. Continued progress towards recognized and protected decent work will only be possible by identifying and addressing the underlying causes of informality. At the core, a main barrier to entry into the economic and social mainstream is the inability of either informal workers or employers to assert the basic rights essential to the efficient and equitable functioning of labour markets.<sup>17</sup>

Effective policies to deal with the problems of informality require the participation of organizations able to represent the concerns and ambitions of informal workers and businesses in national policy-making. Workers and employers in informal activities may wish to join existing trade unions and employers' organizations, or they may want to form their own. Employers' and workers' organizations play a critical role in either strategy: extending membership and services to employers and workers in the informal economy, and encouraging and supporting the creation and development of new member-based, accessible, transparent, accountable and democratically managed representative organizations. In many countries, it is essential to reform legal and administrative frameworks that do not guarantee and protect freedom of association and make it difficult for workers and employers in the informal economy to organize.

The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented legal and institutional frameworks and the lack of proper and effective implementation of policies and laws. Breaking out of the trap of informality and poverty requires a policy environment that promotes a culture of responsible entrepreneurship and encourages micro, small and medium-sized enterprises, in particular, to start up and grow within a supportive legal system. Commercial policies that stimulate self-employment and small business expansion, an efficient, accountable public administration free from corruption and a strong educational system are of central importance to private sector investment, whether domestic or foreign. At the same time, labour market regulations need to balance the needs of small enterprises for flexibility and efficiency with workers' needs for security and fair treatment.

There are no easy solutions to the international and national governance failures that have given rise to the massive growth of informal economies in the developing world. Governments therefore need to formulate and implement a comprehensive approach aimed at helping informal businesses and workers overcome the obstacles to benefiting from the security that legal recognition of their activities provides to enterprise development and the creation of decent work opportunities.

This will entail the identification of legal and administrative requirements that unnecessarily raise the threshold of entry to formality beyond the

<sup>17</sup> See R. Galli; D. Kucera: *Informal employment in Latin America: Movements over business cycles and the effects of worker rights*, International Institute for Labour Studies Discussion Paper 145 (Geneva, ILO, 2003). The authors find that countries with stronger "civic rights" tend to have higher shares of formal employment and lower shares of informal employment, even accounting for per capita income and other control variables.

### Organizing in the informal economy in South Africa

*"You have to be thinking of the owner, the passengers, and the traffic police all at the same time. ... You are trapped because if you don't take the vehicle for repairs you are vulnerable for fines or bribes. And if you do take the vehicle for repairs then it's off the road and you're not paid."*

The situation described by Bonice – a former taxi driver who now organizes Johannesburg minibus (*kombi*) taxi workers for the South African Transport and Allied Workers' Union (SATAWU) – is a daily reality for workers in the industry. Drivers work abnormally long hours, often under stress, for low wages, with no sickness or social benefits. Employment relations tend to be precarious and, for most workers, no formal contract of employment exists. The demand for *kombi* taxi transport continues to exist, but the hazards for commuters include accidents related to inadequate maintenance of vehicles as well as violent internal conflicts within the industry. The need to strengthen representation in the industry is clear. Lack of voice at work is marginalizing taxi workers in the labour market and is threatening public security in society at large. Over the past years, SATAWU has been a major player in the national policy process to recapitalize the industry and formalize employment. These efforts have been accompanied by a broad recruitment drive among taxi workers that draws on a combination of conventional and innovative tools.

The experience of SATAWU is not the exception in South Africa. ILO research shows that collective representation of street traders in the informal economy in Durban and Johannesburg has been instrumental in giving voice to an otherwise neglected segment of the workforce, which is now getting a fairer deal. Tangible results include: protection of members against harassment or eviction from public space; secured trading-site space; and recognized legitimacy vis-à-vis local authorities. This has evolved into direct benefits for members by helping to create a more conducive environment for the smooth running of their economic activities.

In the clothing industry, the Southern African Clothing and Textile Workers' Union (SACTWU) has played a key role in high-level negotiations that recently culminated in the adoption of legal and institutional reforms which allow for organizing and bargaining around informal work. These reforms promise union members a number of advantages and pave the way for bridging the formal-informal divide in terms of incomes and working conditions within the industry.

While strategies and means to organize workers may vary across sectors, the goal of voice and representation remains one and the same. ILO research is fostering policy dialogue at the national level with a wide range of stakeholders with a view to devising regulatory frameworks and institutional environments that ultimately help informal workers and economic units move into the formal economy.

Sources: ILO SEED Working Papers Nos. 36-39: S. Motala: *Organizing in the informal economy: A case study of street trading in South Africa* (Geneva, ILO, 2002); M. Bennett: *Organizing in the informal economy: A case study of the clothing industry in South Africa* (Geneva, ILO, 2003); T. Goldman: *Organizing in the informal economy: A case study of the building industry in South Africa* (Geneva, ILO, 2003); J. Barrett: *Organizing in the informal economy: A case study of the minibus taxi industry in South Africa* (Geneva, ILO, 2003).

**reach of many informal economic units. It will also need a major investment in training and education and other policies to overcome exclusion from productive and remunerative employment. Local authorities often have a key role to play in encouraging community mobilization around local development plans. In addition, for national action to integrate the informal economy to succeed, reforms in the governance systems for the global economy are also necessary, as described in Chapter 5.**

The 2002 session of the International Labour Conference committed the ILO to developing a programme of work and technical assistance, drawing on the expertise of its tripartite constituency, to support member States' efforts to use the range of tools available within the decent work approach to poverty reduction and development.<sup>18</sup>

A major challenge is to achieve a balance between, on the one hand, the need to ensure that a strategy for improving governance of informal labour markets does not make the already difficult life of people in the informal economy harder and, on the other, the reform and progressive extension of regulatory frameworks that are used in the formal economy. To be effective, new governance systems must make sense to those for whom they are intended, otherwise they will not be used or may inadvertently raise new obstacles to the creation of more and better jobs.

Dialogue with representative organizations of various types is essential. However, workers and small businesses in the informal economy face enormous difficulties in exercising the right to freedom of association, not least those caused by the constantly shifting nature of employment relationships and the short lifespan of many micro businesses. Governments, local authorities and established trade unions and employers' organizations have a major role to play in promoting the development of representative organizations and involving them in mechanisms of social dialogue over the policies needed to bring work in the informal economy within the ambit of economy-wide regulatory frameworks to promote decent work. Supporting this effort is a major priority for the ILO in its discussions with constituents on decent work strategies for poverty reduction.

### *Social dialogue and poverty reduction*

Although fundamental principles and rights at work are an essential foundation for the governance of labour markets, they do not address all the issues of regulation needed to promote decent work. The governance of the labour market requires rules of various types to encourage working arrangements that are both efficient and fair. In many work situations these rules are informal, having evolved by custom and practice over time. However, precisely because those involved accept them as a standard, they are powerful influences on the production process. Many more formal rules have their origin in such organic community norms. The need to have written rules in some form for the labour market, not least to avoid disputes about what custom and practice is or should be, is a feature of the overall development process.

As economies become more complex, rules to cover a wide variety of work situations are needed.<sup>19</sup> In particular, with production organized through firms of various types, the relationship between the employer and the individual worker, and employers and workers in general, becomes a key influence on output, earnings, working conditions and the economic performance of the country. The quality of this relationship is, of course, a matter of direct importance to the two parties, but is also of interest to society as a whole. All States therefore have some form of legislation governing the way employment issues are handled. However, the practical necessity of having rules specific to the workplace, or similar workplaces in the same

<sup>18</sup> Resolution concerning decent work and the informal economy, adopted at the 90th Session (June 2002) of the International Labour Conference.

<sup>19</sup> See A. Bêteille: *Work practices and norms: A comparative and historical perspective*, International Institute for Labour Studies Discussion Paper 142 (Geneva, ILO, 2002).

industry, and being able to change them if the work process is changed, means that legislation can never cover all aspects of the work process and working relations.

Governance of the labour market is thus a shared responsibility of governments, and employers' and workers' own freely organized institutions. The term "social dialogue" describes the process by which these three parties set, change and apply rules concerning work and work-related issues. In most countries, social dialogue is institutionalized to some degree with the representative employers' and workers' organizations, often described as the "social partners", joining government in tripartite institutions of various types to facilitate discussion and negotiation. In many countries, the topics discussed through social dialogue mechanisms have expanded to include economic and social policy in general. Given the central importance of work to the well-being of all members of society, the quality of this tripartite relationship is of considerable significance.

The form of the legal provisions for sharing responsibility for labour market governance between the State and employers' organizations and unions continues to feature in political debates in many countries, with ILO standards on freedom of association frequently used as reference points. Over many years, dialogue between many countries and the ILO on the application of standards concerning freedom of association has helped shape the basic legal framework for social dialogue.<sup>20</sup>

Investing in social dialogue is a key element in promoting a process of institutional change to improve the performance of labour markets and thus the poverty-reducing quality of growth. As discussed in Chapter 5, the ILO is pledged to collaborating with its constituents to work out, through social dialogue, country strategies for decent work that link into comprehensive frameworks for development and poverty reduction.

This must mean more than the establishment of tripartite committees and the holding of regular meetings with ministers to review policies and their implementation, important as these are. Trade unions and employers' organizations still face many legal and practical obstacles to organizing. In many countries, laws on the right to form unions only apply to employees. This has hampered union efforts to organize informal workers in urban trades and agricultural labourers because they do not have a regular or recognized employer. Registration requirements for unions are also often restrictive and open to political manipulation. Similar problems also arise for micro and small enterprises in the informal economy. Such legal obstacles, coupled with the intrinsic difficulty of collecting even modest membership contributions from workers and businesses with low incomes to finance the services they need, mean that the collective voice of the poor is weak.<sup>21</sup>

Nevertheless, in many countries workers and small businesses are managing to form and join various types of organization for mutual support such as credit unions, producer or seller cooperatives and other local community organizations. Building bridges between such organizations and the established social partners is in their joint interest and can lead to alliances and campaigns for shared objectives. In some countries, the social partners have

<sup>20</sup> At its November 2002 session the Governing Body of the International Labour Office agreed to establish a plan of action to follow up on the resolution concerning tripartism and social dialogue adopted at the 90th Session (June 2002) of the International Labour Conference. ILO: *Effect to be given to resolution adopted by the International Labour Conference at its 90th Session (2002)*, Governing Body doc. GB.285/7/1, 285th Session, Geneva, Nov. 2002.

<sup>21</sup> See ILO: *Your voice at work*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 88th Session, Geneva, 2000.

## Decent work for poverty reduction in Ghana

With four out of ten Ghanaians classified as poor, according to the Ghana Living Standards Survey, poverty reduction is the national development priority. Of those living in poverty, 60 per cent depend on subsistence farming and 25 to 30 per cent eke out a meagre livelihood in the informal economy. Very low productivity in informal economy undertakings results in very low and unstable incomes.

The country, supported by the donor community, has embraced the Ghana Poverty Reduction Strategy (GPRS) as a framework to ensure that policies are coherent and are backed by resource allocations. The GPRS is to be implemented in a decentralized fashion, making the 110 districts and the district assemblies prime actors in poverty reduction. The local authorities, the Trades Union Congress of Ghana and the Ghana Employers' Association are engaging in policy dialogue with the Government and other partners to ensure that the GPRS reflects the contribution of decent work to economic development and poverty reduction. Since January 2003, an ILO Decent Work Pilot Programme that complements the contributions of other development partners has been supporting them in their efforts.

One of the main objectives of the Programme is to draw on the numerous relevant ILO concepts, tools and expertise to build a coherent approach to the informal economy at district level that can help to overcome the limiting factors on growth and facilitate the transition to the formal economy. These include the use of the ILO's Local Economic Development process as a framework for dialogue and the formulation and implementation of strategies. This process draws on a wide range of relevant ILO know-how: on organization, representation and social dialogue, on micro and small enterprise development, on innovative approaches linking micro health insurance to savings schemes, on improving productivity through better occupational safety and health, on public-private partnerships in infrastructure development, procurement and provision of services, on the protection of vulnerable groups, and on embedding rights in an enabling legal and institutional framework.

National ILO constituents and their local affiliates are closely associated with work at district level in order to feed the lessons learned back into national policies and programmes. The vision is to combine local action in a coherent national strategy that is applied on a scale that generates significant impact. The decent work approach is stimulating demands from national constituents and stakeholders for training to improve their capacity to act locally and think nationally on all aspects of analysis, formulation, implementation and monitoring of policies. This effort to develop the skills and effectiveness of the unions and the employers' organization, together with the capacity of local authorities and community organizations, is vital to ensuring genuine ownership and sustainability of Ghana's Poverty Reduction Strategy.

Sources: ILO Regional Office for Africa; Policy Integration Department (INTEGRATION).

**agreed to extend the membership of economic and social consultative councils to other representative organizations of civil society. Helping to organize and give voice to workers and employers living in poverty, according to their own circumstances, is a key ILO responsibility for the future.<sup>22</sup>**

<sup>22</sup> For a discussion of evolving responses by unions and small enterprises to the need for collective action to meet the challenges informality poses to workers and employers, see M. Tomei: *Freedom of association, collective bargaining and informalization of employment: Some issues* (Geneva, ILO, 2000).

## *Improving the performance of public services and formal sector enterprises*

In many developing countries, pay and conditions in the public services have deteriorated badly over the long years of austerity associated with structural adjustment and the debt crises. This has seriously damaged morale and performance, led to the loss of some of the most talented public servants to the private sector, increased the risk of public servants resorting to “charging” citizens for services by demanding under-the-counter payments, and weakened confidence in the function of government. The pendulum of opinion is slowly swinging back to a concern about improving public services after many years of a mantra of “private good, public bad”. Whatever balance between the role of the public and private sector a country chooses, it is essential that employment relations for public servants are well organized.

Public service unions, grouped globally in Public Services International (PSI), have launched a major new campaign to improve the quality of the services provided by governments and public agencies and the quality of employment of workers in these vital sectors.<sup>23</sup> The broad objectives of the campaign are to:

- ensure that public services are adequately funded so that well-trained and properly resourced workers can deliver quality services to all people who need them;
- develop the ability of public services to meet social objectives, especially poverty eradication and people’s empowerment;
- ensure that public services meet quality objectives, including high standards of ethical behaviour, which enable national and global economies to operate effectively and equitably; and
- ensure that all public sector workers enjoy all fundamental workers’ rights and can achieve quality working conditions.

Although a high proportion of most government budgets is devoted to salaries, addressing the backlog of problems in the public services will likely require increased resources. Managing a steady year-by-year progress through negotiation and consultation with public service unions is therefore essential and will require coordination with the budget-making process. Dialogue about proposals to privatize essential public services is particularly important, given their importance to poverty-reduction strategies. A stable, honest and efficient public service is a major national asset made up of people who rightly expect fair treatment.<sup>24</sup>

In the context of strategies for poverty reduction, more and better education and health services are a high priority in most countries. Yet the unions representing teachers and health-care workers who deliver services to poor communities are rarely consulted about the plans for their sectors. Given that poor working conditions and often persistent delays in the payment of wages due are endemic in many countries, it is vital that such problems are addressed if policies are to be effective. In many cases, training of staff is the key to reforms aimed at raising the quality of public services.

Improving the performance of state-owned enterprises, privatization and the preparation of previously protected industries for competition on global markets have major implications for workers. Preparing for these changes through early consultations and negotiations helps to identify both

<sup>23</sup> Information on the campaign is available on the PSI web site at [www.world-psi.org](http://www.world-psi.org).

<sup>24</sup> See J.L. Daza Pérez: *Social dialogue in the public service*, Social Dialogue Working Paper No. 11 (Geneva, ILO, 2002).

problems and opportunities posed by restructuring in time for solutions to be agreed. Often units of such larger enterprises are the heart of local economies, and restructuring plans should take account of the social impact on the surrounding communities. Enterprises, unions, local authorities and community organizations, if appropriate in concert with central government, should jointly develop plans to address the issues posed by either expansion or contraction of employment.<sup>25</sup>

For governments, social dialogue is a valuable vehicle for constructing a broad measure of agreement over the modernization of labour laws and the policies needed to improve the performance of the public sector and formal private enterprises. A recurring theme in discussions about reform is the balance between the issues covered in statutory labour codes and those most appropriately dealt with by collective agreements. The larger the numbers of workers covered by collective agreements, the greater the scope for more detailed aspects of rule-making to be devolved to the social partners. Collective bargaining is a valuable mechanism in the adaptation of working arrangements to changes needed to maintain competitiveness in a fast-moving global market.<sup>26</sup>

Investing in the foundations of a sound industrial relations system is an important part of designing labour market institutions that favour broad-based employment growth and the reduction of poverty. As argued in Chapter 5, developing countries need to move up the value chain out of dependence on unprocessed commodities into manufacturing and services. Collective bargaining and social dialogue are a means of encouraging change through discussion and negotiation so that the benefits of dynamic efficiency are realized and fairly shared. Where employers are operating in a competitive environment, improved conditions achieved through collective bargaining must be matched by enhanced productivity or the firm risks losing market share and the workers their jobs.<sup>27</sup> Furthermore, as Professor Stiglitz has argued, information and power asymmetries bedevil the efficient allocation of resources in most markets, and especially labour markets. Collective bargaining and indeed the whole process of social dialogue, where they function well, help to resolve market failures by promoting the sharing of information and collective action for common objectives.<sup>28</sup>

As well as being a flexible mechanism for making the rules workers and employers need to manage their relations fairly and efficiently, collective bargaining fulfils an important balancing role in society. For many groups of low-paid workers it represents the most effective and readily available method of improving working conditions. In many developing countries, years of frustration over slow or stagnant social and economic development have fuelled social tensions. Collective bargaining underpins progress in building democracy by resolving disputes that, if allowed to broaden and escalate, can undermine national stability.

Labour laws that protect the right to organize and promote the practice of collective bargaining are essential to the functioning of sound industrial

<sup>25</sup> See G.B. Hansen: *A guide to worker displacement: Some tools for reducing the impact on workers, communities and enterprises* (Geneva, ILO, 2002).

<sup>26</sup> See also T. Aidt and Z. Tzannatos: *Unions and collective bargaining: Economic effects in a global environment* (Washington, DC, World Bank, 2002).

<sup>27</sup> See G. Standing: *Global labour flexibility: Seeking distributive justice* (Basingstoke, Macmillan, 1999), pp. 42-44, for a discussion of the advantages of voice regulation and bargaining over the option of exit as mechanisms for resolving conflicts and encouraging dynamic efficiency and restructuring.

<sup>28</sup> See J.E. Stiglitz: "Employment, social justice and societal well-being", in *International Labour Review*, Vol. 141, No. 1-2 (2002), and "Democratic development as the fruits of labor", Keynote Address, Industrial Relations Research Association Meeting, Boston, Jan. 2000 (available on World Bank web site at [www.worldbank.org/knowledge/chiefecon/articles/boston.htm](http://www.worldbank.org/knowledge/chiefecon/articles/boston.htm)).

### Workplace dialogue and social cohesion

In post-apartheid South Africa, many long-standing social tensions have surfaced at the workplace. The Commission for Conciliation, Mediation and Arbitration (CCMA) was established to conciliate and arbitrate disputes and facilitate the establishment of mechanisms for workplace dialogue, such as bargaining councils. It also compiles and disseminates statistics on workplace relations, supervises ballots for trade unions and employers' organizations and provides training on collective bargaining and dispute prevention and resolution. The Commission has a tripartite governing body that oversees the work of 400 full-time industrial relations experts and several hundred more part-time conciliators and arbitrators.

Since its creation in 1996, the CCMA has seen its workload increase from 14,500 to 103,000 cases in 2001. It receives almost 350 cases per day, and through an efficient, user-friendly screening system – including a hotline service – sifts out between 20 and 40 per cent of these inquiries. The multilingual staff is frequently able to resolve grievances by explaining people's rights over the phone.

Latest data show that 20 per cent of all cases concern the commercial sector; 80 per cent of complaints are about dismissals; over 75 per cent of cases are settled by conciliation or withdrawn – the rest being referred to the labour courts.

Particularly through its successful interventions in strikes, it has transformed the industrial relations culture of South Africa, bringing about a substantial decline in industrial disputes over the last six years. For example, in 1998 the CCMA was able to help settle a major five-day national strike over demands for wage increases and substantial improvements in working conditions by 20,000 truckers. Disputes in the car industry, telecommunications, private security, hotels and municipal services were also resolved with the help of CCMA conciliation and mediation.

The ILO assisted the social partners in South Africa in setting up the Commission and training both its own staff and several thousand union and employer negotiators. The ILO is now building on this experience throughout the southern African region.

Source: ILO InFocus Programme on Social Dialogue, Labour Law and Labour Administration (IFP/DIALOGUE).

relations systems. In many countries, tripartite institutions offering advisory, conciliation and mediation services to employers and unions can play an important role in shaping the collective bargaining system. The efficiency of systems of labour administration and labour courts is also important for the application of labour laws. For both workers and employers, speedy and low-cost legal remedies are vital. While recourse to the mainstream court system is sometimes necessary, in many cases more informal and quick methods of resolving conflicting interpretations of laws are acceptable to the parties. The ILO, drawing on the principles in its Conventions and Recommendations, has in many cases assisted its constituents in preparing laws and designing institutions to support the development of industrial relations systems that promote labour/management cooperation and ease the resolution of conflicts.

### *Conclusions: Institution building for decent work and poverty reduction*

Comparative studies of countries that have achieved sustainable pro-poor growth during the recent period of rapid global economic integration show that the quality of public and private institutions matters. By support-

ing the innovative potential of markets at the same time as assuring a reasonable degree of social security to people, institutional strength is increasingly recognized as a determining factor for growth and the capacity to rebound from unexpected shocks. Research has shown that countries that have benefited most from integration into the world economy are those that have complementary institutions in place which are able to bring about the social bargains required to maintain or restore macroeconomic stability.<sup>29</sup>

This chapter has argued that improving the governance of labour markets is central to increasing social cohesion and sustainable growth, and thus the reduction of poverty. This is particularly important to the design of strategies to integrate the informal economy into the legal and institutional framework for the economy as a whole. The values that inspire the work of the ILO, expressed in its Constitution and the ILO Declaration on Fundamental Principles and Rights at Work, are a strong foundation for countries to build institutional frameworks for the governance of labour markets that meet the twin imperatives of fairness and efficiency.

Focusing on the goal of decent work for all provides a constructive perspective for examining how rights at work and the institutions of informal and formal labour markets relate to the achievement of employment creation, poverty reduction and competitiveness in a global economy. The effectiveness of mechanisms for the governance of the labour market is critical to ensuring that integration into global markets enlarges opportunities for decent work and addresses potentially disruptive adjustments to employment. Social dialogue can make an important contribution to these goals. Furthermore, by raising the rate of productivity growth, well-functioning labour market institutions create the conditions for faster sustainable growth without endangering macroeconomic stability.

Participation and empowerment are increasingly recognized as vital to poverty reduction. Trade unions, employers' organizations and government departments, public agencies and local authorities, as well as community organizations, play a central role in creating an environment in which increasing opportunities for decent work lead to social inclusion and improved livelihoods. Sustainable growth requires coordinated action from the local to the global level to ensure that individual and collective initiative is encouraged.

In practical terms this comes down to social mobilization and organization. The shared experience of working together means that, for many people, the focal point for building the institutions for sustainable development is the workplace – be it the field, the street, the home, a mine, a factory or an office. Local organizations of employers and workers hold the potential to group together by occupation and industry and form cohesive broad-based national movements that in turn link to similar movements in other countries. The community of work, brought together internationally in the ILO, is the apex of a pyramid of organizations built around the need to cooperate together to make full use of societies' human resources productively and thus improve conditions of work and life. This rich network is a largely untapped resource that must be harnessed to the multilateral drive for poverty reduction. A strong commitment by the ILO's tripartite constituents can make an enormous difference for those women and men striving to find opportunities to work out of poverty.

<sup>29</sup> "Some of the more important institutions of conflict management are the following: participatory political institutions, civil and political liberties, free labor unions, noncorrupt bureaucracies, high-quality independent judiciaries, and mechanisms of social insurance such as safety nets. These kinds of institutions are important both for managing turbulence in the world economy and for countering the potential widening of inequality that openness brings." D. Rodrik: *The new global economy and developing countries: Making openness work* (Baltimore, Johns Hopkins University Press, 1999), pp. 17-18.

## 5. Decent work, poverty eradication and policy coherence

### Introduction

Over the next ten years, over 1 billion young people, today aged between 5 and 15, will enter the working-age population. However, the global economy is not well organized to make full use of the enormous potential of their skills, energy and ambition to fight against poverty and make development sustainable. Today's working life offers opportunities to some, but low-paid work, unemployment and poverty to a great many.

- The world's labour force is increasing by about 50 million people each year, as the number of new entrants exceeds those who stop working; 97 per cent of this increase is in developing countries.
- About half of the over 1 billion people living on US\$1 a day or less in developing and transition countries are of working age (between 15 and 64). Despite often long and hard days of toil, they do not earn enough for themselves or their families to live above bare subsistence levels.
- 180 million people are unemployed worldwide,<sup>1</sup> and almost half of them are young people aged under 24.

These alarming trends form the background to major concern about high levels of youth unemployment all over the world, particularly in developing countries with fast-growing populations. This concern prompted the United Nations Millennium Summit to resolve to "develop and implement strategies that give young people everywhere a real chance to find decent and productive work". Subsequently, the United Nations Secretary-General invited the ILO to lead a Youth Employment Network to catalyse national and international action. Building on the recommendations of a high-level panel, the Network is focusing on employability, equal opportunities, entrepreneurship and employment creation as key issues for national action programmes.<sup>2</sup> One of the means of assuring decent work for the current and future generations of young people has to be "making full employment an

<sup>1</sup> See ILO: *Global employment trends* (Geneva, 2003).

<sup>2</sup> See ILO: *United Nations initiative on youth employment*, Governing Body doc. GB.286/ESP/5, 286th Session, Geneva, Mar. 2003. Egypt, Hungary, Indonesia, Namibia, Senegal and Sri Lanka have started working with the ILO and its partner agencies to mainstream youth employment in national development policy frameworks, and a number of other countries have also expressed interest in joining the Network.

overarching goal for global economic and social strategies and for national policies”, as emphasized by the high-level panel in its recommendations.<sup>3</sup>

Let me recap some major points made in preceding chapters.

We need to view global challenges through the eyes of people living in poverty. Progress on all the Millennium Development Goals requires action in local communities all over the developing world to promote decent work. Social, economic and political empowerment of people and their communities is essential. Their fight against poverty is directly linked to the realization of basic human rights, especially those concerned with the freedom to work in conditions of equity, security and human dignity.

The analytical work of the ILO and experience of projects and programmes with communities vulnerable to poverty show that we can generate a virtuous cycle in which work is better rewarded, social and economic security is increased and community infrastructure enhanced. For enterprises and communities to develop, however, an enabling macroeconomic framework that promotes growth in employment and productivity is needed. If national strategies for poverty reduction are to succeed, they must be supported by international action to improve developing countries’ access to export markets and investment finance.

The theme of this concluding chapter of the report is linking local empowerment to comprehensive pro-poor and pro-jobs national strategies and global action for sustainable development.

### *Employment, productivity and social dialogue*

The ILO is mandated both by its Constitution and by the United Nations to examine the functioning of economic, social and financial policies from the perspective of employment creation as a central goal. Full, productive and freely chosen employment is the primary means of reducing and eventually eliminating extreme poverty. Moving toward this objective requires a steady and brisk pace of growth that is sustainable in environmental, social and economic terms.

The global jobs deficit is a consequence of employment growth in the 1990s of 1.4 per cent per year falling behind the 1.7 per cent per year increase in the world’s labour force. Annual job creation therefore needs to rise above the 40 million registered over the last decade and substantially exceed the annual inflow of new entrants of about 48 million.<sup>4</sup> Furthermore, to put the world on track for halving extreme poverty by 2015 the productivity and earnings of working people living in poverty must also rise significantly.

Improving productivity, especially in countries with a high incidence of poverty, creates conditions for faster sustainable growth in output and the quality and quantity of jobs. The ILO has constructed scenarios to illustrate the order of magnitude of productivity and output growth that could lead to a job-creation rate that would reverse the upward trend in unemployment and improve the incomes of working people living in poverty. These scenarios suggest that the 1 per cent annual rate of growth in world per capita GDP recorded during the 1990s needs to be doubled to over 2 per cent annually, sustained over several years, in order to create a pattern of employment development that would help halve extreme poverty by 2015. Faster progress in the developing world is essential, with a sharp acceleration in per capita growth for Africa, the Middle East, South Asia and Latin America and the Caribbean.<sup>5</sup>

<sup>3</sup> United Nations: *Follow-up to the outcome of the Millennium Summit*, General Assembly, document A/56/422, Sep. 2001.

<sup>4</sup> See ILO: *Global Employment Agenda* (Geneva, Mar. 2002).

<sup>5</sup> See S. Berger; C. Harasty: *World and regional employment prospects: Halving the world’s working poor by 2010*, Employment Paper No. 38 (Geneva, ILO, 2002).

For many developing countries, achieving and sustaining a pace and composition of growth consistent with a substantial reduction in poverty is a major challenge. Purely national strategies for sustainable pro-poor and pro-jobs growth are unlikely to succeed in a world in which economies are becoming increasingly integrated. This is why the ILO's constituents – governments and employers' and workers' organizations – have developed a Global Employment Agenda as a key component of the Organization's decent work strategy, with the goal of placing employment generation at the heart of economic and social policy-making.<sup>6</sup>

A strategy that combines local action in a sound national macro-economic framework with an international effort to boost and sustain investment and trade growth could yield a substantial global dividend in the form of poverty reduction and growing markets. Financial stability is important to the poor. They are usually least able to protect themselves when prices start to inflate. But in many cases tight fiscal and monetary policies have retarded expansion, often for long periods.

Furthermore, the scale and volatility of international financial flows, particularly investment in government bonds or on emerging stock markets, have caused major swings in exchange and interest rates, disrupting growth and hence poverty reduction. Many economic policy-makers seem to regard job creation as, at best, a supplementary outcome of pursuing the priorities of financial stability and open markets for goods and services, rather than a central objective for government policies, social dialogue and community action.<sup>7</sup>

It is increasingly recognized that full liberalization of capital flows before strong prudential arrangements are in place to underpin domestic finance markets invites increased financial, economic and social risks. The international policy regime to prevent and if necessary control sudden swings in capital inflows and outflows needs further strengthening to ensure that developing countries and the poorest people within these countries do not carry the costs associated with speculative financial movements.

Alongside international measures to stabilize financial markets and open markets, governments and the social partners need to promote domestic growth by increasing the productivity of labour. Productivity growth is the main source of sustainable, non-inflationary improvement in living standards and employment opportunities. It sets the scene for faster growth and development, allowing greater scope for macroeconomic policies to be directed toward increasing decent work opportunities and the reduction of poverty. By broadening and deepening the forms of action described in Chapter 3, developing countries can improve labour productivity and the incomes of people living in poverty.

Productivity growth is founded on change in production processes to lower unit costs and shift toward the production of goods and services that yield higher returns. It entails changes in the way work is organized, the growth of new businesses and the phasing out of others. Managing change in such a way that the outcome is more and better jobs, especially for the unemployed and the working people living in poverty, is central to government employment policies. Involving the social partners in policy-making helps to

<sup>6</sup> At its March 2003 session the Governing Body of the International Labour Office agreed on a framework for its work on the Global Employment Agenda with constituents and the development of partnerships with other agencies. ILO: *Review of the core elements of the Global Employment Agenda*, Governing Body doc. GB.286/ESP/1, 286th Session, Geneva, Mar. 2003.

<sup>7</sup> Article I of the Articles of Agreement of the International Monetary Fund includes the mandate "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy".

build broad popular support for change and ensure that knowledge and experience of the world of work inform policy design.

Prioritizing poverty reduction requires a comprehensive approach to development that enables governments, and society as a whole, to balance competing claims on national resources to ensure that growth is sustainable and benefits most those living in poverty. As described in Chapter 4, the institutional framework for the regulation of markets is of central importance to this process. The challenge facing developing countries and their international partners is to implement economic and social policies and governance mechanisms for the market that ensure that communities living in poverty have access to the resources they need to improve productivity and incomes.

Where markets operate effectively and fairly, the price mechanism contributes to resolving competing claims for limited resources. However, markets alone are not able to ensure equitable access to public goods essential to sustainable pro-poor growth. The role of government is therefore critical to a successful drive to reduce poverty. The political process, which leads to decisions about taxation and expenditure as well as the mechanisms for market regulation, is a determining influence on poverty reduction. However, the voice of poor communities is often not heard in the political process. The freedom of people living in poverty to organize themselves and voice their concerns and aspirations is fundamental to a determined effort to shape more equitable patterns of development.

Although many developing country governments and their foreign advisers hoped that rigorous fiscal and monetary policies would create the stability needed to stimulate investment, growth and poverty reduction, these benefits are slow to materialize. Indeed, in some cases the social and political strains associated with these policies have made it even more difficult to set a course for sustainable growth. Building national institutions that settle conflicts, increase social cohesion and stimulate a brisk and steady pace of productivity growth diminishes the risk of political instability at home interacting with volatile international capital markets to create unmanageable economic shocks.

Moving toward a comprehensive framework for development will involve the creation of systems for consultation and participation of a wide range of representative social and economic forces. Governments must accept and lead such a process. The role of democratically constituted parliaments and local assemblies is also vital to the forging of a broad national consensus on development priorities. The social partners have a key role to play in promoting representative organizations of small businesses and workers in the informal economy and seeking ways to ensure that people living and working in poverty organize and have a say in policy-making.

In a world where the opening up of national economies to global markets challenges the policy sovereignty of nation States, social dialogue enhances the capacity of countries to choose their own path towards sustainable pro-poor growth. A number of governments have found that social dialogue with employers' organizations and trade unions can help achieve a convergence of expectations about economic developments. This reduces the risks of financial or social instability or reduced trade competitiveness undermining employment creation and sustainable pro-poor growth.<sup>8</sup>

<sup>8</sup> See T. Fashoyin: *Fostering economic development through social partnership in Barbados* (Geneva, ILO, 2001); K. Gostner: *Social dialogue in South Africa* (Geneva, ILO, 2000); Young-Ki Choi: *Social concertation in Korea: Tradition and prospects* (Geneva, ILO, 2000) in the ILO's Social Dialogue Working Papers series; and P. Auer: *Employment revival in Europe: Labour market success in Austria, Denmark, Ireland and the Netherlands* (Geneva, ILO, 2000).

The contrasting experiences of the Republic of Korea and Indonesia during the Asian financial crisis shows that social dialogue can accelerate recovery from financial shocks and help create conditions to avoid or diminish future turbulence.<sup>9</sup> In the Republic of Korea, a national tripartite committee helped develop social protection policies that resulted in a sharing of the burden of unemployment and avoided an excessive increase in poverty. More intangibly, social dialogue reassured domestic and foreign investors that financial stabilization would not be at the price of social or political instability, thus shortening the recession and accelerating the recovery. Indonesia, without the benefit of independent and representative employers' and workers' organizations at the onset of the crisis, was slower to develop the accompanying social and employment policies needed to buttress financial responses to the crisis, and has suffered a longer and deeper recession.

### *International economic integration and social justice*

Policies to improve the governance of the labour market based on the decent work approach can create and enlarge the channels that ensure that sustainable growth yields the largest possible reduction in poverty. However, a large proportion of people experiencing extreme poverty live in countries that are themselves economically and socially excluded. In 1999 the average per capita GDP of the 49 least developed countries (LDCs), using current exchange rates, for that year was US\$288, or about 79 cents per day. This is not strictly comparable with the \$1 a day measure of extreme poverty, which is based on the value of the dollar in 1985 adjusted to take account of different purchasing powers in different countries. Nevertheless, it dramatically illustrates that the poorest countries of the world are caught in an international poverty trap.<sup>10</sup>

Over the decade of the 1990s, the average per capita growth of the LDCs was only 1.1 per cent and, in most countries of this group, was negative. The rise in both the absolute numbers and the share of the population living in extreme poverty in sub-Saharan African countries is directly related to the failure of economic growth to stay ahead of the expansion of the population. Where virtually whole countries are living in poverty, domestic savings and investment are low and the provision of public services, such as education and health, the efficient and fair governance of markets or law and order, is inadequate. The structure of the economy remains locked in survival activities and the capacity to rebound from climatic or external shocks is minimal.

Understandably, the least developed countries save, and thus invest from domestic sources, proportionately less of their GDP than other developing countries and developed countries. In the world's 26 poorest countries, most of which are in sub-Saharan Africa, the domestic savings rate is on average no more than about 2-3 per cent of GDP.<sup>11</sup> This leaves a gap to

<sup>9</sup> See E. Lee: *The Asian financial crisis: The challenge for social policy* (Geneva, ILO, 1998).

<sup>10</sup> United Nations Conference on Trade and Development (UNCTAD): *The Least Developed Countries Report 2002: Escaping the poverty trap* (Geneva, 2002). Using a measure of poverty derived from national accounts data rather than the income and consumption surveys used by the World Bank, the report estimates that 81 per cent of the population of the LDCs lived on less than \$2 a day and 50 per cent on less than \$1 a day in the second half of the 1990s.

<sup>11</sup> *ibid.*

be filled by international financial flows, which during the 1990s varied between 7.6 and 10.2 per cent of LDCs' GDP.<sup>12</sup>

Most of the inflow of funds to LDCs was in the form of official development assistance (ODA), since they attracted little private investment. However, even with this assistance their investment ratios were low by comparison with faster growing developing countries. Reducing poverty requires a combination of increased aid, a further drastic reduction in debt servicing, greater access to private sources of international finance and a pickup in domestic savings.

As well as having low domestic savings, the poorest countries spend only about 12 per cent of national income on government services: in the period 1995-99 per capita expenditure on key public services was on average only about US\$37 per person per year, while health spending amounted to US\$14 per person per year. In the LDCs as a whole during the same period, only 15 cents per person per day was available to spend on private capital formation, public investment in infrastructure, and the running of vital public services such as health, education and administration, as well as law and order.<sup>13</sup> The overall effect of these trends is to make the world's poorest countries heavily dependent on foreign aid to finance a large share of government spending, as well as their investment needs.

For many developing countries, remittances of earnings by nationals working overseas are an additional and vital source of income. In 2000, at least nine countries received remittances from abroad amounting to more than 10 per cent of their GDP. In 2002, 7.3 million Filipinos working overseas (nearly 10 per cent of the population of the country) remitted more than US\$8 billion back to families at home – almost as much as the total output of the country's agriculture, fishery, and forestry sectors and up by 15.5 per cent compared to 2001.<sup>14</sup>

With the labour force of low-income countries expanding much more rapidly than opportunities to work, and most industrialized countries experiencing an increase in the share of elderly people in the population, the number of migrants is likely to rise above the estimated total of 158 million today. During the second half of the 1990s developed countries received an average of 2.3 million migrants each year from less developed regions.<sup>15</sup>

Both international and internal migration are part of the survival strategies of families in poor communities. Migrants rarely break off family ties, and many in fact simply live and work away from their homes for relatively short periods. Others return less frequently but send money back regularly. Studies of households in China that sent out members to work elsewhere in the country show that they increased their income by between 14 and 30 per cent as a result of remittances.<sup>16</sup> Most migrants plan to return one day, even if many never do. Freer international movement of labour, alongside a major drive to create employment opportunities in developing countries, is likely to figure increasingly on the international agenda<sup>17</sup> and, with the appropri-

<sup>12</sup> United Nations: *World Economic and Social Survey 2002: Trends and policies in the world economy* (New York, 2002).

<sup>13</sup> UNCTAD, *op. cit.*

<sup>14</sup> D. Arroyo: "World leader in migrant labour", in *Philippine Daily Inquirer*, 18 Mar. 2003.

<sup>15</sup> United Nations: *International Migration Report 2002*. Around 175 million persons currently reside in a country other than where they were born – about 3 per cent of the world's population. This includes some 16 million refugees and nearly 1 million asylum seekers.

<sup>16</sup> A. de Brauw; J.E. Taylor; S. Rozelle: "Migration and incomes in source communities: A new economics of migration – Perspective from China", paper produced in the University of California, Davis, cited in R. Skeldon: "Migration and poverty", in *Asia-Pacific Population Journal* (Bangkok, Dec. 2002).

<sup>17</sup> See P. Stalker: *Workers without frontiers* (Geneva, ILO, 2000).

ate policies in sending and receiving countries, could represent a major component of the international drive to reduce poverty. The International Labour Conference will focus on these issues at its 92nd Session in 2004, when it will hold a general discussion on migrant workers.

### *Harnessing the potential and sharing the stresses of economic integration*

Many low-income countries are already closely connected to international markets, with exports and imports of goods and services constituting on average 43 per cent of GDP for the LDCs in 1997-98.<sup>18</sup> However, most are heavily dependent on exports of non-oil commodities, which in 2001 registered prices averaging half of their level 20 years earlier. The low-income countries that have managed to start exporting some manufactures or services have grown faster, but in general all remain at the low value added end of global markets.

The current round of multilateral trade negotiations should revisit the issue of how to ensure a higher return to developing countries from their natural resources. Opening of industrial country agriculture markets, a reduction of high tariffs on processed commodities and the stabilization of commodity prices at more remunerative levels are essential to harnessing trade growth to poverty reduction.

Coupled with investment in the communications infrastructure and education and training, exports can be a powerful engine of growth helping the poorest countries to raise their level of productivity. A fundamental condition for unleashing the job creation potential of trade and investment in developing countries is a shift to manufactures and modern services, away from dependence on the export of primary commodities. Many developing countries, as well as stimulating domestic export businesses, have therefore attempted to encourage foreign direct investment (FDI) as a means of acquiring a manufacturing and services production base. However, the rapid growth in FDI annual flows from US\$57 billion in 1982 to US\$1,271 billion in 2000 has not benefited most developing countries. The top ten recipients of FDI accounted for 75 per cent of annual flows to developing countries in 2001, a degree of concentration that has not changed since 1985.<sup>19</sup> In contrast, the least developed countries attract very little private capital. FDI flows to sub-Saharan Africa, excluding South Africa, amounted to 7.5 per cent of companies' investments in China and Hong Kong, China, in 2001.

The information technology revolution<sup>20</sup> has had a major impact on investment flows and has enabled the growth of global production systems in which different stages of production are located in different countries. Increased and cheaper access to information on both input and product markets reduces transaction costs and makes management of a dispersed production network feasible. With the emergence of global production systems, generating cross-border shipments of inputs and components, an in-

<sup>18</sup> This is similar to the world average for trade integration. However, the LDCs' share of world exports and imports, respectively, was only 0.42 and 0.7 per cent in 1999. Because their economies are small, low total flows in exports and imports in global terms represent a big share of national production. UNCTAD, op. cit.

<sup>19</sup> UNCTAD: *World Investment Report 2002: Transnational corporations and export competitiveness* (New York and Geneva, United Nations, 2002). The top ten recipients were: China with Hong Kong, China; Mexico; Brazil; Singapore; South Africa; Chile; Taiwan, China; Thailand; India; and Venezuela.

<sup>20</sup> For an in-depth analysis of the impact of the information and communication technology revolution, including the challenge of overcoming the risk of a "digital divide" within and between countries, see ILO: *World Employment Report 2001: Life and work in the information economy* (Geneva, 2001).

creasing share of total world trade is within firms and among their subcontractors. As a consequence, the link between investment and trade patterns is now significantly stronger.

National companies in developing countries are facing intensified competition that many small and medium-sized enterprises are ill-equipped to meet. Even if jobs created in foreign firms exceed those displaced in local businesses, this is small consolation to the workers and businesses that can no longer compete. Anticipating such problems and assisting domestic firms and their employees to adjust to the new competition help prevent unemployment and build a network of suppliers to firms competing on international markets. Employment policies thus have a significant impact on whether increased investment and trade contributes to an overall expansion of decent work opportunities and poverty reduction.<sup>21</sup>

Embedding the local operations of multinational companies quickly and smoothly into the national development process can enable the transfer of managerial and technical expertise to local businesses. In order to benefit from these linkages it is essential that recipient countries invest in education and training to improve their capacity to absorb new technology and “know-how” and avoid shortages of skilled labour leading to a widening of wage gaps between skilled and unskilled workers.

An important tool for the building of partnerships with foreign investors is the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. It provides an agenda for dialogue, involving governments, national employers’ organizations and union centres, and companies and unions representing their employees, on the key policy issues involved in maximizing the employment potential of FDI and dealing with the adjustment problems that cause concern in many countries.

Competition between developing countries – indeed among all countries – to attract and retain FDI is fierce. During the last two decades, many emerging economies have dramatically reduced barriers to FDI, and countries at all levels of development have offered incentives such as the extension of tax holidays, exemptions from import duties, and direct subsidies. Since 1998, 103 countries have offered tax concessions to foreign corporations.<sup>22</sup> There is growing concern that an incentives war to attract highly mobile foreign investors able to switch production easily between countries could lead to a race to the bottom with respect to fiscal competition and environmental or labour standards.

While there is much evidence of specific cases of abusive labour practices, the lack of systematic data on the issue makes it difficult to gauge the true extent and severity of the problem and hence to identify the appropriate national or international policy responses. Despite continued controversy over the “sweated labour” issue, it is generally agreed that the available information on employment conditions in multinationals indicates that, overall, they pay higher wages than local firms and demand relatively skilled labour. The 100 largest transnational corporations in terms of employment accounted for 14 per cent of the 54 million jobs in the foreign affiliates of nearly 65,000 companies operating transnationally in 2000.<sup>23</sup> Concern about poor working conditions is most acute, however, in relatively low-skilled as-

<sup>21</sup> For a review of these issues see ILO: *Investment in the global economy and decent work*, Governing Body doc. GB.285/WP/SDG/2, 285th Session, Geneva, Nov. 2002.

<sup>22</sup> G.H. Hanson: *Should countries promote foreign direct investment?*, G-24 Discussion Paper Series, No. 9 (Geneva, UNCTAD, Feb. 2001).

<sup>23</sup> See UNCTAD: *World Investment Report 2002*, op. cit.

sembly operations in which many smaller companies, often subcontractors to larger brand names or retailers, predominate.

Developing countries seeking to establish a manufacturing base often attempt to attract these smaller companies that are part of global value chains in which products and components are sourced from many locations. Companies in this business can maintain competitiveness either by raising productivity in an established operation or by shifting production to a lower cost source. A key question for host countries is whether they can establish an environment in which respect for fundamental principles and rights at work forms the basis for foreign firms, governments, unions and employers' organizations to work together to improve working conditions, product quality and labour productivity. Using the examples of export processing zones in Costa Rica, the Dominican Republic and the Philippines, a recent study shows that the movement from initially low-skilled to slightly higher skilled operations is a key to improving working conditions in the developing world. The study argues that this transition can be greatly facilitated by training and other inducements to attract higher productivity firms.<sup>24</sup>

Increased analysis by the ILO, in collaboration with other international agencies, of the costs and benefits for developing countries of export processing zones, for example, could help identify the best strategies for maximizing the developmental benefits of FDI policies and how to ensure that they contribute to increasing decent work opportunities. Such an analysis might also reveal the scope for south-south cooperation to avoid situations where excessive incentives are offered to the detriment of all countries. A major policy coherence objective of relevant international organizations must be to reduce and ultimately eliminate unnecessary tax and subsidy competition among developing countries, and the least developed in particular. The concessions granted to foreign investors significantly reduce the already scarce resources available for national poverty reduction strategies.

### *Solidarity in a globalizing world*

Despite efforts to reduce the burden of excessive debt, many low-income countries are still using a substantial portion of their resources to pay interest and repay the capital of earlier borrowing. According to the UNDP, 59 low-income developing countries (with per capita incomes of US\$755 or less) paid out an average of 4.4 per cent of their GDP in debt service in 2000 compared with aid disbursements received equivalent to 2.1 per cent of GDP.<sup>25</sup> Although debt service payments for the poorest countries within this group are beginning to fall as the relief available under the HIPC initiative starts to come through, a further enhancement of international arrangements to reduce and write off debt is warranted. This would release resources for investments in the physical and social infrastructure needed for growth.

Additional aid is therefore essential to reduce the burden of existing debts, increase flows of finance for investment and supplement government expenditure on key services for poverty reduction. This is a matter of political will. For example, reducing the US\$311 billion OECD countries paid to support their agricultural industry in 2001 could release resources for development assistance. Industrial countries' subsidies to agriculture were nearly

<sup>24</sup> T.H. Moran: *Beyond sweatshops: Foreign direct investment and globalization in developing countries* (Washington, DC, Brookings Institution, 2002).

<sup>25</sup> UNDP: *Human Development Report 2002: Deepening democracy in a fragmented world* (New York, Oxford University Press, 2002).

six times the total ODA of US\$52.3 billion to all developing countries by these countries in 2001.<sup>26</sup>

The World Bank has estimated that between US\$40 and 60 billion of increased financial assistance is needed each year until 2015 to enable all countries to reach the targets set by the MDGs.<sup>27</sup> The promise made by donors at the International Conference on Financing for Development in Monterrey in 2002 to raise ODA by \$12 billion each year over the next three years is only a beginning. Proposals for a new international investment finance facility, a resumption of the issuance of IMF Special Drawing Rights and improved tax cooperation to reduce avoidance and evasion deserve serious consideration.

The speed, predictability and administrative efficiency of its delivery are as important as the volume of aid. Despite promises by donors to shift away from a multitude of relatively small projects and programmes to longer-term commitments to broad government programmes, the transaction costs placed on recipient country government services in meeting donors' conditions remain onerous.

The aid relationship continues to be unbalanced, compromising the central objective of ensuring that poverty reduction strategies are nationally owned. Since the principle of public accountability for public funds should be retained, donors and governments could consider including the parliaments of recipient and donor countries in the process of monitoring aid expenditures. This would also encourage participation and increased inter-parliamentary cooperation to promote the democratic accountability of all governments involved in the aid relationship.

Reducing poverty in most countries requires both sustainable growth and also redistribution. Getting the policy mix right to achieve and sustain equitable growth is most likely where development strategies have a high degree of support across social groups. This is necessary not only to avoid destabilization as a result of irreconcilable claims, but also to generate confidence that action by different groups, including government, will be matched by others. This is particularly important for policies to increase the availability of decent work opportunities. Building trust in the social institutions, both public and private, needed to enable poor people to earn their way out of poverty is a vital investment. The absence of social cohesion is a severe brake on development and in extreme circumstances can undermine the capacity of States to govern.

On numerous occasions, including at the World Summit for Social Development in Copenhagen in 1995, the international community has agreed that social security is a basic human right and a fundamental means for creating social cohesion, thereby helping to ensure social peace and social inclusion. As mentioned in Chapter 3, the 89th Session of the International Labour Conference in 2001 committed the ILO to a major new campaign to improve and extend social security coverage to all those in need of such protection.

Developing countries, especially those where poverty is widespread, need to extend systems of social security that address the vulnerabilities that trap families and communities in cycles of deprivation. The importance of access to primary and secondary education and primary health care has been

<sup>26</sup> OECD: *Agricultural policies in OECD countries: A positive reform agenda* (Paris, 2002); and idem: *2002 Development Co-operation Report*, statistical annex, table 1, at <http://www.oecd.org/xls/M00037000/M00037866.xls>

<sup>27</sup> UNDP: *Human Development Report 2000*, op. cit.

### Private/public partnerships to pay pensions in Namibia

Solomon Natimbi is a pension paymaster. He travels around a 3,000-km-long circle of villages with 300 pay points paying about 20,000 pensioners. His crew of five works for a private company (United Africa Group), which – under contract with the Ministry of Health and Social Services – pays the state old-age pensions, child maintenance grants and disability pensions to all eligible residents in rural areas. The United Africa Group employs 13 such crews for the whole country, each running in circles of 25 days with hundreds of pay points.

They travel in two pickup trucks, one containing guards and the money containers, and the second the paymaster and operator. In the back of their truck they have a stripped-down automated teller machine (ATM) similar to the ones in the walls of many banks. The ATM is hooked up to a laptop computer, a fingerprint and smart card reader, and a simple digital camera. The laptop contains the bio-data, identification data and benefit amounts of all beneficiaries at each pay point. The Ministry of Health and Social Services provides the data for each new circle. The beneficiaries bring their smart cards, also containing a photo, and put their index fingers on the reader. The machine checks the identity of the fingerprint, notes the payment on the smart card, and dispenses the money.

A person who is too sick to come to the pay points may designate a proxy, whose fingerprints will also be registered on the smart card. If the machine rejects the fingerprint, a new registration process starts and no money is paid until the next month. The crew also registers new beneficiaries by taking their photograph and fingerprints and issuing the smart card during the next circle.

A portable generator supplies the power. If there is any problem, a service team, well versed in the art of technological improvisation, comes out from a local office and takes the machine apart on the spot, while pensioners wait patiently.

Once paid their N\$200 per month (about US\$25 in 2001), pensioners will do their shopping, may have a beer and then walk back to their homes. Officially, nobody has to walk more than 7 to 8 km to his or her pay point. The sequence of pay points is changed for security reasons and people are notified about pay dates and times by radio at short notice. The “bush telegraph” reliably notifies those who have no radio.

At one typical pay point, 11 women and ten men pensioners were interviewed. They all said that the pension is the only regular cash income in their rural households. The average size of their households is 5.4 people. Three-quarters of them pay school fees out of their pension. On average, every pension paid also finances school fees for three children. Half of the pensioners say they also need the pension to buy pharmaceutical products on a regular basis. The total cost of the system amounts to only 0.8 per cent of GDP. The old system was less foolproof, slower and more expensive. The new one reaches almost all people over 60 and has changed many families’ lives all over Namibia.

Source: ILO Financial, Actuarial and Statistical Services Branch (SOC/FAS). The ILO provided technical advice on reform of Namibia’s social security system.

**recognized by many developing countries. For a poor family, securing a basic income, basic health care and education for the children is a foundation for participating productively in society and the economy. Secure families build secure communities and stable societies.**

**For most people living in poverty, however, these basic securities are not even a dream. Their daily reality is a world of insecurity with all the consequences of crime, substance abuse, and social dislocation that breed violence, ethnic and religious bigotry, and political extremism. As with many**

## A Global Social Trust

Taking forward the resolution and conclusions concerning social security adopted by the International Labour Conference in 2001, the ILO has undertaken a feasibility study of the possibility of supporting the development of national social protection systems through international financing. The result is an innovative concept for a Global Social Trust connecting the global, national and community levels of financing for social security. In November 2002 the Governing Body of the International Labour Office authorized the Director-General to conduct a pilot project bringing together donor and recipient countries.

The basic idea is to request people in richer countries to contribute on a voluntary basis a modest monthly amount (say 5 euros per month or about 0.2 per cent of their monthly income) to a Global Social Trust. This would be organized in the form of a global network of national Social Trusts, supported by the ILO, which would then:

- invest these resources to build up basic social protection schemes in developing countries; and
- sponsor concrete benefits for a defined initial period until the basic social protection schemes become self-supporting.

The precise composition of the benefit schemes will depend on national, regional or local priorities. It is expected, however, that the main systems supported through the Trust will be combined national and community initiatives to finance essential health care, basic income security benefits and basic education. One promising avenue for rapid poverty relief for whole families that has emerged during the study is a basic "one-dollar-a-day" pension for the elderly, which has proved to have a major impact on the well-being of whole families.

The Trust is envisioned as a decentralized network rather than a centralized money collection and disbursement agency. This favours strong participation of individual contributors. The network approach involves gradually building up national Social Trusts, confederated in a global organization, but maintaining full national budgetary independence. National organizations would launch national membership campaigns, collect contributions, manage the funds, decide on the use of funds and audit projects financed by the respective national organizations.

If the pilot project proves successful and is scaled up globally, the resource transfers generated will be substantial. If between 5 and 10 per cent of all employees in the OECD countries contributed an average of 5 euros per month, the Trust networks could, within the next two decades, reach 80-100 million people in the least developed and low-income countries who are currently excluded from effective social protection.

Source: ILO: *A Global Social Trust Network: Investing in the world's social future* (Geneva, 2002).

**aspects of the development agenda, extending social protection requires action at the national level within a supportive international context. However, there is a danger that the pressures of competition for internationally mobile finance and on world trade markets will reduce the scope for extending social protection at a time when it is most needed. If they are to extend the triangle of income, health and education security, low-income developing country governments need in turn the security of a regular, predictable flow of development assistance to their budgets for social expenditure.**

**As a contribution to new thinking about global solidarity, the ILO is currently piloting an approach to supporting the extension of social security through a Global Social Trust. The idea is to request people in richer countries to commit to a regular monthly transfer of about 5 euros (or about**

0.2 per cent of average monthly incomes) to a Global Social Trust based on a network of national social trusts supported by the ILO and other interested parties. These funds would then be invested to kick-start basic social protection schemes launched primarily in least developed countries, which would provide concrete benefits for a defined period until these initiatives became self-supporting.

### *The HIV/AIDS threat*

Over 25 million workers are infected with HIV/AIDS, and millions more affected by the pandemic. The ILO has calculated that the size of the labour force in high-prevalence countries will be between 10 and 30 per cent smaller by 2020 than it would have been without the effect of HIV/AIDS, which poses a serious threat to economic growth and development prospects. Macroeconomic performance is undermined by rising labour costs associated with the pandemic, through skills shortages, sickness and absenteeism and reduced productivity and economic competitiveness, resulting in a shrinking tax base, less foreign investment and fewer jobs.

Household income is eroded by the loss of employment or lower productivity, especially in agriculture, while health-related costs rise. Moreover, the workforce of the future is weakened as children are taken out of school to help care for sick relatives, to raise income for the family, or because they have lost one or both parents to AIDS. Education services are being decimated by the high mortality rate amongst teachers. Government revenues from both individuals and enterprises are reduced at a time when social spending, especially on health, needs to increase. The cumulative effect is a slowdown, or even reversal, of economic growth and an escalation of poverty.<sup>28</sup>

The disproportionate effect of the pandemic in relation to discrimination was discussed in Chapter 3. Women are more negatively affected by HIV/AIDS the greater the gender discrimination in societies. They are more vulnerable to HIV/AIDS because of social, cultural, economic and biological factors. Their sexual and economic subordination to men means that they often do not have the power to negotiate safe sex or refuse unsafe sex. In addition, the power imbalance between men and women – at the workplace as in the home – exposes women to the threat of sexual violence and harassment. Women's roles as mothers and caregivers mean that their ability to obtain and retain employment is more easily disrupted by HIV/AIDS. As a result of absences from work, women lose their jobs, or trading or other production opportunities, and it is often difficult to re-enter the formal or informal labour market.

Social protection resources to mitigate the wide-ranging effects of HIV/AIDS are limited, particularly in countries severely affected by the pandemic. Public expenditures on social security and health have often been cut as part of structural adjustment programmes. As a result, the costs of care are passed on to communities where families are doing their best to provide care for people who are falling sick and eventually dying, with the extra burdens generally resting on women's shoulders.

Workers in the informal economy are particularly vulnerable to HIV/AIDS, in terms both of susceptibility and impact of the pandemic. Firstly,

<sup>28</sup> See F. Lisk: *The labour market and employment implications of HIV/AIDS*, ILO/AIDS Working Paper No. 1 (Geneva, ILO, 2002); D. Cohen: *Human capital and the HIV epidemic in sub-Saharan Africa*, ILO/AIDS Working Paper No. 2 (Geneva, ILO, 2002).

poverty and low education levels are associated with a higher likelihood of engaging in unprotected sexual behaviour and thereby contracting the virus. Secondly, enterprises in the informal economy are usually small and labour intensive which means that they rely heavily on one or a few operators. When a worker falls sick and eventually dies, it is very difficult for these small enterprises to stay in business. The precarious nature of informal employment, the lack of social protection and limited access to health services also compound the impact of the disease for individual workers. As workers in the informal economy are usually not members of trade unions or business networks, and government involvement is by definition very limited, HIV/AIDS prevention and mitigation programmes face a particular challenge in reaching out to informal economy operators.

Migrant populations are particularly vulnerable to HIV infection for a variety of reasons, including isolation and loss of social networks, and limited access to health services, social protection and education, especially in the case of illegal migrants. Seafaring, trucking, itinerant trading and other highly mobile occupations involve an above-average risk of HIV infection, given the workers' separation from their families and the availability of alcohol and sex along many transport routes.

Following the adoption of the resolution concerning HIV/AIDS and the world of work by the International Labour Conference at its 88th Session in June 2000, the ILO has developed a major programme of activities to assist governments, employers and unions in developing new or improved policy frameworks to combat HIV/AIDS. Technical cooperation activities are under way in Botswana, Ethiopia, Kenya, Malaysia, Saint Lucia, the United Republic of Tanzania, Thailand and Uganda, and others are in the pipeline. The centrepiece of the programme is an ILO code of practice on HIV/AIDS and the world of work developed through an intensive process of consultation with the ILO's tripartite constituents. Formally launched at the United Nations General Assembly Special Session on HIV/AIDS (New York, 25-27 June 2001), it received the support of the United Nations Secretary-General, as well as national leaders, corporations, labour organizations and NGOs.

### *A coherent framework for national and local action*

Increased in-depth analysis of the multifaceted experience of poverty is leading to a growing awareness of the need for a range of policies that are specific to the problems faced by different communities and countries. Given that the causes of poverty are many and interconnected, targeted policies have most effect when they act in combination to break cycles of poverty. One of the most encouraging aspects of the new approach to poverty reduction and eradication is therefore the emphasis on policy coherence, based on a comprehensive development framework.

Poverty restricts the freedom of women and men to enlarge and realize their capacity to achieve and enjoy a long, healthy and productive life as respected members of cohesive communities. The setting of goals such as those agreed by the Millennium Summit is an important mechanism for deciding on priorities and measuring progress, but eradicating poverty is essentially about ensuring that people have the power to shape their own lives by their own efforts and by cooperating with others. Coherence should not be imposed, but constructed by people organized in networks of public and private social institutions, respecting each other's fundamental human rights, and thus able to agree to act together for a common goal.

The need for poverty reduction strategies tailored to the specific needs, capacities and opportunities of communities and countries means that a

## Poverty reduction in the Russian Federation

Poverty in the Russian Federation affects wage earners and pensioners, especially women. Its roots lie in unemployment, inadequate remuneration and benefits, non-payment of wages or social benefits, and ill-designed or poorly functioning redistribution mechanisms.

The Ministry of Labour and Social Development of the Russian Federation and the ILO are working with the North-West Federal Okrug (District) on a programme to reduce poverty. The aim is to provide women and men living in poverty with access to the labour market, a decent income, training and retraining, social assistance and benefits, free social services and safe working conditions. The initiative also includes a project to enable children to go to school by eliminating child labour.

The initial focus is on designing, planning and implementing a regional demonstration programme on integrated workforce training and employment creation.

Using the decent work approach to poverty reduction through employment promotion, the programme envisages working with a range of local and international partners to build the capacity of the regional authority and the social partners. Priorities include support for:

- existing and new small business in overcoming administrative barriers, such as difficulties in registration and taxation;
- socially responsible enterprise restructuring through retraining programmes drawing on experience gained in ILO work in the Chuvash Republic of the Russian Federation;
- skills development using the ILO's community-based training methodology;
- facilitation of social partnership as a mechanism for addressing social, and labour and economic problems;
- a quantitative analysis of resources for planned reforms in the public housing system and in public sector wages and conditions;
- the extension of adequate and sustainable social protection for the majority of the population in the Okrug, especially the large numbers of migrant workers;
- promotion of safe working conditions.

Source: ILO Subregional Office for Eastern Europe and Central Asia in Moscow.

**“one-size-fits-all” approach to policy coherence will not work. Communities and countries must fix their own priorities and put together, from a range of policy options, a balanced and integrated strategy. Decisions about potential trade-ins and trade-offs and the best sequencing and pace of the strategy are often critical, but if they are to work well they must be taken by those who will have to implement programmes.**

The twin principles of ownership and participation that underlie the new global strategy for poverty reduction imply a substantial degree of decentralization of decisions about priorities, both to countries and, within countries, to communities. However, decentralization without respect for basic human rights will not empower people living in poverty and vulnerable to the arbitrary exercise of power by local elites. Recent research by the World Bank in Indonesia indicates that village-level governance structures are more effective where people also participate in other social organizations, such as credit cooperatives and water user groups. For people living in poverty, a collective voice is important to participation in local decisions that

can become dominated by the strongest families in the village.<sup>29</sup> The foundations for effective ownership and participation in policies and programmes for poverty reduction are the freedom to organize and the power that collective action gives to individuals who otherwise are not able to shape their own lives.

In broadening and deepening participation in the development process, the role of parliaments and other democratically elected bodies is central. Commitments made by donors are for many countries a major part of the financing needed for national budgets. Recipient countries' parliaments could play an important role in ensuring that promises are kept on both sides and that the costs of managing aid flows are kept to a minimum.<sup>30</sup>

International agencies, including the ILO, are changing their approach to development to encourage and facilitate a much stronger role for governments of aid-receiving countries, parliaments, and national partners, such as employers' organizations, trade unions and community groups. The Poverty Reduction Strategy Paper (PRSP) process initiated by the World Bank and increasingly being implemented by other international and national development agencies aims to place the main responsibility for policy design and implementation in the hands of the governments of the poorest countries. The United Nations Development Group is also working to align its planning mechanisms with the poverty reduction strategies set by developing countries.

In addition, the new approach encourages governments to consult widely with business and trade unions, parliaments, local authorities and civil society in developing their PRSPs. Yet progress is slow, both in ensuring that coherent national policies receive adequate international financial support and in shifting the aid relationship away from excessive conditionality to donors towards increased accountability to citizens in poorer countries.

As part of this effort, the ILO aims to spread awareness of the decent work approach to poverty reduction, to make available the portfolio of ILO technical assistance and, most importantly, to encourage the range of social institutions that comprise the "community of work" to participate in the design and implementation of nationally owned strategies. The ILO is assisting its tripartite constituents to develop mechanisms of social dialogue as a vital component of this process. An important vehicle for this work will be the ILO's own decent work country programmes.

The ILO will continue its efforts to ensure that national and international policy-makers concerned with issues such as financial stability and trade liberalization take into account the interrelationship between employment growth, social stability and other macroeconomic and development goals.

<sup>29</sup> V. Alatas; L. Pritchett; A. Wetterberg: *Voice lessons: Local government organizations, social organizations, and the quality of local governance*, World Bank Policy Research Paper 2981, Mar. 2002.

<sup>30</sup> "Delays or non-disbursement of committed funds undermines the integrity of budget planning and implementation schedules, thereby reducing the effectiveness of projects and programmes ... Multiple and overlapping processes, missions, reviews, meetings, studies and reports place undue burdens on the shoulders of both government and development partners. With its still weak capacity, the Government of Tanzania is especially weighed down by this burden", speech by President Mkapa of the United Republic of Tanzania to the High-Level Forum on Harmonization, Rome, 24-25 Feb. 2003.

## *The Poverty Reduction Strategy Paper process: The ILO experience*

The preparation of PRSPs is a learning process for all concerned: governments, employers' and workers' organizations, the Bretton Woods institutions and development banks, the ILO, United Nations specialized agencies, bilateral donors and, most importantly, people living in poverty and the various forms of community organizations they choose to adopt. Generally, the ILO's experience of participation in the PRSP process has been fairly, although not universally, positive.<sup>31</sup> Governments have welcomed offers to help provide specific technical inputs in ILO areas of competence and the promotion of consultation with employers' and workers' organizations.

The ILO is different from other specialized agencies in that it combines both the provision of technical inputs in important areas – rights, employment and social protection – and support for the participatory process through tripartite consultations. ILO experience in a number of countries suggests that this aspect of PRSPs is becoming more widely appreciated and embedded in political systems. The World Bank, the IMF and many recipient and donor countries are beginning to include civil society consultation and participation in poverty reduction strategies. Rather than being a costly waste of time as some feared, this is becoming an important means of improving the analysis of the incidence and causes of poverty, and the effectiveness of poverty reduction strategies.

The ILO has encouraged governments to invite employers' and workers' organizations to join fully in all phases of the PRSP process. However, in some cases the social partners have expressed concern and frustration that their views and potential support appear undervalued. There are a number of explanations for this, including the following:

- Many low-income countries are under enormous pressure to produce PRSPs in order to be eligible for World Bank/IMF loans, debt relief and grant funding. In recent years the donor community has put great emphasis on medium-term expenditure planning, as well as public sector reform and improved macroeconomic management. Given their limited capacity to develop a comprehensive strategy quickly, external demands to focus on these areas have made it difficult for countries to address other objectives, such as decent work and employment creation, which constitute high political priorities for them.
- The traditional conduit for the views of social partners into government policy-making is the Ministry of Labour. However, in many countries it plays a relatively minor part in the PRSP process, which is still a heavily budget-oriented intra-governmental process, dominated by finance and economy ministries.
- The emphasis on the participation of civil society organizations (CSOs) by the international community can cause difficulty in that few trade unions and employers' organizations identify themselves with this relatively new all-embracing term. Furthermore, other CSOs sometimes do

<sup>31</sup> Since 2000 the ILO has worked particularly closely with Cambodia, Honduras, Mali, Nepal and the United Republic of Tanzania on how to bring the decent work perspective into their poverty reduction strategies.

not think of unions and employers' organizations as part of their movement.<sup>32</sup>

- In some countries, governments prefer not to engage with trade unions and/or employers' organizations that have a history of openly challenging or opposing the government, and have deliberately sidelined them in the PRSP process.
- Some World Bank and IMF officials are unfamiliar with the work of the social partners and have not felt the need to prompt government PRSP teams to seek their involvement, despite encouragement to do so from their own senior management.
- A few workers' organizations have preferred not to become involved in what some regard as a continuation of previous stabilization and adjustment policies to which they were opposed. Many others also share these concerns but are trying to change the policy framework by active participation in the PRSP process. Some workers' and/or employers' organizations have limited their engagement, either because they question the real value of the participation process or because they have other priorities that override their involvement in PRSP processes.

Despite the scope for PRSPs to draw on previous analysis and policy development work by the ILO, the first wave of interim and full PRSPs in 2000 and 2001 were, in the main, disappointingly meagre in their coverage of decent work issues. In part, this probably reflects the relative absence of labour ministries and the social partners from the consultation processes for the drafting of the first PRSPs. It may also arise from the lack of prominence given to the gender dimension of poverty.

Whilst public expenditure in vital areas such as education and health is of great significance to poverty reduction, the larger question of how to generate pro-poor sustainable growth is not yet fully integrated into deliberations surrounding most PRSPs. This should change as PRSPs evolve, and the ILO expects more attention to be given in future to the fundamental question of how to raise the productivity of the working people living in poverty and the returns they get from their labour. This is inextricably linked to the broader issue of moving equity and redistribution further up the policy priority list alongside emphasis on growth and social expenditures.

Experience to date has shown that the contribution of the ILO's field structure is vitally important to full participation in PRSP dialogue. Regular and frequent contact – and ideally a presence in a country – is essential in order to take full advantage of formal and informal networking opportunities. The challenge is for the social partners to take on much of the advocacy role associated with the ILO's objectives on PRSPs, but in most low-income countries this will require substantial support for capacity building. Overall, the ILO's four overarching concerns as the PRSP process moves from design to implementation are as follows:

- PRSPs need to include a more thorough analysis of employment and other aspects of decent work. This should lead to a more explicit con-

<sup>32</sup> Relations between unions and CSOs are developing nationally and globally, as stated in a *Joint Statement on "Globalising Social Justice"* to the World Social Forum (Porto Alegre) and the World Economic Forum (New York), Jan./Feb. 2002, by the International Confederation of Free Trade Unions (ICFTU), the International Trade Secretariats (ITS), the Trade Union Advisory Committee (TUAC) to the OECD, the World Confederation of Labour (WCL), and the European Trade Union Confederation (ETUC). "Trade unions are part of civil society just as they are part of industry. In order to be relevant to our members, we must be willing to engage in dialogue with employers for which workers toil, just as we are ready to negotiate with them, while, at the same time, working together with others in the community. Our role is to advance and defend the interests of workers by building alliances with those who share our views, and through debate and argument with those who do not."

clusion of the four strategic objectives of decent work in poverty reduction strategies.

- Employers' and workers' organizations and labour ministries need to be more systematically integrated into the participatory process underpinning the design and implementation of PRSPs. Without social dialogue, the participation and national ownership principles of the PRSPs are seriously undermined and decent work strategies are unlikely to receive adequate consideration.
- PRSPs need to give more attention to maximizing the impact of sustainable growth on poverty. This should lead to greater focus on issues such as reform of land rights, development of a fair, efficient and effective fiscal policy, and the integration of the informal economy into mechanisms for the governance of markets that promote enterprise and employment.
- Donor countries must include in their funding priorities issues related to employment and enterprise creation, social protection, rights, representation and dialogue, promotion of tripartism and other poverty reduction policies on which the ILO has expertise.

The ILO has undertaken PRSP-related activities in a number of other countries in addition to the five special focus countries mentioned above, especially in Africa, where the policy environment is so closely aligned to the development of PRSPs. The New Partnership for Africa's Development (NEPAD) now provides a continental framework to which the ILO is contributing with its Jobs in Africa programme.

As the ILO's work on PRSPs becomes more widely known, there is an increasing call on its limited resources from additional countries. The ILO seeks to respond positively to these requests to provide support to PRSP processes both at the design stage and, increasingly, at the stage of implementation, and has put in place internal organizational arrangements to ensure a coordinated and consistent approach. As well as the technical expertise we are able to offer, one of the most appreciated contributions is knowledge of how other countries with similar problems are addressing the challenge of eradicating poverty through promoting decent work.

In so doing, the ILO will continue to stress the importance of an integrated perspective on poverty reduction centred on decent work and drawing on the wide range of its technical cooperation initiatives in many countries. There will also be an increasing need to build the capacity of the social partners to enable them to participate actively in monitoring the implementation of PRSPs and to develop general guidelines to help field offices and the social partners make the most of the opportunity to engage in PRSP dialogue. Although donors have expressed an interest in supporting the ILO's work in the PRSP process, this will require further funding. Integrating decent work programmes with the PRSPs of low-income countries will enhance the visibility and impact of the ILO contribution, strengthening the ILO's influence in the policy dialogues and partnerships at many levels, including with the Bretton Woods institutions, donors and other development organizations.

### *Looking towards the future: A tripartite commitment to the eradication of poverty*

In the new multilateral drive to reduce poverty there are three dimensions linking the work of the ILO and other partner agencies. First, the open and participatory principle of the PRSP process is a direct invitation to

employers' and workers' organizations to contribute substantively to shaping national policies. Governments and the Bretton Woods institutions should actively foster such participation. Second, employment, representation, social protection and social dialogue should form a central concern of poverty reduction policies, in both macroeconomic and microeconomic terms. Third, the effective implementation of principles and rights at work will ensure a social floor allowing market forces to function more effectively and equitably.

The renewed international commitment to the reduction of extreme poverty, the streamlining of national and international assistance towards this goal and the broader conceptual and policy framework provide an extraordinary opportunity for the ILO to make a significant contribution. The challenge is to demonstrate the validity of a decent work approach to the reduction of poverty.

As stated in the Programme and Budget proposals for 2004-05, the ILO intends to strengthen the capacity of constituents to influence the national policy on poverty reduction on the basis of the Decent Work Agenda. This will be particularly relevant to countries engaged in the PRSP process and other similar national development planning mechanisms that aim to pull together the national and international resources for poverty reduction.

The ILO is actively involved in developing the national Decent Work Agenda with constituents in a number of countries that have undertaken pilot programmes or sought the ILO's assistance in the PRSP process.<sup>33</sup> Experience has shown that an integrated agenda for poverty reduction and social inclusion grouped around standards and rights, enterprise and employment promotion, social protection and social dialogue, with gender equality and international partnerships as constant themes, promotes both analysis of the main issues and the identification of specific measures.

The ILO approach is to start by discussing with its constituents their perceptions of the key problems facing enterprises, workers and communities in improving social and economic conditions generally, and those of people living in poverty in particular. Initial meetings gradually lead to the identification of a number of often interrelated issues such as crime and growing levels of violence and youth unemployment, the fragility of micro and small businesses in the insecure environment of the informal economy, and the lack of education and health services in isolated rural communities.

As discussion moves from the identification of problems to possible responses, the ILO is able to introduce information and ideas on approaches to addressing these issues both at local and at national level and examine with the social partners and government agencies whether they could be adapted to meet their priorities. In many cases, the ILO is able to facilitate joint analysis and connecting the "community of work" to national development policy debates and international initiatives such as the PRSP process. Its main contribution is to bring available technical expertise and the experience of other countries in dealing with similar problems into the discussions. A common understanding of the poverty challenge built up by involving the social partners and key civil society groups in discussions of decent work deficits and the dividends that can be realized by overcoming them can help government to build consensus on priorities and actions.

<sup>33</sup> Bangladesh, Cambodia, Ethiopia, Ghana, Honduras, Indonesia, Kazakhstan, Mali, Morocco, Nepal, Panama, Philippines, Sri Lanka, United Republic of Tanzania and Viet Nam. The ILO has also undertaken reviews of economic and social policies in Bahrain and Denmark from the decent work perspective.

Participatory research and analysis techniques can be particularly rewarding, as they identify grass-roots solutions and experience by involving organizations representing people living in poverty. For example, a study of the one micro-insurance scheme for informal economy women workers in India that included provision of maternity benefits encouraged members of two other schemes that did not provide such benefits to do so.<sup>34</sup> In Mali, the Government, employers, unions and the ILO itself were able to draw on research work and policy dialogues promoted by the Jobs in Africa programme to convince the Finance Ministry and the World Bank that employment policies should figure in the country's PRSP. In the Philippines, national-level discussions quickly generated awareness of the value of using a decent work perspective to promote local economic and social development. The government initiative to create "poverty-free zones" has stimulated considerable interest, and the ILO was able to contribute by offering its experience with various types of community organization, such as rural cooperatives and community-based training.

Given the positive response of constituents to the ILO's Decent Work Pilot Programme and its engagement with the PRSP process, a flexible agenda for national discussions might include the following policy topics for discussions among the social partners. In many countries, a similar agenda could also be useful at regional and community level in bringing the perspectives of the community of work into a coherent programme for poverty reduction. The ILO could help prepare basic discussion papers, in consultation with national governments and employers' and workers' organizations to facilitate exchanges on what they consider priority issues.

### *Employment and enterprise development*

- Analysis of trends in employment to identify sectoral or regional patterns of growth or decline. Improving the information base on where people work and how much they earn, labour force participation and household incomes, disaggregated by sex and age.
- An assessment of the skill base, future needs, the quality of education and training systems and the whole range of employability issues.
- Evaluation of the conditions facing micro and small businesses and measures needed to help this sector grow and employ more people in better conditions.
- Opportunities for increased employment in rural areas and improved performance of agriculture, including improving the transport and communications infrastructure with labour-intensive investments.
- Financial services to poor communities and small businesses.
- The scope for communities, workers and micro businesses to develop cooperatives as a way of improving their livelihoods.
- The role of stronger enterprises, such as large national companies or foreign investors, in joining with communities to tackle underemployment and poverty.
- The promotion of technological development geared to poverty reduction.

<sup>34</sup> See ILO: *Extending maternity protection to women in the informal economy: The case of Vimo SEWA, India* (Geneva, 2002).

### *Social protection*

- The impact of poor health, particularly HIV/AIDS, on employment and incomes and the policy priorities.
- Financing of health care and the potential for extending insurance schemes to people living in or vulnerable to poverty.
- Income support systems for families with school-age children, the elderly and people with disabilities.
- Reform of existing social insurance schemes with a view to a medium-term strategy for extension of coverage and synergies with small-scale voluntary schemes.
- Improvement of mechanisms for establishing and enforcing minimum wages.
- Occupational health and safety policies, with particular focus on hazardous occupations such as agriculture, construction, mining and small-scale manufacturing, where many lower income workers are employed.
- Community maternity support.

### *Rights and labour law reform*

- Development of a programme to eradicate child labour and the linkages to improved access to schools. Data on child labour require a special approach, given that it is often hidden.
- Review of law and practice regarding fundamental principles and rights at work, taking account of any recommendations by the ILO. Overcoming discrimination and facilitating the exercise of the right to freedom of association by workers and enterprises operating in the rural sector and the informal economy are key issues.
- Modernization of labour codes and the promotion of collective bargaining, dispute resolution mechanisms and other forms of social dialogue.
- Re-examination of the application of labour laws in export processing zones to encourage a tripartite approach to the progressive improvement of the quality of production and employment conditions.

### *Social dialogue*

- Promotion of tripartite mechanisms to strengthen the decent work dimensions of national economic and social development policies aimed at poverty reduction.
- Development of capacity-building programmes for employers' and workers' organizations, especially those organizing in the informal economy.
- Promotion of dialogue between the social partners and other representative community organizations, particularly with regard to local economic development.
- Reinforcement of social dialogue on specific policy issues such as social security, occupational health and safety and training and in key sectors such as health, education, energy, transport and communications.

### *Gender*

- Review of policies to promote equal opportunities and treatment of women in employment and self-employment, and as entrepreneurs.
- Examination of policies to support workers with family responsibilities.

- Promotion of the role of women in trade unions, employers' organizations and community organizations.

### *Partnerships*

- Identification of opportunities for partnerships between the ILO and its constituents and other international agencies within national development frameworks, for example on rural development, infrastructure investment, lifelong learning, urban improvement, environmental protection, microfinance, child welfare, health care (especially HIV/AIDS control), and the social dimensions of industrial and technological change.

### *Conclusions: Mobilizing the community of work to end poverty*

Eradicating poverty calls for the coordination of policies that focus on different dimensions of the life of people living in poverty. The value of the decent work approach lies in the fact that, by focusing on how to create the conditions in which people can build sustainable livelihoods for themselves, it encourages policy integration. This is vital if the political commitment symbolized by the adoption of the Millennium Declaration is to connect to local communities through practical measures addressing the barriers that trap people into cycles of poverty.

By facilitating constructive dialogue at national level, the decent work approach brings out key policy issues where economic and social policies need to be aligned to the objectives of poverty eradication. It also provides a framework for international strategies that recognize the specific needs of developing countries within an agenda of reform of the international architecture for the governance of globalization.

Poverty is not just a problem for the poor. The goal of a stable world economy is only possible if the productivity and consumer power of all its citizens are released. Increasingly intense competition for restricted markets threatens to create ever more frequent cycles of boom and bust that reward predatory or speculative behaviour rather than productive investment. A successful drive to raise the consuming power of the majority of the world's population, particularly those on the lowest incomes, is fundamental to the broadening and deepening of markets.

Political and social stability is similarly hard to envision if a large proportion of the world's population not only is currently excluded from the increasingly visible benefits of economic integration but also sees little or no opportunity of ever participating in a system that appears discriminatory and unfair. Increased expenditure on preserving law and order nationally and internationally, without investing in tackling the roots of the tensions caused by social injustice, is not an adequate response to growing security concerns.

The world community is preoccupied with containing risks of a breakdown of stability and security. These risks cannot be ignored. However, overcoming these dangers requires a vision of the potential of increased international cooperation for shared objectives. The goal of decent work is a basic aspiration of individuals, families, communities and nations with widely varying histories and cultures. It is a cause that unifies and pulls people together in collaborative endeavour. Furthermore, it is a dream that can be made a reality by step-by-step progress that builds confidence and

trust in our capacity to organize the way we work to make full use of people's capabilities.

The ILO is committed to playing a decisive role in organizing a new approach to working out of poverty. We need a global system that is working to end poverty by enabling people to enjoy the freedom to work in conditions of equity, security and human dignity. This Report aims to develop an agenda for the community of work represented by the ILO's tripartite constituency to mobilize its considerable resources in the service of the concerted global drive to reduce and eradicate poverty.