

# **Trade unions and poverty reduction strategies**

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# Editorial

Five years ago, the Bretton Woods institutions – the International Monetary Fund (IMF) and the World Bank – declared that poverty reduction would henceforth be the overarching goal of the two institutions.

This was long overdue. The move was, in fact, a response to the sharp (often justified) criticism generated until then by their structural adjustment programmes. Not only had these programmes failed to bring about economic growth or even an end to economic stagnation, they had actually resulted in additional hardship for the population in the developing countries they were supposed to rescue. Rather than declining, poverty had increased.

One of the main reasons for the failure of adjustment programmes was that they had been prepared without any consultation with representative institutions from the societies in which they were to be implemented. At the same time, they imposed harsh conditions on the governments that were supposed to carry them out. The recipe was “free market”, and the social dimensions of change, as well as workers’ rights, figured among the so-called “rigidities” that had to be overcome. In fairness, it should be noted that economic crises and the need to be bailed out by the two Bretton Woods institutions often resulted from gross mismanagement of national economies including corruption. Not much attention was paid to the recommendations of the International Labour Organization (ILO). In fact, they were politely ignored, as both of these international financial institutions (IFIs) thought that labour law reforms also fell within their remit.

Now, things seem to have changed for the better. But have they really? True, the new Poverty Reduction Strategy Papers (PRSPs) have revised the avowed aims of assistance programmes to developing countries. But are the papers just paper?

Fighting poverty is now the declared objective. The PRSPs, which now form the basis of all concessional lending and debt relief for low-income countries, are supposed to be “country-owned” and “results-oriented”. And they are supposed to be agreed through a participatory process at the national level.

Of the 81 PRSP-eligible countries, 52 have now completed their Full PRSPs or Interim PRSPs. Yet trade union participation in these has been varied.

In this issue, *Labour Education* contributors look at the nature and quality of the participatory process and assess trade union involvement in shaping the content of official PRSPs. Many obstacles remain. According to the World Bank’s own findings, consultations with trade unions have not been systematic. In some countries, unions were totally left out of the process. In many others, there was little union involvement beyond the PRSP formulation stages. Moreover, in a number of eligible countries,

repressive governments are still out to curb the exercise of trade union rights. This is certainly not conducive to proper consultation with the workforce. It is also regrettable that social and labour ministries play only a minor role, if any, in shaping poverty reduction strategies. This still seems to be the exclusive domain of finance ministries.

In the absence of genuine discussion with the representative workers' organizations (or employers' organizations), the desired policy outcomes are unlikely to be achieved. After all, trade unions, as key players on the economic, social and political scene, will have a crucial role in implementing the strategies. This seems to have been overlooked. No wonder that many of the present PRSPs lack the necessary focus on labour market policies and instead concentrate on dubious privatization schemes and labour law "reforms" that many would regard as undermining workers' rights. Is this not reminiscent of past practices? Indeed much to our concern one of the main feature of the PRSPs is that they seem to maintain the same old-style macroeconomic policy approach.

Things have to change. And things can change. The contributors to this edition of *Labour Education* do not just point to the gaps in the current PRSP process. They are unanimous in stressing the potential for developing country governments to devise policy options that truly reflect national priorities, including employment-creation strategies, social protection and better health and education.

The trade union movement should not, therefore, abandon its efforts to influence this process. It is central to the future of their countries and their societies. It is central to the future of the workers whom they represent and of those who are still deprived of representation and therefore of a voice. Again, proposals are made here to enhance the role of the trade union movement while improving their capacity to deal with the increasingly complex issues on the table and submit detailed policy alternatives. The IFIs would be well advised to devote resources to promoting this development. The ILO is encouraging governments to take consultation with social partners seriously, and its Bureau for Workers' Activities has been providing capacity-building support to trade unions as they prepare their contributions to the process.

Yet it should be clear to the IFIs and to the governments concerned that the credibility of the PRSPs – and the labour movement's continued wish to be a full part of them – will depend to a great extent on whether country "ownership" and civil society participation (those two elements which distinguish PRSPs from the now ill-famed adjustment programmes) remain genuine objectives of the process. In short, PRSPs must be true to their original objectives. Surely, that is not too much to ask. But it will require serious fine-tuning by the IFIs in Washington and a renewed commitment to social dialogue in the countries concerned.

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# Unions and Poverty Reduction Strategy Papers – an overview

*Are Poverty Reduction Strategy Papers just a “re-morphing” of previous neo-liberal policies? Many of the national experiences described in this issue of Labour Education seem to support that view. Unions must engage effectively to ensure that poverty reduction really helps the poor.*

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In 1999, the Bretton Woods institutions (IMF and World Bank) adopted Poverty Reduction Strategy Papers (PRSPs) as the basis of all concessional aid and debt relief for low-income countries. To date, some 52 countries have formulated Interim PRSPs or Full PRSPs which outline macroeconomic and social programmes to reduce poverty. In this regard, PRSPs have become the main framework of development policy at the national level.

According to the World Bank and the IMF, PRSPs are supposed to be guided by the principle of country ownership through a participatory process involving civil society. They should be results-oriented, comprehensive in scope and partnership-oriented, and should involve long-term planning. It is in this context that trade unions and a host of civil society organizations and institutions have engaged in PRSP processes in low-income countries. This overview article will seek to situate the specificity of PRSPs within the historical evolution of development policies, broadly assess the involvement of trade unions in poverty reduction strategies and identify a number of lessons learnt from this participation.

## The return of the poor

PRSPs cannot be isolated from the historical changes and continuities of dominant development policy. Indeed, in many ways, the PRSP approach integrates lessons learnt from previous development strategies and, theoretically at least, it tries to address the limitations and weaknesses of some past development policy options. Schematically, three defining phases in development policy may be identified – the modernization phase of the 1950s and 1960s; the Basic Needs period of the 1970s; and the Washington Consensus period of the 1980s and 1990s.<sup>1</sup> The challenge of post-war reconstruction provided the theoretical basis which was to be applied to developing countries. The modernization theories that dominated much of development policy in the 1950s and 1960s placed the accent on economic growth within a broader policy framework of an interventionist role for government and a dualistic approach to development in terms of stages of evolution of traditional society towards a modern consumer society. Development was therefore a process of modernization and industrialization and the problem of poverty was to be addressed through the spillover of the benefits of economic growth and the diffusion of the values of modernization.

The limits and contradictions of the logic of modernization, coupled with the critique

of dependency theories (which explained underdevelopment in terms of the exploitation of the South by the North), prepared the way for a greater consensus on the linkages between economic growth and redistribution. Poverty thus became central in development policy-making and development strategies became increasingly oriented towards the satisfaction of the “basic needs” of the population.

### **Basic needs – two approaches**

By the mid-1970s, two schools of thought were emerging. The first current, which was led by the ILO, sought to deal with the challenge of development through employment creation, poverty reduction and active policies of redistribution at both national and international levels. On the other hand, the second current, under the leadership of the World Bank, sought to address development through the provision of basic needs, but within a framework of the doctrine of interdependence and with a focus on the linkages between “national security” and development.

This strategy against poverty sought also to correct what was perceived as an “urban bias” in development policy, which was favouring protectionist import-substitution industries. For this current, trade unions were beneficiaries of these privileges which, if eliminated, would reduce the disparities between the urban and rural areas. The privileges of the urban worker (such as cheap food policies and rigid labour laws) had to be removed, and the best way to deal with rural poverty was to integrate the rural poor into the world market. These issues were to prefigure the policy debates of the 1980s. Despite the differences in both currents, one can conclude that the Basic Needs period saw the poor emerge as the centre of the preoccupations in development policy.

### **Back to trickle-down: The Washington Consensus**

This period was, however, short-lived, as by 1980 the dominant consensus was shifting away from basic needs to a market-based liberal approach. Stabilization and the structural adjustment policies that followed began to focus on government failures, getting prices right and creating an enabling environment for the efficient functioning of the (global) market.

With the end of the Cold War and the rise of globalization, these policies became incarnated in the Washington Consensus, based on fiscal discipline, a reordering of public expenditure for growth, deregulation, privatizations and the liberalization of trade, exchange rates, foreign direct investment regimes and prices. In this period, development was to be achieved through a return to the disciplines of the Washington Consensus and poverty had to be dealt with through trickle-down mechanisms as well as measures to mitigate the social consequences of adjustment.

### **From structural adjustment to PRSPs**

The economic and socio-political structures at national and international levels determine the shifts and turns in development policy. By 1999, these structural determinants were signalling the need for a change of policy direction. Stabilization and the structural adjustment policies of the Bretton Woods institutions were having little impact on global poverty and inequalities. Therefore, pressure was building up on the international financial institutions (IFIs) to heighten the poverty impact of aid and lending. Furthermore, their own research was pointing to the need for a comprehensive approach to poverty reduction. The emergence of an international civil society, which was vocally criticizing the dominant neo-liberal policies of the IFIs, was increasing the crisis of legitimacy of the World Bank and the IMF. The structural adjustment period itself had been severely criticized

for imposing uniform policies of the IFIs on countries without any consultations whatsoever. Furthermore, the end of the Cold War had created a climate for a more objective assessment of the economic policies being championed by the IFIs. These different factors, which had built up particularly in the 1990s, led to the adoption of PRSPs by the Bretton Woods institutions in 1999.

PRSPs therefore constitute the return of poverty as a central concern in dominant development policy. PRSPs represent yet another shift in dominant development strategy. The shifts over time in development policy underline the fact that no policy paradigm is eternal and hence there are no guarantees for a medium- or long-term commitment to the PRSP approach. These changing patterns of dominant development policy nonetheless shared one common element, namely economic growth as a central strategy for development and poverty reduction. The persistence of extreme poverty over the decades illustrates the limits of growth in dealing with poverty reduction, and stresses the need for integrated development strategies that tackle the structural roots of poverty.

### **Union involvement in PRSPs – participation issues**

PRSPs have posed at least three levels of challenge to trade unions, namely in terms of participation in the process, ensuring pro-poor content of poverty reduction strategies and, above all, poverty reduction outcomes. During the 1980s and 1990s, trade unions were vocal in condemning agreements reached in back rooms between ministries of finance and the Bretton Woods institutions without negotiations or even consultation with unions. When PRSPs were launched, trade unions generally welcomed the new commitment to the poor by the Bretton Woods institutions and saw the participatory process as a means of ensuring reforms in national socio-economic policy. However, as the

various country studies in this issue of *Labour Education* amply demonstrate, the experience of trade union participation in PRSPs has been very diverse.

As a result of previous experiences with governments and the Bretton Woods institutions, some unions have been sceptical of the usefulness of participation in the process at all. Lack of transparency in many countries has forced trade unions to be cautious, for fear of legitimizing unfavourable outcomes or committing limited resources to a process whose outcome was uncertain. Many other unions who eagerly opted to participate have had to face different obstacles that undermined the quality of the participatory process. As illustrated in the country case studies, obstacles to participation range from deliberate government marginalization of trade unions to cosmetic involvement of unions and to the lack of capacity of the unions themselves to engage. This “participation gap”, which still has to be filled to make PRSPs really country-owned, is further undermined by a number of other factors.

Firstly, the tendency by governments to exclude the macroeconomic framework of PRSPs from the participatory process. This no doubt undermines the credibility of the participatory process and reduces it to a mechanism for poverty assessment and for channelling resources to targeted groups or sectors. Some have rightly argued that the PRSP process contains many innovations vis-à-vis the structural adjustment period, such as the PRSPs’ emphasis on country ownership and a broad-based participatory process including the poor. However, what is important in assessing whether PRSPs are a real change in development strategy or not, is to identify the determinant policies guiding poverty reduction strategies. In this regard, the macroeconomic framework of PRSPs and the “conditionalities” attached to aid and debt relief constitute the determinant indicators of the real nature of PRSPs. The evidence thus far tends to suggest that unless there is a radical change in the fundamental macroeconomic framework

of PRSPs, and this is made part of the participatory processes, the very credibility of PRSPs will be undermined.

A second obstacle in the participatory process relates to country ownership. While this may appear revolutionary in theory, the practice has shown that governments have tended to formulate PRSPs with an eye to the fact that the Executive Boards of the Bretton Woods institutions would have to endorse them. This has tended to mean that, at best, PRSPs become a more collaborative effort between governments and the IFIs or, worse still, they are “tropicalized echoes” of what the governments know the IFIs want to hear. Hence, PRSPs often lack the flexibility needed in order to address local specificities. Furthermore, “conditionalities” and the exclusion of macroeconomic policies from the participatory process further undermine the principle of country ownership of PRSPs. As a result, poverty reduction strategies lack the boldness needed to tackle the root causes of poverty.

A third problem area has been in the post-formulation stage of PRSPs, where the participation of trade unions and civil society organizations has tended to be particularly weak. In many instances, this has been because governments have tended to limit the participatory process to the formulation phase. However, weak institutional capacity and scarce resources also make it difficult for many unions to participate in the monitoring and evaluation of PRSPs. In some countries, though, unions have managed to work with broader coalitions of other organizations to monitor PRSPs. Given the scale of the task, this is placing new demands on unions as they begin to develop indicators and undertake budget monitoring. In these countries, access to detailed and up-to-date governmental information continues to be a major challenge.

Despite the problems enumerated above, the inclusion of a participatory process offers new opportunities for engagement that were hitherto non-existent. The engagement, that is, of governments but increasingly also of IFI country representatives. The participatory process also

offers possibilities for addressing the broad socio-economic policy issues that unions have always been advocating. Furthermore, it provides opportunities for building broader alliances of progressive organizations working on poverty reduction. Finally, it gives scope for working towards the institutionalization of social dialogue on wider socio-economic policies.

### **Union involvement in PRSPs – content issues**

If, in the early stages of PRSPs, the issues around participation took on great importance for trade unions as more and more PRSPs were formulated, the content of PRSPs has become the driving issue for trade union involvement. Several policy issues regarding the content of PRSPs have been of particular concern to trade unions.

A first major area relates to the underlying macroeconomic framework of PRSPs. A key issue at this level is whether the macroeconomic policies being pursued under PRSPs differ significantly from previous stabilization and structural adjustment policies. Given trade union criticism of the structural adjustment programmes of the past, the answer to this question seems to be a test of the credibility of the PRSP approach. In a number of countries, it is still a bit too early to make a definitive judgement on this question. However, based on the PRSPs being implemented, it is increasingly clear that PRSP macroeconomic policies largely draw on the fundamentals of structural adjustment programmes. This conclusion, which is echoed in Kamran Kousari's article (p. 59 in this issue of *Labour Education*), undermines the credibility of the PRSP process and of the poverty reduction outcomes to be expected.

Another area of concern for unions has been that PRSPs have tended to focus on economic growth, and not sufficiently on issues of equity. If it is widely accepted that sustained levels of high growth play a key role in poverty reduction, it is equally

accepted that this is not enough. A whole range of other factors come into play. One of these concerns the actual “quality” of the growth in terms of poverty reduction. In this regard, the issues raised by Rizwanul Islam (p. 65) in terms of the pattern, source and distribution of growth are crucial if growth is to lead to poverty reduction. A second group of factors relates to the issue of equality. As clearly demonstrated in the article by Rolph van der Hoeven (p. 83), equality matters in relation to accelerating poverty reduction but also in terms of generating higher levels of economic growth. So structural issues like land reform, equal opportunity and access to productive resources have to be addressed in poverty reduction strategies. A key issue in this area is gender. The feminization of poverty over the years poses the crucial question of how gender is dealt with in PRSPs.

A third area of concern to unions has been the general lack of integration of employment and labour market issues in PRSPs. On the one hand, this reflects one of the fundamental weaknesses of the PRSP approach itself since very limited importance has been given by the Bretton Woods institutions themselves to the role of employment in poverty reduction. On the other hand, it has also been a reflection of the limited involvement of trade unions in earlier PRSPs. However, with the increasing engagement of trade unions and the ILO in these processes, this concern is slowly being addressed.

A fourth policy area of concern for unions has been in relation to the linkages between rights and poverty reduction. A meaningful participatory process necessarily implies the full respect of freedom of association. In countries where the State exercises control over unions and other civil society organizations, the PRSP participatory process has basically been window-dressing. Resistance to a rights-based approach to PRSPs has often been on the grounds that these rights negatively affect the comparative advantages of developing countries, particularly in relation to international trade competitiveness and

the attraction of foreign direct investment. A critique of these apprehensions is forcefully developed by David Kucera (p. 91).

However, there must be no doubt that resistance to a rights-based approach to development policy is also due to the fact that human rights, and specifically freedom of association, strengthen the weak and the poor. This point is important because development policy is not neutral and is the result of an interaction between unequal internal and external actors. Freedom of association, for instance, strengthens the hand of the poor in this interaction among unequal actors. Organization and collective action transform the poor from objects of development policy-making to actors who intervene in the shaping of the development agenda. Hence the deliberate strategy, in certain quarters, of attacking freedom of association.

A growing body of literature, which cannot be reviewed here, indicates the neutral or positive impact of the respect of rights on poverty reduction.

It should, however, be emphasized that, as well as core Conventions, all the other ILO Conventions have a bearing on poverty reduction. Some of the Conventions that are particularly related to PRSPs include those dealing with employment – such as the Employment Policy Convention, 1964 (No. 122), and the Human Resources Development Convention, 1975 (No. 142); with social policy and dialogue – namely the Social Policy (Basic Aims and Standards) Convention, 1962 (No. 117), or the Tripartite Consultation (International labour Standards) Convention, 1976 (No. 144); with social protection (like the Social Security (Minimum Standards Convention), 1952 (No. 102), the Occupational Safety and Health Convention, 1981 (No. 155), the Protection of Wages Convention, 1949 (No. 95), the Labour Inspection Convention, 1947 (No. 81), and the Maternity Protection Convention, 2000 (No. 183), as well as social economy instruments like on Promotion of Cooperatives Recommendation, 2002 (No. 193), and the instruments targeted at specific groups, such as indigenous and tribal peoples and migrant workers.

However, the important point to emphasize in the debate on rights and poverty reduction is that human rights are first and foremost inalienable rights that have to be applied in and of themselves. Any socio-economic benefits to be obtained from the observance of rights should therefore be considered as spin-offs from a fundamental obligation placed on States and other actors. The economic arguments in favour of the application of rights must not undermine or sideline the more fundamental purpose of human rights, namely to protect and promote human dignity and social justice.

A fifth area of concern for unions in PRSPs has been the whole range of traditional issues with which they are confronted on a daily basis. The persistence of neo-liberal policies, such as rampant privatization, is a case in point. The “conditionalities” which are still an integral part of debt relief and concessional lending have led to a continuation of privatizations of essential public services without due analysis of the impact on the poor. This, coupled with the negotiations on services within the World Trade Organization, is raising fundamental questions about the access of the poorest to essential public services such as water. This preoccupation, highlighted in the article by Mike Waghorne and Wendy Caird (p. 97), shows the “dual carriageway” nature of PRSPs which seek to reduce poverty and yet take macroeconomic policy options that undermine the ambition to reduce poverty.

Yet another traditional area of trade union action has been in relation to wages and incomes policy. Catherine Saget’s article (p. 111) shows both the potential and the limits of minimum wages as an instrument of poverty reduction. Labour market flexibility is still part of the agenda being pursued aggressively in some regions by the IFIs. Here again, questions may be raised about its social impact and compatibility with the objectives of PRSPs.

Another issue of interest to unions has been how to widen traditional social dialogue processes in a country in order to slowly institutionalize social dialogue on socio-economic policy as a whole.

Giuseppe Casale’s article (p. 103) demonstrates the contribution of the ILO to this process. Other issues being monitored by unions include pension reform and civil service reforms, both of which are policies currently being implemented.

This overview of trade union concerns on the content of PRSPs highlights the fact that, for PRSPs to truly reduce poverty in low-income countries, there needs to be a radical departure from the reductionist policies of the past which have narrowed down sustainable human development to the accumulation of capital and economic growth. This has been reflected in the debates on development policies over the years. However as the Social Policy (Basic Aims and Standards) Convention, 1962 (No. 117), reminds us, “The improvement of standards of living shall be regarded as the principal objective in the planning of economic development”. Trade union concern over the content of PRSPs is both a platform for the defence and promotion of their members’ interests and a commitment to fight for the interests of the working poor and for a more inclusive and just development model.

### Some lessons learnt

Since the engagement of unions in PRSPs, a number of precious lessons have been learnt.

One of these is certainly that participation involves risks and opportunities for unions. Risks because of the dangers of legitimizing unfavourable outcomes, but opportunities in terms of advancing trade union objectives of social justice in society. If, in the early stages of PRSPs, a focus on the risks and obstacles of governments dulled the enthusiasm of some unions for engaging in the process, today the trend is to focus on the opportunities that PRSPs offer to further the trade union mission. At the same time, this involvement in the participatory process is tempered by realism because of the persistence of the fundamentals of structural adjustment programmes and the realization that, like

previous development policy orientations, the focus on poverty reduction may change in the medium term. This realism should strengthen trade union resolve to make the best use of the present circumstances in order to achieve maximum gains for the poor. Or, at the very least, to limit the onslaught of socially marginalizing policies promoted by the IFIs.

Many unions are increasingly aware of the need for greater capacity-building on socio-economic policy in order to engage efficiently. Furthermore, there is the realization that gaps in capacity can be filled if unions work in broader coalitions with like-minded organizations or institutions at national level. As PRSPs move increasingly into the implementation and monitoring phase, budget monitoring has emerged as a key instrument for monitoring resource allocation and the impact of the PRSP process on the poor. In all of this, more and more unions are learning that the PRSP process cannot be likened to traditional industrial relations structures, even though in some countries these bodies have been efficiently used. This means that unions have to be proactive in engaging in the process and, it is to be hoped, by developing institutionalized forms of social dialogue on broader socio-economic issues.

## Widening the agenda

An overview of the involvement of trade unions in the participatory processes and in defining the content of PRSPs raises the question of the true nature of PRSPs and what is needed at national and international level to reduce poverty, if not eradicate it completely.

Based on an interim evaluation of PRSPs, one cannot but agree with the hypothesis of Craig and Porter<sup>2</sup> who describe PRSPs as a re-morphing of the neo-liberal policies of the 1980s-1990s. As Kamran Kousari emphasizes in his article, new elements have been added to revise or improve structural adjustment programmes. This is what Craig and Porter (2003, p. 54) describe as a "refinement of

the liberal political project, ... a mode of 'inclusive' liberalism". Hence, country ownership gives a free hand to governments to determine with civil society, in a participatory process, resource allocations for socio-economic programmes targeted at priority sectors. The determination of the underlying macroeconomic framework and development strategy, however, remains constrained by the disciplines of stabilization and structural adjustment. Trade union involvement in this participatory process must therefore be mindful of this reality and seek to engage, in order to widen the poverty reduction agenda to one of an overall development strategy in favour of the poor.

Then there is the challenge of putting in place an integrated policy framework at the national level to tackle the root causes of poverty. National development strategies, given the governance problems on the part of internal actors, have not been able to address the root causes of poverty, nor have they led to sustained levels of poverty reduction in low-income countries. There is clearly a need to put in place an integrated approach to poverty reduction which tackles the structural roots of impoverishment. PRSPs so far fall short of this more ambitious agenda. However, they offer an opportunity to meet the challenge. For this to happen, a broad-based coalition of social actors at the national level must support this agenda and orient development policy towards it. Trade unions have a key role to play in building such a coalition for change.

The causes of poverty at the national level are closely intertwined with the global causes of poverty. Hence, one needs to be realistic about what PRSPs alone can achieve. The UNDP's *Human Development Report 2003*<sup>3</sup> underlines the importance of these linkages by calling for far-reaching structural reforms at the country level and, at the same time, measures by donor countries to deliver financing for development at three levels – sustainable debt relief, just terms of trade and increased aid. An additional question is the coherence of donor support and the need to respect country

priorities spelt out in the participatory process. There is equally the challenge of better alignment of the IMF's Poverty Reduction Growth Facility and the World Bank's Poverty Reduction Support Credit to country PRSPs. The Millennium Development Goals advocate Global Partnerships precisely in order to achieve this donor coherence for the attainment of the other goals. Effective development assistance still remains a key ingredient in the attainment of the Millennium Development Goal of halving the proportion of people whose income is less than one dollar a day by 2015. Unless integrated national-level development strategies are accompanied by reforms in the structure of the global political economy, progress towards reducing poverty will be undermined. Trade

union involvement in poverty reduction strategies should therefore make the link between national- level action in favour of the poor and international action to globalize social justice.

## Notes

<sup>1</sup> For a thorough analysis of the evolution of development policy in the second half of the twentieth century, see Jean-Philippe Peemans: *Le développement des peuples face à la modernisation du monde*, Louvain-la-Neuve/Paris, Academia-Bruylants/L'Harmattan, 2002.

<sup>2</sup> Craig, David; Porter, Doug. 2003. "Poverty Reduction Strategy Papers: a new convergence", in *World Development*, Vol. 31, No. 1, pp. 53-69.

<sup>3</sup> UNDP. "Millennium Development Goals: A compact among nations to end human poverty", in *Human Development Report 2003*.

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# Central African Republic: Debt relief on hold, workers on edge

*One development plan has followed another in the Central African Republic, without much in the way of results. The formulation of a PRSP is a new departure for one of the world's poorest countries. New – but is it really any different for the workers?*

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It was in April 1998 that the Government of the Central African Republic, supported by the UN Development Programme (UNDP), began to draw up a national anti-poverty strategy known as the PNLCP (*Plan à caractère national de lutte contre la pauvreté*). This was in line with commitments made during the social development summit in Copenhagen in 1995. The Central African plan was intended to make the country eligible for rapid debt reduction under the initiative for highly indebted poor countries, as well as for an inflow of external assistance.

The PNLCP that emerged from this process covered a period of more than ten years (1999-2015) and became a reference point for prior diagnosis when the PRSP was drawn up.

## PRSP process: From diagnosis to development strategy

Those drafting the PRSP made an initial evaluation of poverty in Central Africa, in an attempt to define a coherent poverty reduction strategy. However, the lack of accurate statistics was a major obstacle. The most recent population censuses

were incomplete and were several years old. They did not provide a basis for mapping poverty, and they were also rather vague about its causes. And indeed, the paper mentioned that the authorities were having difficulty in identifying the precise reasons for the expansion of poverty.

The consultations led to the formulation of an Interim Poverty Reduction Strategy Paper (I-PRSP), which was finalized on 13 December 2000. This pinpointed a number of factors underlying the increase in poverty: political and social instability, lack of governance, an incongruous selection of development priorities, mutinies and the economic and social consequences of HIV/AIDS. It recognized that living conditions were constantly deteriorating and that the impact of poverty was being felt more acutely within various vulnerable groups such as women, young job-seekers, handicapped people and certain groups such as the pygmies and the Peul. The text that emerged from the consultations also emphasized the country's fragility, due to the decline in the quantity and quality of care and training services, persistent clientelism and chronic insecurity linked to arms trafficking and banditry. On the social front, several strikes had been held

in protest against the abrupt deterioration in living and working conditions.

So two aims were set: implementation of structural reforms in order to achieve macroeconomic and financial stability (an economic growth rate of 5 per cent); and the launching of a socio-economic development programme focusing on income generation, reduced mortality among mothers and children, promotion of primary education, access to drinking water and the fight against HIV/AIDS. The first objective clearly emphasized promotion of the private sector and the stimulation of exports (high-value woods, diamonds, coffee, cotton, tourism), while the second stressed the decentralization of administrative and political structures, the mobilization of internal resources (taxes and savings), access to essential services, training (including vocational training) and employment creation. So jobs do get a mention, but this need is not articulated within an overarching strategy.

Thus, the PRSP was to become the “the sole reference for collaboration between the Central African Republic and its principal development partners”.<sup>1</sup>

### Union involvement in PRSP

Various civil society actors were invited to take part in drawing up the PRSP, which aimed at broad participation and at coverage of the realities in all of the country's regions.

Six trade union organizations coexist in Central Africa. From the start, the CSTC (*Confédération syndicale des Travailleurs de Centrafrique* – Trade Union Confederation of Central African Workers) and the CNTC (*Confédération nationale des travailleurs de Centrafrique* – National Confederation of Central African Workers)<sup>2</sup> were involved and, together with their membership, they took an active part in the discussions. At the same time, a number of internal meetings within these unions enabled them to think things through and define their positions.

So, as regards participation, the record has been a positive one. The unions' griev-

ances centre not on their involvement in the process but on other aspects. They report that the I-PRSP of 13 December 2000 was not officially validated by either of these trade union organizations and that the text provided by the World Bank is available in English only.

As to the contents of the paper, employment is not really taken into consideration as an essential factor in explaining poverty and instability, nor is it recognized to be a consequence of inadequate policies. Incidentally, the paper does not contain any references to ILO Conventions. The approach taken is not centred on human rights, still less on labour rights, and does not constitute a real programme for the promotion of decent employment.

Certainly, the ideas underlying the Washington Consensus, namely privatization, deregulation and opening, are not called into question in Central Africa's PRSP. On the contrary, the privatization of several enterprises is one of the document's main axes. On this point, the letter of intent addressed by the Government of Central Africa to the IMF on 17 May 2002 mentioned the reforms under way in ENERCA (electricity sector), SOCATEL (telecommunications), BARC (transport), SOGESCA (sugar) and PETROCA (oil). But it did not include any yardstick for prior and subsequent measurement of its social impact, nor any strategy for accompaniment and for minimizing the fall-out. Consequently, this anti-poverty programme does not appear to be any different to the structural adjustment programmes that were experienced in previous decades.

Neither did the unions welcome the introduction of a value-added tax (VAT). As a Central African trade union leader noted during a seminar on the African LDCs (least developed countries), organized by the WCL in December 2001, “this reform never even considered its impact on the poor, particularly the most vulnerable sectors”.<sup>3</sup> Women are identified as being among these population groups, and yet the gender approach is also noticeable by its absence.

More and more, workers' organizations are complaining that their demands are

not taken into account by the authorities in their country and by the Bretton Woods institutions. The process of consulting with trade unions is now well-rooted in practice. However, the conditionality that the World Bank and the IMF are imposing on the country is still excessive, and the workers' grievances are not reflected in any policy shifts. "The Bretton Woods institutions listen to us", one Central African union leader bitterly remarked. "They visit us but, at the end of the day, they don't do what we ask." And indeed, the CSTC lodged a complaint with these two institutions on 3 May 2002. Similarly, no participative mechanism for monitoring the implementation of the PRSP is provided for in the document. So there is no guarantee that the unions will remain high-profile partners and there is no institutionalization of tripartite social dialogue in this process.

Moreover, workers are in urgent need of training in order to have a better understanding of what is at stake and of the technical – but nonetheless ideological – language used by the international financial institutions.

### **Three years after the discussions started, where have they got?**

The follow-up to the I-PRSP is proceeding at a leisurely pace. A national finalizing committee has been set up. Two worker representatives sit on it on behalf of the country's six trade union centres.

As unemployment and underemployment intensify, the Central African workers themselves are still anxiously looking for results in terms of debt relief for their country and the reduction of poverty. This is still an enclave economy, and the communications networks are inadequate. In general, the infrastructure is insufficient and in poor shape, having been destroyed by years of conflict, with no new investment to compensate. Thus, the Central African Republic remains one of the world's poorest LDCs. Its economy has bled dry. It is ruined. Eighty-four per cent of its people

live on less than two dollars a day. Life expectancy is around 40. The HIV/AIDS rate is the highest in Central Africa and the majority of workers try to scrape by with odd jobs in the informal economy.

The letter of intent to the IMF in 2002 recognized that the economic growth targets were too ambitious and the Government's revenues were far from meeting them, while the terms of trade were continuing to deteriorate, several companies had already been privatized and many workers – each of whom was the economic mainstay of several other people – had lost their jobs.

The Central African Republic is also still running up against the problem of paying public service workers' salaries. A solution was mapped out for dealing with the 36-month pay backlog, but non-payment has now resumed. The unions have found that the policies applied in order to meet the objective of the PRSP and seduce the international financial institutions have brought more poverty and misery, whereas there is no sign of debt relief in the offing. Such policies are inevitably leading the country into a spiral of chaos and poverty.

Since the presentation of the Interim PRSP, several rounds of negotiations have been held. The IMF had committed itself to support a three-year programme, but the agreement was aborted due to political instability (October 2002). Today, the financial outlook is still uncertain and, since June 2002, the country is in a situation of non-payment vis-à-vis the World Bank.<sup>4</sup> Meanwhile, the financial backers, who want to see positive signals and democratic stabilization, have suspended their assistance.

### **More than cosmetic?**

Trade union participation in all phases of the preparation of the PRSP is a reality. Certainly, this is a considerable advance. But, at the present stage, is it any more than cosmetic? It must indeed be recognized that active participation by trade unions in this process is a step forward. Nonetheless, it will not be real unless their demands

are taken into account and trade union positions become one of the foundations of the PRSP.

The document needs to turn into a development programme backing the promotion of decent work as an essential element of the struggle against poverty and for development. The theses underlying the Washington Consensus, which are the central axis of the macroeconomic part of this programme, need to be discussed and harmonized with the social chapter on the fight against poverty. The impact of privatization policies must also be debated, and if there is agreement between all sections of the population, evaluation measures should be defined in advance.

The interim PRSP was presented to the international financial institutions in December 2000 and, although it did not lead to debt relief, its postulates were immediately applied. The privatization of a number of state enterprises, including essential services, has begun. VAT has been imposed on all sections of the population. It is levied on all basic necessities and items of consumption, while most of the population are scraping along below the poverty line. As the UN Conference on Trade and Development (UNCTAD) pointed out during the Third UN Conference on Least Developed Countries (Brussels, 2001), small- and medium-scale enterprises need to dynamize domestic demand. Yet this avenue is virtually ignored in the paper presented by the Central African Republic.

So the record of this process to date contains some big grey areas. And while a national dialogue is being held in order to consolidate the democratic process, debt relief is on hold. Before relief was even conceded, the PRSP measures on tax adjustments and privatization were implemented. These measures are helping to sharpen poverty and exacerbate social conflicts.

Whilst out to strengthen their role in this process, the unions are still strongly critical of it. They see the Bretton Woods

conditionalities as stifling the country. The macroeconomic framework of the policies to be applied looks like a monolith which no amount of discussion will alter. Presented as the Central African Republic's sole point of reference in its relations with its development partners, the postulates contained in the PRSP are set to spread to all agreements with that country, thus consecrating policies which do not place decent work at the centre of development, which flout ILO Conventions, which do not include trade union positions overall, and which seem to be a repetition of principles long denounced by the social partners.

Achieving the Millennium Development Goals on the basis of such postulates would be quite a task – whether in Central Africa or anywhere else. A change of direction is needed. And indeed, the ILO report *Global Employment Trends* (January 2003) sounded the alarm by highlighting the lack of decent jobs. It even warned that “continued stagnancy would make it impossible to achieve the United Nations Millennium Development Goal (MDG) of halving world poverty by 2015”.<sup>5</sup>

## Notes

<sup>1</sup> See Preliminary statement of the Central African Government on the poverty reduction strategy and medium-term economic policies (Interim Poverty Reduction Strategy Paper – I-PRSP) in: <http://poverty.worldbank.org/files/cenafrica%20iprsp.pdf>

<sup>2</sup> These two Central African organizations are affiliated to the World Confederation of Labour.

<sup>3</sup> WCL: *New names, new policies? Two years of poverty reduction strategies in IMF and World Bank adjustment policies: experiences and recommendations from African trade unions*. January 2002.

<sup>4</sup> International Monetary Fund and International Development Association: *Heavily Indebted Poor Countries (HIPC) Initiative – Status of Implementation*. Document prepared by the IMF and the World Bank and approved by Timothy Geithner and Gobind Nankani. 12 September 2003.

<sup>5</sup> ILO: *Global Employment Trends*, Geneva, January 2003.

# More of the same – Niger's PRSP experience

*In the vast Sahel country of Niger, the population has been growing faster than the gross domestic product. Niger has long experience of "stabilization" measures and structural adjustment programmes imposed from outside. Does the PRSP mark a fresh start?*

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Twenty years after the first reform programmes were implemented in Niger, economic growth has demonstrably not been achieved in a sustained manner. Investment rates, rather than improving, have been on a downward trend. The deficits in the budget and the balance of payments, after a period of temporary calm, have once again been tending to worsen, and the debt burden has become unmanageable.

The social impacts have given rise to even more doubts and questions, not only at the level of decision-making on the national plan, nor only at the continental level and beyond, but also within international bodies such as the UN, which organized the Copenhagen Summit in a bid to have the social dimension taken into account.

In response to these criticisms, the international financial community, as part of its handling of poor countries' debt, initiated the Poverty Reduction Strategy Papers (PRSPs) as a lead scheme for promoting socio-economic development in highly indebted poor countries.

This is the context within which Niger opted to maintain, among its development priorities, the reduction of poverty in the medium term and its elimination in the long term. To convert this priority into an action programme, the Government has embarked on a process of preparing a Poverty Reduction Strategy Paper (*Cadre*

*Stratégique de Réduction de la Pauvreté – CSRP*) over the next fifteen years.

The world objective with which Niger is aiming to comply is to reduce by half, between 2000 and 2015, the proportion of the population living in extreme poverty. Thus, in drawing up this framework, priority has been given to a participatory approach.

However, although the social partners welcomed the principle of giving civil society the vice-chairmanship of each of the eleven thematic working groups, the participatory process turned out to be superficial. In fact, the definitive PRSP did not represent the contributions of the various social groups. Moreover, the variables that were taken into account were, more often than not, either manipulated to fit the pre-established theses of the IMF and the World Bank, or diluted by a unilateral reflection of essentially quantitative or even artificial visions on the part of the national leaders.

All of which led the social partners to note serious shortcomings of both process and substance:

**Inadequate involvement of civil society within the process.** It should be pointed out here that the appointment of the civil society representative within the PRSP permanent secretariat did not follow democratic ground rules, which would

have required that the civil society delegates elect their own delegate. Rather, the appointment was by unilateral decision of the public authorities. This goes against one of the basic principles of good political governance, namely the democratic participation of the various social groups in the PRSP process. Also, measures must be taken to ensure that the participatory structures are not used to undermine the social partners. Their independence and representativity within these structures are the only guarantees of their effective participation in the development process as a whole.

**Inadequacy of the approach used to define poverty.** It has to be said that, in Niger, it is the monetary approach that is used to define poverty in general. Thus, the dimension of poverty which comes to the fore is that of degrading, humiliating living conditions, in which the individual scarcely achieves an income of FCFA 75,000 (about US\$140) in the urban areas and FCFA 50,000 in the rural areas. So in Niger, priority has been given to the monetary-economic approach taken by the World Bank.<sup>1</sup> This gives only a partial account of the multidimensional nature of poverty.

The socio-economic partners who, due to this approach, are excluded from the category of the poor, are rather more in agreement with the analytical definition of poverty given by Professor Amartya Sen,<sup>2</sup> who argues that poverty should be generally understood as the lack of opportunities, for an individual or a group of people in society, to achieve a minimum acceptable basic living standard.

This presupposes the availability of basic facilities such as good food, clothing, decent accommodation and morbidity prevention, but also of more complex facilities such as participation in the life of the community, and the possibility of appearing in public without shame or any other similar sentiment. The ability to conceive of one's personal revenues in terms of capacities depends on a whole range of personal circumstances (notably age, gender, predisposition to illness, infirmities, etc.) and

on the social environment (particularly epidemiological characteristics, the physical and social environment, public health and education services, etc.).

**Inadequacies in the chosen strategies for the struggle against poverty and for development.** Niger's PRSP is part of a development policy framework that concerns all economic and social sectors. Turning poverty reduction into the backbone of economic and social development, the strategies contained in this instrument are articulated around the following main axes:

- The promotion of good governance
- The stability of the macroeconomic framework
- The development of the social sectors
- The development of infrastructure.

It establishes a direct link between debt relief and the strategic framework for poverty reduction, the aim being to increase social spending by means of the funds available within the Heavily Indebted Poor Country (HIPC) Initiative.

Nonetheless, it has been noted that the PRSP includes the essential elements of the structural adjustment programmes and is rooted in the same macroeconomic neoliberal arguments which, as has been proved, contributed to the country's woes over the course of two decades.

A detailed examination of the macroeconomic and structural adjustment measures contained in Niger's PRSP demonstrates that there has been no questioning of the advice given within the framework of what is known as the "Washington Consensus".

For instance, in the education sector, the PRSP simply continues the policies and programmes that had already been followed. If the aim of this programme is schooling for all, through the creation of educational infrastructure financed by HIPC resources, it has numerous limitations because, in such a sensitive and strategic sector for the country's future, it implements the policy directions and the

decisions of the international financial institutions. To cite just one aspect of this, the employment policy for teachers, within the framework of labour market deregulation, is based on contracting. It derives from a World Bank thesis, behind which is the idea that the quality of teaching depends neither on the training received by the teachers nor on their employment status. This translates into the replacement of trained teachers with untrained supply teachers on temporary contracts.

This approach results in a serious decline in educational standards and turns Niger's schools into reproducers of inequality, given that the great majority of those attending school, and ultimately being ejected from school, are the sons of the poor.

The PRSP takes no account of this educational attrition, instead focusing purely on developments in primary school enrolment rates. This example shows that, as far as options for poverty reduction are concerned, the PRSP reproduces some which are to the detriment of the poor, and which have not been discontinued or revised.

## Notes

<sup>1</sup> The exact poverty threshold, as defined by the World Bank, is US\$1.08 per person per day, corresponding to the median of the ten lowest poverty thresholds in a group of poor countries.

<sup>2</sup> See Sen, A. 1984. *Resources, Values and Development*, Harvard University Press, reprinted edition 1997.

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# African PRSPs – unions dialogue with World Bank and IMF

*In Africa, the labour movement has attempted to reorient the policies of the Bretton Woods Institutions (the IMF and the World Bank) through dialogue. What lessons can be learnt from their experience? This article, based on the findings of a collaborative project between the ILO and the Friedrich-Ebert-Stiftung, analyses the operations and performance of the labour movement – as a social dialogue institution – in the fight against poverty in Africa.*

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Since the introduction of structural adjustment programmes (SAPs) in the early 1980s, trade unions have striven to ensure that the international financial institutions and governments listen to the views of workers. Through their international, regional and national organizations, unions have participated in meetings with the World Bank and the International Monetary Fund (IMF), in both the international and the national arenas.

The World Bank, in its *World Development Report 1995*, reiterated that "... free trade unions are a cornerstone of any effective system of industrial relations ... can help raise workplace productivity to reduce workplace discrimination ... have contributed to their countries' political development ..." The IMF has also expressed concern about the social dimension of SAPs and demonstrated willingness to meet and discuss its policies with trade unions.

To support trade unions in dealing with SAPs, the International Confederation of Free Trade Unions (ICFTU) adopted dialogue as the best option for seeking change in the policies of the Bretton Woods Institutions (IMF and World Bank). Several regional and national conferences and meetings on the subject of economic reforms have been organized. These forums have

had important effects at both national and international levels in terms of impressing upon governments and the IMF and World Bank the need to introduce social awareness into their programmes.

The international trade union movement welcomed the September 1999 commitment emanating from the IMF and World Bank that country-owned poverty reduction strategies would henceforth provide the basis of all concessional lending by the Bretton Woods Institutions (BWI). This shift in overall policy goals implied, among other things, that the BWI policies would have to move away from focusing exclusively on economic growth *per se*. They would also have to deal with questions of distribution and of access to resources and services in order to raise the living standards of the poorest members of society. Trade unions particularly welcomed the invitation to the labour movement and other civil society organizations (CSOs) to work with governments in preparing and implementing the Poverty Reduction Strategy Papers (PRSPs). The PRSPs are now considered to be the official policy documents with regard to economic and social policies.

Against this background, senior trade unionists from the ICFTU initiated discussions with the World Bank and the IMF

in October 2000. One of the issues raised was the shortcomings regarding labour's involvement and the sense that many participation processes were seriously flawed. Another issue in the discussion was the attitude of the BWIs towards the core labour standards (CLS), laid down in the *ILO Fundamental Declaration of Principles and Rights at Work* of 1998. Both issues were taken up again in another meeting, on a more technical level, between the ICFTU, the Trade Union Advisory Council (TUAC) to the Organisation for Economic Co-operation and Development, the Global Union Federations (GUFs) and the BWIs in July 2001.

It was in the framework of these discussions that the ILO's Bureau for Workers' Activities (ACTRAV) and the Friedrich-Ebert-Stiftung (FES) were tasked to propose a framework for a pilot project which would combine dialogue between the World Bank and unions from developing countries on policy issues affecting workers, capacity-building for trade union leaders from these countries and ongoing support to unions by assisting them to participate meaningfully in World Bank-inspired national economic and social policies such as PRSPs. The first draft of this framework was subsequently presented and discussed in a regional workshop on "Poverty Alleviation through Social Dialogue: The Role of Trade Unions in English-speaking African countries", organized by ACTRAV in Nairobi in December 2001. The participants, among them trade union leaders, broadly accepted the draft.

The pilot project (covering nine countries – Angola, Ghana, Kenya, Malawi, Mozambique, Tanzania, Uganda, Zambia and Zimbabwe) consists of three elements, namely capacity-building with dialogue, assistance to participating trade unions on the ground, and the provision of a feedback mechanism for political lobbying, of which only the first part relates to joint activities with the World Bank. The other two components will only involve the unions in English-speaking Africa, their regional and international structures and their support organizations.

## Union participation

Since the introduction of the IMF/World Bank-sponsored SAPs in the early 1980s, national trade union centres in Africa have been calling for the institutionalization of high-level national stakeholder structures in which major economic and social policy issues are articulated. The implementation of economic reforms in the context of SAPs made the general objective of trade unions – to defend and improve the living standards of their members – more difficult. For example, there has been an increase in the cost of living, deteriorating social infrastructure, and above all declining trade union membership brought about by privatization and retrenchment policies.

It is in this context that the trade unions welcome the PRSP initiative. They appreciate the notable, impressive trend that the international financial and development institutions are making positive responses to trade union concerns. These responses need to be cemented. Effective consultation must mean that unions are involved in the adjustment process at the design, implementation, monitoring and evaluation stages of the programmes. Trade unions have a specific and important role to play in order to ensure that the new poverty reduction commitments on the part of the World Bank and IMF translate into effective change at the country level.

## Country experiences

### *Ghana*

It took widespread criticism, following the limited consultation in the preparation of the Interim PRSP, to persuade the Government of Ghana to provide for CSO participation in the preparations for the country's PRSP, the Ghana Poverty Reduction Strategy (GPRS). The National Development Planning Commission (NDPC), under the mandate of the Ministry of Planning, Regional Economic Cooperation and Integration, coordinates the PRSP process. The Interim PRSP was endorsed by the BWIs in June 2000, while

the first draft of the GPRS came out in May 2001. This was followed by comments from government ministries, departments and agencies; consultation workshops with other stakeholders; and receipt of comments from major NGOs and CSOs. Regional consultations and the involvement of parliament were also carried out.

The five main pillars of the GPRS, which is meant to support growth and poverty reduction over the three-year period from 2002 to 2004, are:

- Macroeconomic stability through prudent fiscal, monetary and international trade policy measures
- Increasing production and gainful employment by creating an enabling environment for improved private sector-led, agro-based industrial production, propelled by the application of science and technology and the promotion of tourism
- Human development and provision of basic services for the poor, with particular reference to health, HIV/AIDS control, water and sanitation, education and training, and population management
- Establishment of special programmes for the vulnerable and excluded, and provision of resources to ameliorate conditions of extreme poverty and social deprivation
- Ensuring good governance by establishing and strengthening the leadership and overseeing the functions of the executive and legislature. This will help ensure effective implementation of the poverty reduction programme and project.

The Ghana Trades Union Congress (TUC) has traditionally been active in the social and economic policy reforms in Ghana and was a strong partner in the Structural Adjustment Programme Review Initiative (SAPRI) process. In the process of GPRS preparation, the TUC formally presented its memorandum to the NDPC. The trade unions emphasized labour standards, equity, tax policies, and

new investment involving the poor, food crop growers, and women.

The GPRS is probably one of the few PRSPs in Africa that explicitly identify the role of trade unions, as follows: "Assessment of the role of organized labour; assessment of effects on employment levels; concerns on incomes". To a large extent, this is attributable to the insistence of the TUC.

## **Kenya**

Kenya has well-developed machinery for social dialogue and the Central Organization of Trade Unions (COTU-Kenya), together with civil society, the private sector, NGOs and government agencies, participated in most of the discussions leading to the production of the National Poverty Eradication Plan (NPEP) in June 1999. The NPEP has been in existence for 15 years and was actually launched prior to the PRSP initiative. There was a much broader process of consultation on the Interim PRSP, climaxing in the National Stakeholders Consultative Forum in June 2001. COTU (K) was part of the Human Resources Development Sector Working Group.

The trade union participation in the PRSP process has not been optimal because COTU (K) claim that very little information was made available to them before the consultation meetings took place. Moreover, the final draft from the Ministry of Finance and Economic Planning took only minimal account of the submissions by the labour movement. In addition, the entire exercise was rushed, leaving little time for trade union consultation with the membership. The other factors that contributed to minimal trade union participation in the PRSP process include:

- lack of capacity within unions
- mistrust between trade unions and the Government
- concern by unions that there is nothing new in the PRSP process. They see the PRSP as a mere repackaging of the painful SAPs.

On 1 June 2003, the new Government in Kenya launched the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 to replace the Interim PRSP. Once again, the Government of Kenya reports that the process of producing the economic strategy involved a series of consultations with a cross-section of stakeholders, including employers, manufacturers, labour and trade unions, professionals, CSOs and people from arid and semi-arid lands.<sup>1</sup> The capacity-building trade union workshop in Kenya (July 2003) was well received by the Government and was also attended by the Senior Resident Representative of the IMF.

The Economic Recovery Strategy for Wealth and Employment Creation (ERS) identifies key policy actions necessary to spur recovery:

- Rapid economic growth within an environment of macroeconomic stability
- Strengthening institutions of governance through reforms in public administration, national security, and law and order
- Rehabilitation and expansion of physical infrastructure: roads, including rural access roads, railways, and telecommunications
- Investment in human capital resulting in a well-educated and healthy population.

One of the key macroeconomic objectives for the period 2003-2007 includes creating 500,000 jobs a year. Employment is regarded as the most effective strategy for halting the increase in poverty. In the medium term, a total of 2,036,130 jobs are to be created, of which 88 per cent will be from the informal economy.

In addition, the Government is in the process of establishing the National Economic and Social Council (NESC) by Act of Parliament to advise and dialogue on policies that may be required to address emerging social and economic issues.

### *Uganda*

In 1997, Uganda undertook a Poverty Eradication Action Plan (PEAP) aimed at reducing poverty to less than 10 per cent by the year 2017. The document had four main goals, namely:

- creation of an environment conducive to private sector development
- good governance
- actions to raise income
- actions to improve the quality of life.

Under the PEAP, civil society participation was limited to only a few organizations, with no full-time engagement. Government felt that civil society had no business in policy formulation, and engagement in policy formulation was also not on the agenda of CSOs.

The introduction of the PRSPs coincided with the revision of the PEAP in 2002, which then became the process of developing Uganda's first PRSP. The PEAP retained the same objectives, but these were deepened. The PRSP process provided an opportunity to engage CSOs more actively. However, civil society engagement remained weak, with no clear understanding of the links between Government and donors. Stakeholders had many differences and remained excluded from economic policy formulation.

Government had general consultations as well as regional and donor meetings. At the first national meeting, a civil society task force was established to decide on what basis to participate. In addition to this, a technical team was set up. It was agreed to establish national consultations on key thematic areas, combined with regional and rural consultations based on eight zones and excluding local government officials.

Participation by trade unions in the PEAP process was new and complex and the overall level of understanding was superficial. The time constraints created enormous pressure on the National Organization of Trade Unions (NOTU)

and further complicated a process that was unclear and that had no institutional framework backing it up. The Ministry of Finance provided some access to information, but CSOs lacked the expertise and time to take full advantage of this. Another major weakness was the limited knowledge amongst CSOs of the macroeconomic frameworks and complex macro-models favoured by economists at the Ministry of Finance.

NOTU is now seeking to develop policy alternatives to the neo-liberal macro-economic policies, as trade union inputs into the PRSP. The main areas of concern include income distribution, HIV/AIDS issues – especially among the working population, provision of social safety nets, and the need to fight corruption.

### ***Tanzania***

The poverty reduction process in Tanzania is simply a continuation of the ongoing socio-economic reforms initiated from the mid-1980s onwards. The preparation of the I-PRSP started in October 1999 and was coordinated by the Office of the Vice President while the Ministry of Finance spearheaded a technical committee comprising officials from various ministries. The I-PRSP of January 2000 was subsequently approved by Cabinet in February. It was followed by consultations which took the form of zonal workshops (May 2000), a Consultative Group meeting between Government and donors (May/June 2000), a forum for parliamentarians (July 2000) and a forum for regional administrative secretaries (August 2000). All these forums culminated in the national workshop in Dar es Salaam in August 2000. This discussed targets, priorities and actions as outlined in the draft PRSP. The draft PRSP was approved by Cabinet on 31 August 2000.

CSOs took part in the PRSP process, as they did when the Government prepared other previous national documents like the Tanzania Development Vision 2025, the National Poverty Eradication Strategy

(NPES) and the Tanzania Assistance Strategy (TAS). The civil society is concerned about the quality and depth of the consultations. Identified as a critical issue was the way the process was rushed, hence not allowing for effective dialogue and leading to the non-incorporation of NGO views in the final document. Moreover, civil society was not invited to participate in the final drafting of the PRSP, as this task was left to a “team of experts” from key ministries.

The formulation of the PRSP coincided with the period when labour unions in Tanzania were in limbo, following the enactment of the Trade Unions Act of 1998, which came into effect in July 2000. The defunct Tanzania Federation of Free Trade Unions (TFTU) was replaced by a General Secretariat, comprising two caretaker trade union officials.

None of the national trade union centres in Tanzania were invited to participate in planning meetings, or in any formal arrangement leading to the development of the PRSP during 2000. Similarly, none of the unions were invited to participate in meetings to evaluate and review the PRSP, for example at the important consultative meeting held in Dar es Salaam on 7-8 September 2000. Neither have they participated in any other process review structure. Clearly, the involvement of the trade union movement in the PRSP process so far has been virtually nil. It is noted, however, that the involvement of the Government and the main stakeholder groups (such as the BWIs and foreign donor organizations) with local civil society groups has been quite remarkable, both during the preparation stage in 2000 and the evaluation of the PRSP.

A number of reasons and related factors have been advanced to explain the negligible role played by trade unions in Tanzania's PRSP process. Critical factors are the structural relations between the Government and the trade unions, and structural problems within the trade unions. Inappropriate mindsets amongst trade union leaders and membership, as well as within the Government, block opportunities to explore what broader role

the unions and their members could play in various economic policy forums. There are practical limitations, such as capacity, that prevent trade unions from participating more actively. Poor preparation and organization of PRSP process meetings also impede more spontaneous involvement.

At the request of the trade unions in Tanzania, due to their non-involvement in the PRSP process, the ILO identified Tanzania as a pilot country under the Project on Capacity Building for Effective Social Dialogue in the PRSP. The aim of the project for Tanzania was to bring to the forefront social dialogue as a means of implementing the ILO's Decent Work Agenda, as an integral part of the PRSP, and to encourage the participation of workers and employers in the decision-making process on social and economic policies. Although the ILO initiative came one year into the operation of the PRSP, between September and December 2001, the ILO organized national activities for the benefit of the Ministry of Labour, Youth Development and Sports Development, the Trade Union Congress of Tanzania (TUCTA) and the Association of Tanzania Employers (ATE). Among the recommendations put forward was the incorporation of employment and skills training as an integral part of the PRSP progress report. The ILO also focused on encouraging the social partners to constitute a formal tripartite forum, which would take its own initiatives to consult with NGOs and donors and other stakeholders in the PRSP process.

### **Zambia**

The PRSP process was launched in Zambia in 2000, with the I-PRSP produced in June 2000. The I-PRSP was substantially based on an earlier process that started in 1998 when a team of experts, with minimum consultations, produced the draft National Poverty Reduction Action Plan (NPRAP). Government justified the limited consultations by saying it was in a rush to qualify for Heavily Indebted Poor Country (HIPC) status, and that the plan would merely serve as a road map.

During the PRSP process, the Government set up eight working groups, each with representation from civil society, the Government and the private sector. CSOs in Zambia were initially wary of participating in the PRSP process, given the poor record of structural adjustment policies. Nonetheless, they decided to take part through the Civil Society for Poverty Reduction (CSPR) network. The CSOs set up their own consultative process to ensure much wider representation of interests. However, this created some tension and they had to reassure government officials that this was not meant as a challenge to Government or merely duplicating efforts.

The CSPR identified ten themes regarded as crucial to poverty eradication. It held a national forum to bring together representatives from different parts of the country. Regional forums followed the national process. Government also held provincial consultations involving local chiefs, politicians and bureaucrats. All information was collated into a single report, which became known as the alternative PRSP. The first draft was produced in September 2001. The CSPR then held a national consultation to finalize the report and highlight their major concerns. At the end of 2001, Government also convened a national conference in which a number of the concerns raised by the CSPR were addressed. A second draft PRSP was ready by May 2002. It was first handed to Cabinet and not to the CSOs or parliament, after which it was presented to the BWIs. The final PRSP took into account many of the concerns raised by the CSPR, although the CSPR was left out of the technical drafting committee and hence the final draft.

On the trade union side, the Zambia Congress of Trade Unions (ZCTU) was officially invited to participate in the PRSP and asked to nominate representatives to various working committees. The reason the ZCTU participated in the PRSP process was that it felt its non-participation would lead to a document that undermined workers' rights. The ZCTU made its concerns known at the Consultative Group (CG) meeting which took place in Lusaka in July

2000, effectively signalling its willingness to be part of the PRSP process. The ZCTU or its affiliates participated in five of the eight working groups, namely the one in charge of the Civil Society Consultation on Industry, Employment and Sustainable Livelihoods.

### Chance for solidarity

The PRSP framework provides a new opening for trade unions to engage with their governments and demand a role in policy-making. It also gives unions a chance to work with NGOs and other elements of civil society and form meaningful relationships with potential allies for future campaigns. Most importantly, the PRSP process represents another area where trade unions around the world can act in solidarity with each other in pushing for pro-poor and pro-worker reforms in the global economy.

However, many of the first PRSPs have not lived up to the commitment that trade unions, as CSOs, would be involved in PRSP formulation. There were instances in which civil society participation took place but where organized labour was not invited at all. In many other consultation processes where trade unions were invited, this did not happen in a meaningful way.

On the other hand, one cannot overlook the fact that the responsibility for flawed or unsatisfactory participation processes does not lie exclusively with the BWIs and the national governments of PRSP countries. Even in cases where CSOs, and

among them trade unions, were given the space to express their views on government policies in the context of a PRSP, these opportunities were mostly not used effectively by the unions, as they lacked the technical capacity to engage their respective governments and to come up with credible alternatives to some government policies which directly or indirectly affect workers and their families.

Trade unions have a specific and important role to play in ensuring that the new poverty reduction commitments on the part of the World Bank and the IMF translate into effective change at a country level. Despite the limitations so far observed, the trade unions are still endeavouring to participate in the PRSP process, so long as the right environment and incentives for their effective involvement are put in place. The maintenance of peace and security within and among nations, democracy, the rule of law, the promotion and protection of all human rights and fundamental freedoms, including the rights to development, effective, transparent and accountable governance, gender equality, full respect for fundamental principles and rights at work and the rights of migrant workers, are some of the essential elements for the realization of social and people-centred development.

### Note

<sup>1</sup> Speech delivered by the Minister for Planning and National Development, Hon. Professor Peter Anyang' Nyong'o during the ILO/ACTRAV and COTU-K national workshop on «The Role of Trade Unions in Poverty Alleviation», Nairobi, 2 July 2003.



# **Building a fair society – Kyrgyzstan's unions and poverty reduction**

*In Kyrgyzstan, trade unions have been closely involved in drawing up and implementing the National Poverty Reduction Programme. They believe that its goals are realistic and will lead to social consolidation.*

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**A**bout half the population of the Kyrgyz Republic live in poverty. This is the main impediment to the country's further development.

In 1999, 55.3 per cent of the population was poor, and 23 per cent was very poor.

The package of economic and social measures undertaken by the State, with the aim of improving the standard of living, did reduce the poverty indicators in the following years to some extent. Nonetheless, by 2001, 47.6 per cent of those living in Kyrgyzstan were still below the poverty line.

The expenditure levels of the richest population groups were seven times as high as those of the poorest ones. The poverty depth indicator (the difference between expenditure by poor households and the poverty line) was 5.6 per cent. In rural areas, there were more poor people than in the cities.

The indicators of the living standards of the population were declining: gross domestic product did not exceed US\$300 per capita, the average annual increase in the prices for foodstuffs exceeded wage increases by 4.4 points and purchasing power was falling.

For instance, in 1999, the average monthly salary would buy 119.2 kilos of bread or 23 kilos of meat. In 2001, the corresponding figures were 115 kilos and 20.3 kilos. There was a growth in unemployment; the number of unemployed women increased.

Unemployment caused a rise in internal migration. The main flow of domestic migrants was from rural areas to big cities. This had negative consequences: an increase in the number of the unregistered unemployed in cities; a decrease in the access of migrants to health care services, education and infrastructure; marginalization of the population; and a higher crime rate.

Although there was a certain decrease in the mortality rate (down to 6.6 deaths per 1,000 people), life expectancy was still low – even more so for men (65 years) than for women (72.6 years).

Literacy indicators have also changed. Illiteracy accounts for 1.2 per cent of the population of the Republic aged 7 years and older. Among the illiterate, 51.4 per cent are elderly; 16.7 per cent are children; 32 per cent are children with mental and physical incapacities and disabled from birth.

Attendance levels for primary and junior secondary education have remained fairly high. However, there have been alarming developments in senior secondary school coverage, with an actual decrease in the number of children aged between 16 and 17 attending school, especially boys.

The only public utility covering almost the whole of the population in Kyrgyzstan is electricity.

One-fifth of the rural population and one-third of the population living in the

highland areas still use rivers and irrigation canals for drinking water, thereby seriously threatening their health.

### Unemployment aggravates poverty

Poverty is the reason why the people of Kyrgyzstan have been unable to escape from misery and to fully meet their primary needs (including those related to food, modern living premises and clothes).

The situation of the poor has been aggravated by employment difficulties, inadequate social support and, in some cases, a lack of respect for their labour rights. In 2001, the overall wage arrears were about 300 million som (*in March 2004, there were about 140 som to the US dollar and 170 som to the Euro – Ed.*).

For instance, over a long period of time, 532 employees of the Osh Cotton Gin Plant did not receive their wages. After the trade unions intervened, the wages, which amounted to 3.7 million som, with indexation, were paid.

The Federation of Trade Unions of Kyrgyzstan (FTUK) acted as the workers' lawyer and, in 2001, won over 585 court cases for the payment of wage arrears. The delayed wages were paid, including indexation payments to cover inflation over the entire period of the delay.

In 2001, trade unions received requests from 3,042 people to protect their labour rights. But the corresponding figure for 2002 was 4,417 – a 32 per cent increase. The number of workers whose rights were reinstated went up by 70 per cent.

### Well-being is the aim

All these circumstances impeded the progress of the reforms and called for immediate measures to achieve an overall solution.

That is why the political and social well-being of the people of Kyrgyzstan was proclaimed as the common national goal of the Complex Principles of Development (CPD) of the Kyrgyz Republic for the period up to

2010. The CPD were approved in May 2001 by the National Assembly, with the participation of Mr. Askar Akayev, President of the Kyrgyz Republic, as well as of heads and representatives of all branches of state power, trade unions, various non-governmental organizations, political parties, local communities and mass media. The document reflects a vision of the country's development over the next decade.

The main expected result of the policy measures in this strategy is a halving of poverty by 2010.

The first stage of the CPD implementation is the National Strategy of Poverty Reduction (NSPR), which contains the whole package of specific activities, programmes, projects and research for the mid-term period up to 2005.

The NSPR was organized in two stages. The first stage covered the period of the elaboration of the intermediate NSPR, in parallel with the elaboration of the CPD. A Presidential Decree created the National Council and the Secretariat for the CPD, its working body. Coordinating committees and 23 expert working groups were formed. Trade unions were part of these coordinating and working bodies. Large-scale preparatory work lasted for two years.

### Union input

The main contribution of the FTUK to the work on proposals for the NSPR project was its input into the section on *Building a Fair Society*. The Federation helped to draw up proposals for the means test and the methodology for evaluating social standards. It also helped to improve the mechanism for social support to offset increased energy costs, and it worked on a proposal for social passports for the needy, a scheme that would provide a more complete picture of poverty in different regions.

Trade unions were also able to get their positions on the raising of real incomes, wages and their levelling, and job creation incorporated into the NSPR project.

Job creation is the main objective of the reforms in the sphere of employment. The

national strategy and policy aimed at increasing employment, which were elaborated with the participation of the trade unions, are connected with the NSPR priorities. Trade unions received significant support from the ILO when elaborating the National Concept of Employment of the Population.

Unfortunately, trade union proposals to include within the NSPR the most important social indicator – the minimum wage, which is a powerful means of state influence on income levels – were not approved. The idea was to introduce a system that would eliminate the possibility of wage arrears as such.

UN-adopted standards (under which a person living on less than US\$1 per day is considered poor) were also not included in the system for evaluating the results.

The trade union position that the minimum consumer budget should be the touchstone for the financial evaluation of poverty was not taken into consideration. The evaluation of the indicators was suggested by the World Bank and was adopted as the means of measuring poverty.

However, none of this prevented a strengthening of the trade union position in agreements concluded during the 2002-2003 bargaining round.

In 30.2 per cent of the collective agreements concluded, a pay increase was secured, together with the indexation of wages to price rises. Moreover, social benefits and guarantees in collective agreements (for instance, payments for purchasing agricultural products and medication, paid leave in the case of marriage or death of close relatives, as well as recreation and health care at discount prices) increased workers' real incomes by an average of 25-30 per cent.

### **Medium-term strategy**

The second stage of the document revision derived from the fact that the NSPR medium-term strategy was viewed as a unified, integrated business process. This meant that all activities within the strategy

must be well thought out from beginning to end, that the necessary resources must be available and that the activities must be capable of implementation on time and at all levels of responsibility.

The main objective in the starting year, 2003, is the reduction of poverty by at least 5 per cent. In order to achieve this, it is necessary to provide for an economic growth rate of 6 per cent, so as to keep prices reasonably stable. Price growth should not exceed 4 per cent.

The real incomes of the population throughout the country should grow by 8-10 per cent on average. Measures have been designed to promote growth without leading to greater inequality of incomes. The initial aim is to stimulate forms of economic development that would lead to employment growth and the involvement of the poor in economic activities. This means, in particular, the creation of enterprises in the poorest and most remote regions of the country and the development of small and medium-sized businesses.

Total budget expenditures for social needs will increase to some 12 per cent of GDP.

Budget deficits should be reduced to, at most, 4.7 per cent of GDP. This will require the mobilization of all internal resources and their efficient use.

Poverty is also one of the factors generating an increase in violence against women and among women.

According to independent estimates, about 4,000 women in Kyrgyzstan become victims of trafficking in people every year. Crimes committed by women have increased, particularly drug-related crimes. Military conflicts have also increased the need to protect women in the areas affected, and to ensure women's participation in the peacemaking processes.

Trade unions point to a lack of gender balance at all levels of decision-making and to the inadequate use of gender approaches in the economic and social policies implemented. Women form 53.3 per cent of the total unemployed.

The trade union position, developed in the course of preparing proposals for the

NSPR, was that gender policy should be a major priority when implementing the NSPR.

The preparation of the NSPR took place in a context of open and equal dialogue between partners. Conferences on its theory and practice were held, as were representative international seminars, round tables and consultations. These events included trade union participation, and others were held by the trade union organizations themselves.

The FTUK organized local training seminars for trade union activists, in which union positions were adopted and proposals were prepared.

In the course of drafting the document, regional trade union structures gave a good account of themselves, as also when implementing the projects related to water supply, the rehabilitation of social and cultural facilities, and social mobilization.

Trade union activists helped regional and district social workers to prepare social passports and poverty cards.

The CPD Secretariat worked out a set of activities in the form of a matrix of actions with implementation deadlines, funds allocated and expected results. Trade unions are among the actors.

For instance, trade unions are responsible for:

- the development of social partnership
- the improvement of the legal basis
- staff training and retraining, etc.

## Social mobilization

Apart from the objective of increasing the level of social protection, one of the priorities for achieving the goals set by the NSPR is the social mobilization of the population.

Announced by the Decree of President Akayev in April 2003, this social mobilization presupposes the cooperation of all state structures and civil society, with the objective of carrying out detailed work to overcome poverty.

It was expected to provide real support aimed at increasing the well-being of at

least 50,000 poor families by 2003, in addition to the measures planned earlier.

In the Action Plan on Large-Scale Social Mobilization elaborated by the FTUK with the objective of reducing poverty in the Kyrgyz Republic, specific practical steps were defined for 2003.

For example, it provides for the development of a trade union action plan against the worst forms of child labour.

It is officially acknowledged that child labour is widespread in the Kyrgyz Republic. Child labour is generated by poverty, and poverty has generated child labour. Compared to adult poverty, the problem of child labour has more serious negative consequences for society in general.

The analysis of poverty demonstrated that poorer families have more children under the age of 17. This age group accounts for almost 40 per cent of the total population of the Republic. Over 55 per cent of under-17s live in poor families.

At the moment, there is an increase in such indicators as social orphans, hidden discrimination in schools, the number of working children and children living outside families.

The main problems inhibiting an effective fight against child poverty are gaps in the legislation, the lack of a state body that could work with families and children, the lack of efficient control over children and families from the risk groups, and the lack of a budget targeted at children.

## Tackling child labour

With the help of a research company and the support of the International Confederation of Free Trade Unions (ICFTU) and the Global Unions (IUF, UNI), trade unions have monitored the extent of child labour and made a video on the subject.

According to the report of the Working Group on Human Resources, the number of working children in Kyrgyzstan is between 5,000 and 7,000. The children work in unfavourable, even unacceptable conditions; no contracts are signed with them, and their wages are much lower than those

of adults. Most of them work in agriculture and commerce. According to trade unions, 70.3 per cent of children in the south of the country are involved in weeding cotton and rice and collecting tobacco and raw cotton.

Even the official statistics say that 2,500 children do not go to school. However, according to the research, the real number is 28,000.

Trade unions see this as a threat to the sustainable development of society.

In order to draw up an action plan, the FTUK, supported by the ILO and the Global Unions, organized a discussion, with the participation of government representatives, members of parliament, employers' associations and non-governmental organizations.

At this Round Table, a number of ideas were put forward. The main one was probably the consolidation of the efforts of the executive and government bodies, trade unions and employers' associations into joint action to combat the exploitation of child labour, particularly in its worst forms. The Tripartite Committee should become the coordinating body on children's issues and should be responsible for measuring progress on eliminating child labour.

Resolution No. 541 of the Government of the Kyrgyz Republic (25 August 2003) adopts the Provisions of the Coordinating Council on Children's Issues and its composition, which also includes representatives of trade unions.

In drawing up the strategy and action plan, practical support to the trade unions was provided by the ILO Moscow Office.

Collective bargaining recommendations from the FTUK for 2004 urge maximum consideration of children's issues in collective agreements.

In cooperation with the Ministry of Labour and Social Protection, the draft law of the Kyrgyz Republic on the Ratification of Convention No. 182 of the International Labour Organization on the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour has been approved by the Government and is now before Parliament.

## Struggle against poverty

Not only are the trade unions of Kyrgyzstan playing their full part in poverty elimination, they are also developing their own trade union strategy and taking an equal share of responsibility for society's implementation of the right to a decent life.

Four principles underlie the trade unions' strategy for the struggle against poverty. It should:

- be implemented with the active involvement of the social partners
- be result-oriented
- establish priorities
- be based on a perspective of long-term struggle.

As part of the implementation of the NSPR by the FTUK, the law on Social Partnership in the Kyrgyz Republic (which came into force on 1 August 2003) and, together with social partners, the Labour Code were drafted. Both documents underwent ILO expert scrutiny. Together with the Ministry of Labour and Social Protection, draft laws on the Minimum Wage and the Minimum Hourly Wage were elaborated.

In 2002-2003, tripartite councils and commissions on social and labour issues were formed. These are active in all the regions and in 19 districts. The results of the All-Republican Competition for the best organization of social partnership work were summarized.

The main objectives of the trade unions are:

- To increase by up to 40 per cent the number of collective agreements that include an obligation to increase wages in 2004.
- To increase trade union responsibility for public control of the implementation of labour and employment legislation. (In January 2004, in the Plenum of its Council, the FTUK introduced the issue of the trade unions' tasks in

implementing workers' rights in the light of the new labour legislation. The year 2004 has been declared the Year of Struggle for Fair Labour Relations, under the motto of "Rights and Guarantees to Labour".)

- To monitor implementation of ILO Protection of Wages Convention, 1949 (No. 95).
  - To increase the efficiency of the work of tripartite bodies at all levels.
  - To logically and persistently fight for the reduction of poverty in all its manifestations.
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Participation in the elaboration and implementation of the NSPR allowed the trade unions to adapt quickly to the situation, to take concrete steps and to undertake joint efforts with the administrative bodies and the employers, with the objective of reducing poverty in the country.

The Kyrgyz trade unions believe that the goals set within the NSPR are realistic and will result in the consolidation of society, constructive interaction on the basis of partnership and responsible implementation of the objectives that have been set.

# Poverty and reform in the magical kingdom: Nepal's PRSP

*Nepal's PRSP has been launched at a politically delicate time for this enigmatic mountain kingdom. The strategy contains a number of positive points, but it does not fully reflect the unions' concerns and the ILO's advice. In particular, it appears to promote a simplistic and unilateral deregulation of labour.*

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Perched at the pinnacle of the world and trapped between the two most populous countries on the globe, Nepal has long been a political and economic enigma. This magical kingdom, with its spectacular natural beauty stretching from the Himalayas to the plains on the Indian border, remains a potential haven for tourists and has a wealth of untapped natural resources.

For decades, this landlocked country has been a favourite topic for development economists, and the destination of vast sums of official development assistance from the international donor community. Yet it remains one of the poorest countries in the world, with a per capita income of about US\$250 per year. Almost 40 per cent of the population live below the poverty line, and there are vast disparities between rich and poor.

In recent years, Nepal has grabbed the international headlines for all the wrong reasons: intrigues and murders within the Royal family; a Maoist insurgency that is estimated to have already cost 7,000 lives; revolving door governments and a reputation for corruption; the sacking of the last Government and suspension of Parliament by the King; and a recent influx of military assistance from the United States and India, who fear this politically unstable paradise might become a base for international terrorism.

## Positive plan

It was against this background that, in May 2003, the Government of Nepal published their Tenth Plan and Poverty Reduction Strategy Paper (PRSP), which provides a comprehensive economic strategy for the period up to 2007.<sup>2</sup>

The strategy is premised on four highly desirable pillars:

- high and broad-based economic growth, focusing particularly on the rural economy
- accelerating human development through more effective delivery of basic social services and economic infrastructure
- ensuring social and economic inclusion of the poor and marginalized groups
- vigorously pursuing good governance.

The PRSP, or Tenth Plan as it is called in Nepal, contains much that warrants warm endorsement.<sup>3</sup> The key positive aspects include:

- a focus on accelerating income and employment growth in rural Nepal, where the majority of the poor live
- an honest assessment of past development policy failures

- the adoption of an inclusive approach to future economic development with targeted assistance for the most marginalized groups
- the adoption of a government expenditure monitoring mechanism and budgetary procedures that should help keep the economic strategy realistic and consistent with available financial resources
- an emphasis on decentralization and implementation of policies and programmes at the local level that will hopefully enhance good governance and ensure that scarce resources reach the most needy.

A recent World Bank and IMF assessment of this PRSP suggested there are risks to the economic strategy resulting from both the international and domestic security problems, as well as the uncertain political environment.<sup>4</sup> Interestingly, the review by the international financial institutions (IFIs) suggests that some of the stated goals of the Maoist insurgents are consistent with the PRSP. These goals are described as “the provision of better social and economic services and representation for the poor”<sup>5</sup>

To a degree, the World Bank and IMF may have downplayed the domestic political problems. They suggest that, because all the major political parties have been involved in the PRSP consultations, the risk that economic policies will change if democracy is restored has been reduced.<sup>6</sup> Such arguments miss the basic point that the suspension of Parliament and prevention of normal democratic practices is not a sustainable solution to governance problems.

A multi-party democratic system was introduced only in 1990 and has not yet matured into a well-functioning, stable force. The review by the IFIs correctly points out that past economic strategies have been inhibited by “patronage-based politics, institutional weakness, and the failure of public service delivery”.<sup>7</sup> But a return to autocratic rule is not a long-term

solution. Nepal requires a rapid restoration of democracy, stronger public institutions and greater reliance on the rule of law.

## Questionable labour reforms

Given this fragile political environment, some of the structural reforms proposed in the PRSP could exacerbate existing tensions within the country if not handled with great care. In particular, from a trade union perspective, there are question marks hanging over aspects of the industrial relations reforms proposed in the PRSP. In areas that are critical for trade unions, such as labour legislation and labour market reform, the proposed approach appears unbalanced. The PRSP appears to promote a simplistic and unilateral deregulation of existing labour legislation and labour market institutions.

Concerns previously expressed by trade unions in Nepal, and advice provided by the International Labour Office (ILO) in respect of labour issues, have not been fully reflected in the strategy. Failure to involve the social partners in a transparent and fair process of labour reform would be politically naive and could lead to strikes or other forms of protest. This would increase the risks associated with the whole PRSP and might undermine other highly desirable aspects of the economic strategy.

Other controversial proposals, like privatization and large cuts in the civil service, are strongly endorsed in the PRSP and in the staff review by the IFIs. These reforms have been on the political agenda for several years but have made little real progress. On the surface, the PRSP appears to offer little prospect of breaking the political deadlock that has stalled these reforms. Indeed, the general approach adopted towards labour legislation may result in a further deterioration in the industrial relations environment. This could prevent the dialogue and compromises required to advance these structural changes in a constructive manner that would meet the concerns of all sides.

This article examines the ILO and trade union involvement in the process that led to the adoption of the PRSP in Nepal and critically reviews the proposed labour market reforms.

### ILO promotes union involvement

Nepal has a tradition of preparing five-year economic plans and it was decided that the first PRSP for Nepal would also constitute the tenth economic plan and cover the period 2002 to 2007. Consistent with the general approach to PRSPs in other countries, it was decided to make the process of preparation for the Tenth Plan highly participatory. In fact, the final document claims that "the Plan is an outcome of extended nationwide consultation participated in by a large number of people from all walks of life".<sup>8</sup> The document describes in detail consultations that have been held since mid-2000 involving local government, NGOs, representatives of political parties, women's groups, academics, representatives of the private sector, ethnic minorities and participants from remote areas of the country. Moreover, a review of the PRSP undertaken by staff of the World Bank and the IMF endorses this assessment and gives the process high marks for adopting an inclusive participatory approach.<sup>9</sup>

However, this detailed description of the consultation process only contains one brief reference to trade unions. They are mentioned as being one group involved in a consultative meeting with the National Development Council (NDC) on an early draft of the PRSP. The lack of emphasis on trade unions in this description of the consultative process is difficult to understand, given that Nepal is a country in which trade unions – and employer organizations – were regularly consulted over the last few years, thanks to the ILO.

ILO involvement stemmed from an agreement between the managements of the IMF, the World Bank and the ILO. Following a request from the IMF Managing Director and World Bank President in December 1999, it was decided that the ILO

would make a contribution to the PRSP process in five countries, including Nepal. However, despite this agreement at the highest levels between the ILO and the IFIs about cooperation, there were some initial problems in fully implementing the agreement on the ground in Nepal. It would appear that parts of the Government at that time, and perhaps even elements of the donor community in Nepal, were not initially keen to foster ILO involvement in the process. Perhaps this initial reluctance was because of a desire to make the process, and content, of the PRSP nationally owned. If so, this was an understandable concern because, in theory at least, a key objective of the PRSP is to enhance country ownership and national responsibility for the success of economic and social policy reforms.

On the other hand, if the initial reluctance to involve the ILO – with its tripartite structure and reputation for enhancing social dialogue – reflected concerns that this might tip the political balance in internal Nepalese negotiations, then different conclusions are warranted. For the Government and other interested parties, ILO involvement in the PRSP probably suggested enhanced participation by the Nepalese social partners, and particularly a stronger role for the politically powerful national trade union centres in the process.

On this issue, like many things in Nepal, one is never really certain about the underlying motivations. However, serious questions were raised by trade unions about whether a genuine participatory approach was being followed in the early stages of the process. In 2001, an interim PRSP document was produced which, like the final PRSP, devoted several pages to extolling the virtues of consultations with the widest possible cross-section of society. This process included one meeting, organized by the ILO, involving representatives of the National Planning Commission (NPC) and representatives of all three national trade union confederations that exist in Nepal. According to representatives of all national union centres, this meeting was of very limited value because the Planning Commission merely informed them

of what would be included in the PRSP and did not provide the unions with an opportunity to comment or to question the content of the strategy.

Suspicions about government reluctance to fully involve the Nepalese social partners in the PRSP were heightened after discussions between ILO officials and government representatives in late 2001. While several bilateral donors, and the representatives of the World Bank in Nepal, took the view that an ILO contribution to this process would be desirable, some representatives of the Government had a more restricted view of the ILO role. In fact, the Government advised ILO representatives not to get involved with either civil service reform or privatization of state enterprise, which were two central issues on the economic reform agenda. Government representatives argued that ILO involvement in these sensitive issues would enhance the political position of trade unions and bolster their resistance to these reforms.<sup>10</sup> It was also evident from the outset of consultations between the ILO and government officials that labour law reforms – designed to weaken job protection and trade union power – were on the government agenda. However, no mention was made of these politically sensitive issues in the interim PRSP document.

Rather than seeking ILO assistance in promoting social dialogue on these difficult industrial relations issues, government representatives initially suggested that ILO involvement should be restricted to technical economic inputs. They asked the ILO to analyse the employment elasticity in various industries and make recommendations about how to enhance the employment intensity of economic growth. These economic issues are critical concerns in Nepal and a legitimate aspect of ILO activity. However, the decent work mandate of the ILO goes well beyond providing advice merely on the quantity of employment and includes worker rights, social protection and social dialogue. Reform of labour legislation and labour relations is at the heart of traditional ILO concerns.

From the outset, therefore, ILO involvement in this PRSP had to strike a delicate balance between the Government's desire to limit such involvement to a narrow range of economic issues and the demands of the social partners that the ILO facilitate their engagement in the full range of economic, social and industrial relations matters that were clearly on the agenda for reform. Getting this balance right was essential to ensuring genuine country ownership and full national responsibility, rather than merely national government ownership of the PRSP.

The ILO managed this diplomatic balancing act reasonably well. While opportunities were limited for the ILO to have any major impact on debates over civil service reform and privatization, the Government did not raise objections when the ILO started work on an input to the PRSP process that touched on all the core concerns of the ILO.<sup>11</sup> In fact, the NPC eventually agreed that the ILO should produce an input which covered the full range of ILO concerns and contained precise recommendations on worker rights, social protection and industrial relations issues in addition to examining ways of increasing the quantity of jobs.<sup>12</sup> Moreover, the final PRSP for Nepal goes further than most similar exercises in other countries in placing employment at the centre of the economic strategy. It has incorporated many of the recommendations made by the ILO that were designed to enhance the quantity of employment opportunities.

The ILO paper was discussed in three tripartite regional meetings held in Nepalgunj, Biratnagar and Pokhara and one major national meeting in April 2002. The purpose of these meetings was: first, to test the analysis and recommendations included in the paper; and second, to further dialogue between the domestic participants on what needed to be done in practical, concrete terms to address poverty in the country. In addition to the ILO's constituents, members of the national and international NGO community were also present. On the basis of inputs from the participants, the ILO prepared a policy

matrix which was subsequently submitted to the Government as an input to the PRSP. Discussion at both the regional meetings and the national meeting revealed a high level of support for the ILO analysis and recommendations. Taken together, participation in the regional meetings included most of Nepal's 75 districts, along with representatives from the three trade union federations and the employer organization at a decentralized level, as well as several District Development Committee chairpersons.

### Union proposals

There are three registered national trade union centres in Nepal. These are the Nepal Trade Union Congress (NTUC), the General Federation of Nepalese Trade Unions (GEFONT) and the Democratic Confederation of Nepalese Trade Unions (DECONT). NTUC and GEFONT are the largest and most powerful. In addition, there are several other unregistered union centres. Official data on union membership in Nepal are unreliable but one independent study noted that "The rate of unionization, albeit on the decline throughout the world, is tremendously increasing in Nepal".<sup>13</sup> However, in the last three years, union membership has dipped. The unions attribute this to the Maoist conflicts, the closing of many establishments, the anti-union attitude of the employers and the declaration of a state of emergency.<sup>14</sup> Union membership is concentrated in the formal sector of the economy but significant efforts are being made by at least some unions to organize workers in the informal economy.

Historically, the NTUC and GEFONT have been associated with rival political parties in Nepal and in the past have based their policies on starkly different political ideologies.<sup>15</sup> During the 1990s, the fragmentation of the union movement probably contributed to an unstable industrial relations environment and allowed employers, on occasions, to divide and rule the labour movement. However,

over the past few years significant changes have been occurring. NTUC and GEFONT have worked closely together on various issues and there have been some moves towards a merger between these two national centres, despite their links to competing political parties. While they do not agree on all issues, they have on occasions issued joint statements about policy priorities. These two union centres certainly worked closely together in the context of the PRSP consultations over the last few years, although they did not completely concur on every issue.

As noted above, the unions had been critical of their initial contacts and consultations with the Government on the Interim PRSP. In response to this criticism, the ILO attempted to fully integrate the three national trade union centres and the national employer association into the dialogue over the economic and social reform process. In order to better appreciate the opinions and policy proposals of the unions, ILO officials met with trade union leaders on several occasions in late 2001. Similar meetings were also held with the national employers' organization. It was evident from these meetings that the policy issues of concern to the trade unions covered a wide variety of matters that went well beyond the direct concerns of organized workers in the formal economy.

Some of the issues identified by GEFONT, the most "left-leaning" of the three national centres, such as reforms to the wages system, implementation of existing labour legislation and the establishment of a social security system, mainly concerned workers in formal employment. However, when they were asked to prioritize the reforms they would like to see in the country, their primary concerns were effective land reform, the eradication of absentee ownership and the promotion of cooperative farms in order to benefit landless rural workers. Another high priority issue for GEFONT was the elimination of bonded and child labour, as were measures to restrict the inflow of guest workers from India.

The leadership of this union indicated that they strongly supported plans, mooted

in the PRSP discussions, to decentralize control of official development assistance flowing into Nepal, and proposals to promote local-level implementation of projects in order to reduce corruption and improve transparency. On the other hand, they were highly sceptical about Government plans to privatize state enterprises. In at least one case, they claimed to have told the Government they would accept privatization, or closure of a state enterprise, providing employees received the retrenchment benefits they were due under existing labour legislation, but the government would not agree to honour this obligation. In other cases where privatization had occurred, GEFONT claimed this led to increased corruption among the new managers.

The leadership of the NTUC took a slightly different view on some subjects. They argued that land reform would not increase productivity or output levels and that any proposals to reduce the ceiling on land holdings would result in inefficiencies in agricultural production. Some observers might be surprised that this union was critical of increases in public sector wages introduced by the Government in 2001. However, they felt these resources should have been used to preserve the level of jobs in the public sector rather than cutting jobs under the civil service reforms being proposed by the Government in discussions on PRSP. The top priorities for this national union included improvements in the vocational education system and the establishment of a more comprehensive social security system. NTUC representatives also emphasized the problems that Nepalese workers faced in trying to secure employment. Public sector jobs were being reduced and, in the private sector, some skills were required that many local workers did not possess. They pointed out that guest workers from India were not covered by all aspects of the labour law and thus their unit labour costs were lower than those of Nepalese workers. Employers therefore preferred to hire guest workers on a precarious basis, rather than local workers.

DECONT is a relatively new national union.<sup>16</sup> They also strongly supported one

of the cornerstones of the PRSP, which involves decentralizing the control of public resources and project implementation to the regional and village level in order to reduce corruption. Their policy priorities for the PRSP included: placing restrictions on guest workers coming into Nepal; improving the vocational training system; and organizing informal sector workers. Like the other unions, they emphasized major problems with the implementation of labour laws. They pointed out that, although minimum wage levels had recently been increased, in the vast majority of cases the minimum wage was not paid. This union expressed concern about the plight of workers in the agriculture sector. Until relatively recently, the labour legislation had excluded agricultural labour from the definition of workers and prohibited the formation of unions in this sector. These aspects of the legislation were revised in 1999, and in January 2000 a statutory minimum wage for the agricultural sector was introduced. Despite these significant reforms on paper, DECONT representatives told the ILO that virtually no labour laws were being implemented in the large agricultural sector.

There is no doubt that both unions and employers are significant players in economic and political life in Nepal. In some countries, trade unions and employer associations are occasionally accused of protecting the vested interests of a privileged group of workers or entrepreneurs and paying insufficient attention to the implications of their demands for broader sections of the community. Some economists tend to describe such activities as "rent-seeking" or "insider-outsider" behaviour.

Accusations of this nature have been made in Nepal. However, it is evident from the above that the policy concerns and proposals from the trade unions in Nepal covered a fairly broad range of subjects. Also, they had some interesting insights, and even some divergence among themselves, on non-labour market issues. While they naturally placed a high priority on issues of direct concern to their membership, they also focused on measures to promote growth and reduce poverty in

the agricultural sector, where the poorest and most marginalized workers are concentrated. The unions also expressed concerns about working conditions in the informal economy, which remains largely unorganized. The evidence would seem to support the conclusions that, on the whole, the trade union movement was attempting to adopt a fairly balanced national perspective rather than following a narrow “rent-seeking” strategy.

It is also often claimed in Nepal that trade union leaders and the major private sector employers are heavily involved – either formally or informally – in the main political parties. In fact, one local observer described the trade unions as “the handmaidens of the political parties”. This may have explained the reluctance of the Government to involve the ILO and the social partners in some aspects of the Nepal PRSP. It is certainly correct that the three national centres have close links with the key political parties. But as one observer of industrial relations in Nepal has pointed out, the close relationships that exist between the main political parties and the trade unions are a product of Nepalese political history.<sup>17</sup> Prior to 1990, and the introduction of multi-party democracy, there was an effective ban on trade unionism and collective bargaining. The emergence of functioning unions was thus closely related to the establishment of the political parties and, having been suppressed during the thirty years of Panchayati rule, the unions and workers feel they require political protection.<sup>18</sup>

But in any case, on the basis of experience in other countries, it is neither unusual nor undesirable for trade union leaders and employers to be involved in party politics. Moreover, in a country like Nepal where, on paper, tripartite institutions for dialogue about economic and social issues exist, but in reality do not operate in a serious and systematic manner (see below for details), it should come as no surprise that both trade union leaders and employers continue to use whatever political channels they can to influence prominent decision-makers. Trade union leaders and em-

ployers’ representatives are employed to defend and promote the interests of their members. In the absence of a transparent, fair and influential process for tripartite consultation and negotiation, trade union leaders and employers will naturally utilize whatever political leverage they have to pursue these objectives.

### **Industrial relations and the proposed labour market reforms**

The final PRSP document for Nepal states:

“In order to provide employers more flexibility to adjust their labour requirements with due compensation to those affected, the Tenth Plan will take a number of measures to reform existing labour laws. The major objective outlined in the Tenth Plan for the labour sector is to ensure a congenial industrial environment by maintaining a flexible labour market while safeguarding the basic rights of workers. The major strategies adopted in the Plan to achieve this objective are: the initiation of timely reforms in labour laws to promote private investment, promotion of better industrial relations, increasing productivity and elimination of child labour.”<sup>19</sup>

The policy matrix attached to the Report contains a section entitled “labour” and sets out a strategy which is summarized as “make labour laws flexible”. Earlier sections of the PRSP document cite labour laws that prevent retrenchment of workers as “a significant impediment to private sector development”.<sup>20</sup> The World Bank and the IMF, in their review of the Nepal PRSP, give some prominence to these reforms. According to the staff review: “The PRSP identifies the leading role of the private sector in generating growth while acknowledging that much needs to be done to improve the private business climate through structural reforms in several key areas, including labour legislation. Failure to implement these reforms could reduce private investment and jeopardize achievement of PRSP goals.”<sup>21</sup>

## ILO role

The PRSP is only a summary document and it is possible that the current administration has formulated a comprehensive and constructive strategy to implement these labour market reforms. However, if this is the case, the PRSP provides little insight into the process through which this will be achieved.

Over the last year, the ILO has been attempting to facilitate negotiations between the trade unions and the employers' association over labour market reform (see below for details), but there are grounds for concern that the proposed reforms to labour legislation and the labour market that were envisaged in the PRSP might be implemented unilaterally by the current administration in an unbalanced manner and without careful consultation and involvement of the social partners. These concerns are heightened in a situation where Parliament has been suspended and the normal democratic process has been curtailed.

Despite these concerns about process, there can be no doubt that industrial relations reform is required in Nepal. The ILO, in its input to the PRSP, had strongly advocated institutional, legislative and attitudinal changes to industrial relations. According to the ILO:

"The system of social dialogue in Nepal is in its infancy. Unfortunately Nepal does not have the luxury of allowing a slow evolution of its social dialogue system. If economic growth, decent employment expansion and poverty eradication are to be accelerated during the Tenth Plan period, the industrial relations development process must be accelerated. A direct and detrimental link exists between the current state of industrial relations and the economic and social performance of Nepal. For this reason, the evolution of industrial relations in Nepal should be a concern for the Government as a whole and reforms proposed in this paper should attract support from the donor community."<sup>22</sup>

Within the small formal economy, the present state of industrial relations is a

significant constraint on productivity improvement and a factor contributing to poor labour market outcomes. Tensions at the workplace result in high levels of absenteeism, low levels of motivation and the imposition of go-slows or work-to-rule systems. The industrial relations environment is therefore having a significant negative impact on productivity within existing enterprises. Perhaps of more significance is the impact on international perceptions of industrial relations in Nepal.

In a highly competitive global environment, the image of uncertainty and potential unrest at the workplace must have a detrimental impact on direct foreign investment. The industrial relations environment is probably also one factor contributing to the rapid growth in the employment of foreign workers (guest workers) in skilled and semi-skilled jobs. A trade union survey indicated that there were foreign workers in over 40 per cent of enterprises, the greatest concentration being in the garment and textile sector.<sup>23</sup> In addition to the skills they bring to the enterprise, unorganized foreign workers are probably more malleable and less demanding than Nepalese workers because of their precarious employment status.

The key to sustained success, in an attempt to reform any industrial relations system, is the process utilized to bring about the changes. The objectives of higher productivity, employment growth and poverty reduction will best be served if the reforms result from a process that is, and is seen to be, fair and transparent.

The ILO had put forward various proposals to achieve this objective, but they are not included in the published PRSP document. Rather, the PRSP has concentrated attention on the restrictive nature of some components of labour legislation, which is a major complaint of employers in Nepal. Employers are particularly concerned about restrictions that the legislation places on the prerogative of management to dismiss regular (or what are termed "permanent") employees in Nepal. They also object to the definition of permanent employees in the legisla-

tion. Nepal, like several other South Asian countries, has no comprehensive system of social security or state support for workers made unemployed. To an extent, the stringent laws regarding dismissal are the corollary of the absence of a social safety net for unemployed workers.

These and other provisions in the legislation – regardless of whether or not they are excessively restrictive – are a significant factor encouraging employers to contract out activities and replace regular employment positions with casual workers. The expansion of non-regular employment is most prevalent among labour-intensive small and medium-sized enterprises. Some employers have called for the establishment of export processing zones where the labour laws would not apply, and for a ban on strikes throughout the whole country.

On the other hand, as mentioned, the trade unions complain that existing labour laws are regularly violated with impunity. Collective agreements are negotiated and signed but not implemented.<sup>24</sup> The institutions established to monitor and enforce labour laws and collective agreements appear powerless. Trade unions also complain that employers often do not bargain in good faith and, after agreements have been reached, they regularly have to take strike action on rights issues. It would also appear that the procedures used to consider labour legislation reforms in recent years have been less than transparent. Consequently, confidence in the legislative and institutional framework for industrial relations has been undermined.

Given the complexity and diverse nature of the industrial relations problems existing in Nepal, and their direct link to economic performance, the ILO suggested an integrated package of reform measures.<sup>25</sup> This involved trying to reconcile employer concerns about the restrictive nature of current labour laws with trade union concerns over the failure to implement the laws and the provisions of collective agreements. In order to broker a compromise deal among unions, employers and the administration, the ILO

suggested it might be desirable to expand the list of issues under review to include wages policy, social security, training and the changing pattern of employment, since important problems and competing interests also exist in these fields.

The trade union movement in Nepal has indicated that they are prepared to consider reforms that would provide greater labour market flexibility, providing there is some form of social safety net for those workers adversely affected by such reforms. Given these statements, the potential for compromise and consensus would appear to exist between the social partners. The ILO previously indicated that it is prepared to assist the parties to explore this potential.

To start the process, it was suggested that the ILO could review, and make recommendations for reforming, the existing labour legislation and institutions for social dialogue – taking into account best practice in other countries and international labour standards. The review would, *inter alia*, consider legislation and practice concerning dismissal and the notion of permanent employment. In so doing, the ILO could present the parties with suggestions about alternative ways to prevent unfair dismissals. The ILO would endeavour to make recommendations that would provide an appropriate balance between flexibility and employment security.

However, it was made clear that any review of the legislation and social dialogue institutions should not be restricted to the “hire and fire” issue, as it is commonly referred to in Nepal. It would appear that there are many other areas in which the legislation and institutions could be improved and inconsistencies removed. For instance, the ILO argued that the debate about legislative reform must be predicated on a substantial improvement in compliance.

There are three essential ingredients in this process. First, the mechanisms for monitoring the implementation of labour legislation and collective agreements need to be substantially upgraded. At present, the system of labour inspection is virtually

non-existent. Second, the procedures for seeking recourse to mediation and the labour courts in the event of persistent non-compliance must be made more efficient and timely. Third, the status and support available to the Ministry of Labour and Transport Management in the fields of labour administration and labour management relations must be upgraded.

The process for reaching some form of trade-off between unions and employers over issues related to labour legislation, increased compliance and reform of the social dialogue institutions would require careful management. For example it would be extremely detrimental to industrial relations in the long term if trade unions were to agree to accept some modifications to the labour laws in the expectation that improved compliance would follow, but over time find in practice that the laws were weakened yet still not implemented in full. This would inevitably lead to more strikes, lower productivity and a further deterioration in economic performance. Because of its tripartite structure and international reputation in this field, the ILO would be well suited to assist the parties with this process and help them reach agreement on the timing and sequencing of such reforms.

The ILO indicated it was prepared to continue and accelerate its technical assistance to Nepal in these various fields of labour administration. However, successful reform also requires political will and a genuine commitment by the Government to labour administration. Labour inspection, conciliation and mediation and the operation of labour courts are all relatively expensive and labour-intensive activities. Given the correlation between poor industrial relations and the dismal economic and social performance of Nepal in the last decade, the ILO recommended to the donor community that this was a field that warranted greater investment. Unfortunately, neither the PRSP, nor the staff review by the IFIs, makes any reference to the problems with implementation of existing labour laws or collective agreements. Nor do

they contain any suggestion that there is the political will, or any resources available, to upgrade the technical capabilities of these important labour institutions or the Labour Ministry.

Despite this important omission in the PRSP, over the past year the ILO has been facilitating consultations and negotiations between the trade union movement and the employer associations over a range of issues related to labour legislation and the labour market, along the lines suggested in the ILO input to the PRSP. As part of this process, the employers and the trade unions agreed to examine seven key policy areas: labour flexibility, exit policy, gender, the informal economy, social security, collective bargaining and labour administration. Representatives of the Government have participated as observers in these bipartite negotiations. At the time of writing, the negotiations were continuing. There were suggestions, at the time of writing in February 2004, that the Government and the IFIs were reluctant to allow these bipartite negotiations to run their full course. Unilateral action by the administration to amend the labour code has been strongly mooted in Nepal.

## Organizing for rights

Some other important industrial relations reforms are required in Nepal. For example, the current system of social dialogue covers only a very minor proportion of the working population. It provides a degree of income and employment protection to less than 10 per cent of workers. Over 90 per cent of workers therefore remain outside the framework of protection.

Organizing non-permanent workers in the formal sector and both entrepreneurs and workers in the “informal economy” is imperative, in order to ensure that all workers have representation and protection. Because of the concerns about “rent-seeking” behaviour, the ILO advocated reforms that would foster, rather than restrict, a broad public interest perspec-

tive among the social parties. Assisting the existing trade unions and employer organizations to significantly expand their organizational base is therefore the best way to eliminate any potential “insider-outsider” problems and ensure that wage levels, employment conditions and labour legislation reflect the best interests of all workers and entrepreneurs throughout the economy.

Organizing the currently unorganized is also the best way to permanently eradicate abuses of worker rights. The forms and extent of worker exploitation in Nepal remain extreme. For example, there are still significant problems associated with child labour, bonded labour, discrimination and other abuses of workers. The eradication of these human rights abuses will have an obvious direct impact on poverty by raising the incomes and living standards of those suffering such abuses. However, it also has a longer-term impact on poverty reduction. A key component of the economic and employment strategy for Nepal must be to improve the productivity of existing economic activities, and this entails upgrading the quality of human capital.

A basic precondition for a skilled and motivated labour force is the elimination of anti-worker abuses and the full achievement of fundamental rights at work. Specific targeted programmes can, and are, making a valuable contribution to reducing the incidence of abuses of workers' rights. However, the permanent and comprehensive elimination of worker exploitation will depend on organizing people in precarious work situations and providing them with the scope to jointly defend their own interests.

Broadening the base of these organizations will serve two other important objectives. First, strengthening the role of democratic and representative organizations of employers and workers throughout all regions of Nepal and all sectors of economic activity is the best way to counter the appeal of any undemocratic movement that may seek to recruit support among the working poor. As the World Bank/IMF

staff review of the Nepal PRSP noted: “The Maoist insurgency is, in part, a reflection of the rising disenchantment with inefficiency and corruption in the public sector, large persistent inequalities including along ethnic and gender lines, and poor delivery of public services”.<sup>26</sup> Second, it would support the general thrust of decentralizing authority for the implementation of programmes and activities designed to stimulate economic growth and reduce poverty, by creating and/or strengthening worker and employer organizations at the regional and local level.

Unfortunately, this recommendation from the ILO has been completely ignored in the PRSP. On the contrary, the fact that the PRSP significantly understates the role of the social partners in the consultative process would suggest that the administration might prefer to further diminish trade union density and the political power of unions in the country. If so, this is a short-sighted strategy in a country that already faces a significant democratic deficit. The IFIs could be doing more to support freedom of association, the organization of workers and employers and social dialogue in order to provide a “safety valve” to reduce political tensions in a situation where Parliament is suspended and other forums for peaceful and pragmatic dissent are discouraged. Unfortunately, this issue was not mentioned in the staff review of the PRSP undertaken by the World Bank and the IMF.

### Social monologue

As mentioned, a comprehensive legal framework for industrial relations and many institutions for social dialogue have been established in Nepal. But they are not functioning in a systematic or efficient manner. For example, there have been several institutions established to promote tripartite consultation and negotiation on labour issues. The main bodies include the Central Labour Advisory Body (CLAC) for reviewing labour policy, labour legislation, training policy and measures to promote

industrial peace. Other tripartite institutions include the Minimum Wage Fixation Committee, the Wage and Compensation Fixation Committee for determining the remuneration of journalists, the National Welfare Fund Managing Committee, the Foreign Employment Advisory Committee, the Tripartite Arbitration Committee and the Tripartite Committee for the Prevention and Settlement of Disputes.

Unfortunately, many of these tripartite institutions either only meet spasmodically or exercise little influence over decisions. The CLAC took almost six years to convene its first meeting, and between 1996 and 2000 it met on only six occasions. It had no impact on the formulation of the Trade Union Act in 1993, has not been involved in considering legislative reforms, which have been debated in recent years behind closed doors and in various ad hoc public forums, and was not used to help resolve major industrial disputes such as the one in the hotel industry in 2003. In fact, the Government declared the hotel industry an essential service in order to end the industrial dispute.

As one observer has noted, "... in practice, the use of tripartite mechanisms is very much limited. Yet politicians are never tired of speaking the terms like dialogue, consensus, cooperation, participation and understanding. Why is this so? First, democracy arrived too late in Nepal and second, we are simply used to monologue, not dialogue".<sup>27</sup> Unfortunately, the unilateral approach to industrial relations reform suggested in the PRSP may further entrench these undesirable trends.

Even on issues that directly affect the welfare of union members and employers, dialogue is underdeveloped. For example, up until recently trade unions had never been invited to participate in the influential Privatization Committee, although on paper there is provision for union involvement and the employer association (FNCCI) regularly participates. The PRSP seeks to accelerate the privatization process. The document states: "As per liberal economic policy, the government will gradually reduce its role in economic

activities... such as investments in social and economic infrastructure and service delivery".

The PRSP goes on to cite the following sectors as ripe for privatization: "power, roads, communications and other infrastructure development".<sup>28</sup>

As mentioned previously, privatization of public enterprises has been on the agenda for some considerable time but has made little progress. It is claimed, by some, that one factor inhibiting privatization is trade union resistance. However, the unions dispute this assertion. They claim that they recognize the need for public enterprise reform and improved economic efficiency. In their opinion, a necessary first step is the introduction of professional management that can implement the necessary reforms, prepare for the possibility of privatization and avoid corruption. In fact, the unions claim that it is government officials who are reluctant to push through the plans for privatization. According to some senior union representatives, government officials exert control over access to jobs and promotion within state enterprises and refuse to give up this power of patronage.

Unfortunately, the PRSP and the staff review by the IFIs appear to have ignored the concerns expressed by the unions in respect of privatization. These documents contain no suggestion that transparent, systematic and specific consultations and negotiations between the administration and the social partners are being contemplated on either privatization or civil service reform. The failure to fully integrate the social partners into these reforms can only exacerbate the underlying political tensions in Nepal.

## Promoting cohesion

Nepal, despite vast potential, faces a precarious economic and political future. Poverty remains at extreme levels. Against this difficult background, an economic strategy has been formulated that is reasonably realistic and holds the promise of reducing rural poverty and removing at least some of the segmentation in this society. There is much to commend in the policy content and the process used to negotiate the Nepalese PRSP. For example, it is clear that the NPC are striving to make employment growth a central element of their economic strategy. They have incorporated many of the recommendations made by the ILO in respect of economic and employment policy into their PRSP.

On the other hand, it is evident that the fragile security situation and the highly unstable domestic political environment represent major challenges for the country. These risks are significant and should not be compounded. Given the challenges it currently faces, Nepal needs to have all key sections of society pulling together to give this economic strategy a chance of success. It can ill afford to alienate powerful political groups, like the trade union movement, through the unilateral implementation of unbalanced labour market reforms.

But structural changes and labour market reforms are definitely required to promote private sector investment and reduce decent work deficits. The ILO has made detailed proposals for a fair and transparent process to negotiate much-needed institutional and legislative changes to the industrial relations system in Nepal. Implementation of this comprehensive reform programme, in consultation with the social partners, would be the best way to promote a more cohesive society and limit the risks of what is otherwise a desirable economic strategy.

## Notes

<sup>1</sup> This paper greatly benefited from comments made by Duncan Campbell and Graham Buckley of the ILO.

<sup>2</sup> National Planning Commission – Government of Nepal: *The Tenth Plan (Poverty Reduction Strategy Paper), 2002-2007*, May 2003.

<sup>3</sup> The PRSP is in fact presented as an executive summary of the Tenth Plan.

<sup>4</sup> International Development Association and International Monetary Fund: *Joint staff assessment of the poverty reduction strategy paper*, 24 October 2003, p. 2.

<sup>5</sup> ibid., p. 11.

<sup>6</sup> ibid., p. 11.

<sup>7</sup> ibid., p. 12.

<sup>8</sup> *The Tenth Plan (Poverty Reduction Strategy Paper) 2002-2007*, Foreword.

<sup>9</sup> International Development Association and International Monetary Fund, op. cit., p. 3.

<sup>10</sup> Internal ILO mission reports.

<sup>11</sup> ILO activities related to privatization have been limited to workshops conducted for the social partners and have taken place outside the PRSP context.

<sup>12</sup> ILO: *Decent Work for Poverty Reduction: An ILO contribution to the PRSP in Nepal*, 2002.

<sup>13</sup> Narayan Manandhar: *Labour Relations: Problems and Issues in Nepal*, July 2001, p. 60.

<sup>14</sup> GEFONT: *Trade unions in critical situation*, Nepal, 2003.

<sup>15</sup> The NTUC is linked to the Nepali Congress Party and GEFONT to the UML.

<sup>16</sup> DECONT was established after a split within the NTUC. DECONT and NTUC are associated with different factions of the Nepali Congress Party.

<sup>17</sup> Manandhar, op. cit., p. 55.

<sup>18</sup> ibid., p. 62.

<sup>19</sup> National Planning Commission, op. cit., p. 49.

<sup>20</sup> ibid., p. 17.

<sup>21</sup> IDA and IMF, op. cit., p. 6.

<sup>22</sup> ILO, op. cit.

<sup>23</sup> ibid., p. 14.

<sup>24</sup> Bishnu Rimal: *Trade Union Rights: Implementation of Labour Laws in Nepal*, GEFONT, 2001.

<sup>25</sup> ILO, op. cit., pp. 23-28.

<sup>26</sup> IDA and IMF, op. cit., p. 2.

<sup>27</sup> Manandhar, op. cit., p. 87

<sup>28</sup> PRSP, p. 48.



# In doubt but on board – Ghana's unions and the PRSP

*Ghana's unions had serious doubts about their country's PRSP, especially as key talks between the Government and the international financial institutions seem to have taken place in Washington, without the participation of civil society. Nonetheless, the unions committed themselves to full involvement. Why? How? And what lessons can we learn?*

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Ghana is one of several poor countries, in Africa and other parts of the world, that have prepared Poverty Reduction Strategy Papers (PRSPs) as a precondition for accessing the IMF Poverty Reduction and Growth Facility (PRGF) and other financial assistance from the international financial institutions (IFIs).

The preparation of the Ghana Poverty Reduction Strategy (GPRS), as Ghana's PRSP is known, began in 2001. By February 2002, the GPRS was ready for implementation. Initially, the strategy covered a three-year period from 2002 to 2004. The period has now been extended to cover 2005. The aim of the GPRS is "to create wealth by transforming the nature of the economy to achieve growth, accelerated poverty reduction and protection of the vulnerable and excluded within a decentralized, democratic environment". This goal is to be achieved through:

- sound economic management
- increased production
- support for human development
- the provision of basic services
- programmes to support the vulnerable and excluded
- good governance
- the active involvement of the private sector as the "main engine of growth".

Like all other programmes supported by the IFIs, the underlying principle of the poverty reduction strategy is the Washington Consensus, based on the free market ideology. Consequently, the objectives of poverty reduction, as outlined above, have been given different weights upon the advice of the Washington-based "experts".

A cursory look at any PRSP, including Ghana's, reveals that more weight is given to the same macroeconomic policies that were pursued under structural adjustment programmes. So what is different? The IFIs and their collaborators in government maintain that there are fundamental differences between the PRGF and the structural adjustment policies. They argue that the PRGF, unlike the structural adjustment policies, promotes broad participation and greater country ownership. They also claim that the PRGF:

- promotes pro-poor and pro-growth national budgets
- is more flexible in fiscal targets
- is more selective in its conditionality
- emphasizes prudent public resource management
- above all, promotes social impact analysis of major macroeconomic adjustments and structural reforms.

These features are supposed to be reflected in the PRSPs. But that is not the case with Ghana's PRSP. What is obvious is the bias towards the implementation of stringent macroeconomic policies, irrespective of the social consequences, and the low weight attached to important socio-economic issues such as income redistribution which, in the view of the trade union movement, should be central in any credible and genuine poverty reduction strategy.

This was the main reason why the Trades Union Congress (Ghana)<sup>1</sup> initially opposed any initiative rooted in the PRGF. In the TUC's submission to the Government on the GPRS, it expressed doubt about the Government's commitment to achieving the social development objectives in the GPRS, given that the same structural adjustment policies are being implemented under different names. In particular, the TUC expressed doubt about government's commitment to the principle of country ownership (which is purportedly the key principle underlying the PRGF and the PRSPs), given that civil society was totally excluded from the parallel consultations that take place in Washington between government and the IFIs. These consultations, in fact, determine the policies to be implemented and the criteria and benchmarks for measuring economic performance in the country.

Despite the initial doubt expressed by the TUC, it committed itself to full participation in the poverty reduction strategy alongside other civil society organizations. What factors motivated the labour movement in Ghana to participate in the process despite its initial opposition? What form did the participation take? What were the challenges and what lessons has the labour movement learnt from the process? These are the issues addressed here. But first, it is appropriate to give some idea about the extent of poverty in Ghana, since this is the key motivating factor for the TUC's participation in the PRSP process.

## Poverty in Ghana

It is estimated that four out of every ten Ghanaians are below the official poverty line.<sup>2</sup> Based on the dollar-a-day poverty line, about 45 per cent of the population are classified as poor, and 80 per cent are considered to be under the two dollars-a-day poverty line. The incidence of poverty is worse in some regions and among some socio-economic groups. In the northern part of the country, it is estimated that, on average, eight out of every ten people are poor, based on the national poverty line.

Among food crop farmers, the incidence of poverty is put at 59 per cent. Poverty is also high among formal sector workers. The last Ghana Living Standard Survey, conducted in 1998/1999, revealed that nearly 23 per cent of public sector workers and 11 per cent of private formal sector workers were poor. Analysis of the incidence of poverty between 1992 and 1999 shows that it increased in some regions during that period. For instance, the incidence of poverty increased from 70 to 88 per cent in the Upper East Region; from 63 to 69 per cent in the Northern Region; and from 44 to 48 per cent in the Central Region. Infant mortality is estimated at 57 deaths per 1,000 live births and about one in nine children born in Ghana dies before its fifth birthday. Less than 50 per cent of births are supervised in health facilities. Maternal mortality in Ghana ranges between 214 and 740 per 100,000, even though the causes of such deaths are preventable. One-third of Ghanaian children are not fully immunized before their first birthday. About a quarter of children under five years are stunted. A third of the Ghanaian population still has no access to potable water and over 50 per cent have no access to adequate and safe sanitation. HIV/AIDS is increasing at an alarming rate. Malaria, acute respiratory infections, diarrhoea, malnutrition and measles remain the five main killer diseases of children in Ghana.

Given the extent of destitution and the potential for the incidence and depth of poverty to increase, one can appreciate

why the Government,<sup>3</sup> which had just been voted into power, rushed to join the Heavily Indebted Poor Countries (HIPC) and PRSP initiatives. It is difficult to evaluate the PRSP now, mainly because of the long lag between policy implementation and outcomes. What is true, though, is that the Government has, within the PRSP framework, put in place a number of measures aimed at reducing poverty. These programmes cannot be discussed here, due to limitations on space. Our main concern in this article is the role trade unions are playing in the PRSP process and the lessons they have learnt from it.

### Why are the unions taking part?

The *raison d'être* of the trade union movement is the improvement of the social and economic conditions of workers in particular and the people of Ghana in general. Since independence, the TUC has not only served its members, but has effectively become the mouthpiece of the entire civil society in the country. In its Human Development Policy, adopted at its 6th Quadrennial Congress in 2000, the TUC pledged its support for all initiatives and policies aimed at creating opportunities that enhance individual capabilities and enable them to live satisfying lives. As the TUC recognizes in its Human Development Policy:

The onus lies on the civil society to draw the attention of the managers of the economy to the social and economic woes that await the country should we continue to be preoccupied with the policies that only emphasize economic growth without any consideration, whatsoever, for the plight of the ordinary people, under the false pretext that benefits from economic growth will, in the long term, trickle down to the large and increasing sections of the population who suffer abject poverty and social exclusion.

Therefore, the first motivating factor for the TUC's participation was to ensure that the economic policies in the PRSP are designed to enhance people's ability to:

- have adequate incomes through decent employment
- have access to the world's huge stock of knowledge through quality education and training
- participate fully in the decisions that affect their lives and the lives of their communities, through participatory democracy
- most importantly, ensure that the ultimate aim of policies is to enable every individual to live a healthier, longer and satisfying life.

Based on labour's bitter experience of almost two decades of structural adjustment in the country, and the fact that our domestic policies are heavily influenced, if not wholly designed by the IFIs, the TUC leadership realized that the PRSP will become the key policy instrument for managing the country. Therefore, the only means to ensure that human development issues are fully integrated into the policies was to commit itself fully to the process and to encourage other civil society organizations to do the same.

The TUC has always maintained that nobody can represent workers better than workers themselves. Therefore, failure to participate in the process would not only mean the labour movement had sold its "birthright", but more importantly, it might result in a situation where social and labour market issues regarding decent work, the safety and health of workers, collective bargaining rights, freedom of association and other internationally recognized labour standards would not be addressed in the policy document. Again, labour's experience of structural adjustment provided a guide. So the TUC leadership took a firm decision that the labour movement should no longer watch from the sidelines as such socially unfriendly policies were implemented in Ghana. In short, the TUC decided to participate in the process to ensure that workers' concerns are addressed in the GPRS.

Other factors, such as the union's commitment to participatory democracy,

its role as a *de facto* mouthpiece for civil society and its concerns for social and economic equity, motivated its participation in the process. It is important to mention that the TUC was also motivated by the advice and the technical support given by the International Confederation of Free Trade Unions (ICFTU) to all its affiliates in PRSP countries to get involved in the process, so as to ensure that international labour standards receive the attention they deserve in the document.

### How are the unions taking part?

Following the decision to participate in the PRSP process, the TUC has been involved in a number of PRSP-related activities. A few major ones will be mentioned here.

At the formulation stage, the labour movement was represented in some of the so-called core teams that were set up to analyse the poverty situation and to prioritize actions for reducing poverty. As part of its efforts to solicit the views of its affiliates as inputs into the PRSP, the TUC hosted a workshop on employment and human resource development where issues regarding employment, labour rights, social equity and income redistribution, among other labour policy issues, were thoroughly discussed and recommendations were submitted to the National Development Planning Commission (NDPC), which was charged with producing the PRSP.

The labour movement, alongside other civil society organizations, was involved in the forums organized by the NDPC to harmonize and validate priority issues and actions for poverty reduction. When the first draft PRSP was ready for comment, the TUC was among the first civil society organizations to submit its views. In that submission, the TUC raised very pertinent issues concerning labour standards, the need for equity in tax and investment policies, social security and pensions, gender equity issues, the need for right targeting of poverty reduction programmes, and most importantly issues around equitable

income redistribution. These issues were either completely absent in the draft or not explicitly covered.

As part of the process, the Government organized a national economic dialogue to review all inputs gathered during the consultation process and to seek consensus on the priorities in the PRSP. The TUC and all its 17 affiliates were fully represented at the national economic dialogue where the labour movement officially and publicly declared its commitment to the PRSP process. The strategy is now at the implementation stage. Again, the TUC has been part of the project planning and some of the direct social relief activities in some deprived regions.

From the foregoing, it might be thought that the TUC and civil society as a whole were allowed to participate in all the stages, at all levels of the PRSP process. That was not the case. After the national economic dialogue, civil society participation in the process was reduced drastically at the drafting stage, where the specific poverty reduction targets were set and guidelines were developed for the ministries, departments and agencies. Again, when the PRSP was being finalized, for the targets to be included in the national budget, civil society participation was either completely absent or minimal. These stages were reserved for “experts” and the Washington-based, all-knowing advisers.

### Labour's challenges and experiences

Has labour achieved its objectives in participating in the PRSP process? The answer is no. What is true, though, is that trade unions have learnt a lot of lessons from the process.

The first lesson we have learnt is that our economy is not being managed by our Government. Despite the fact that the World Bank and the IMF are not accountable to the population, they have been able to strip our democratically elected Government of all its economic and social policy prerogatives. The PRSP, to a large extent, has proved to be a new way of pro-

moting the Washington Consensus – strict and sometimes unreasonable fiscal discipline, directing fiscal expenditures away from social services, unbridled financial and trade liberalization, privatization and deregulation. The fears expressed by the TUC at the beginning of the PRSP process concerning “the autonomy and independence of government in fashioning out the PRSP”, have been justified. The colonial relations of dependence and external conditionality seem unstoppable.

The TUC holds the strong view that the undue influence the Bank and the Fund exert on the domestic policies of developing countries is the source of the evasive policies and programmes in the PRSPs, particularly in Africa. The policies in the PRSPs, particularly those that relate to macroeconomic management, are based on the Washington Consensus and are therefore deemed non-negotiable. These orthodox and outdated macroeconomic policies have been smuggled into all the PRSPs under different names and terminologies, despite fierce resistance from civil society organizations around the world.

As the present writer has argued elsewhere, even if the IFIs did not directly smuggle their free market and monetarist ideologies into the PRSP, the power of their boards to either approve or reject the PRSP gave disproportionate weight to their “recommendations”, especially on macroeconomic policy issues.

Secondly, we have learnt that it is not enough just to participate in the national decision-making process. What is important is how effective such participation is in terms of getting civil society and union concerns addressed. Almost all the specific issues on employment, social equity and redistribution that the union raised during the formulation stage have been watered down in the main document. Usually, such issues are branded as socialist policies that should not be allowed a place among the so-called pro-growth policies.

We also realized that in some cases, before the union was invited to participate in the national policy process, the policy framework and other important policy is-

sues had been discussed already and in some cases conclusions reached. Unions were, therefore, invited into the process just to fulfil a condition imposed by the donors, but not necessarily favoured by the Government. In such circumstances, there was a high risk of rubber-stamping policies that might only benefit the elite in society at the expense of the majority.

The third lesson we have learnt, which is also a major challenge facing the trade union movement, has to do with weak technical capacity to participate in such complex policy debates. The PRSP is a very comprehensive document covering broad areas of policy including monetary and fiscal matters, employment and human resource development, environment and natural resource management, rural and urban development, gender equity, science and technology, international trade and governance. The biggest challenge the trade unions in Ghana faced during the consultation process was the inadequate technical capacity to participate effectively in all these diverse areas of policy. The TUC leadership has realized that, in order to influence national policy, the unions should be in the position to offer more socially friendly, viable, credible and relevant alternative policies. That requires higher analytical and policy research capacity within the trade union movement.

### Influencing policy – unions need skills and information

The trade union movement in Ghana has not been able to achieve much in terms of influencing the content of the poverty reduction strategy. However, we do not regret our participation in the process. Our involvement in the PRSP has revealed the enormity of the challenges facing the movement in this era of globalization. As mentioned earlier, Ghana still relies heavily on the IMF and the World Bank for financial and technical support. Consequently, the direction of the country's economy is determined, to a great extent, by these institutions. For instance, the

Government of Ghana has been under pressure to continue the deregulation of the labour market and to privatize the remaining state-owned enterprises.

In response, the Government has listed a number of state-owned enterprises for divestiture and has recently passed a new labour law to facilitate the further deregulation of the labour market. The new law encourages casual employment and provides for flexible procedures for the termination of employment contracts. Consequently, the labour market is likely to be further liberalized. This will in turn lead to further “informalization” of employment. The implications of these anti-labour policies for poverty reduction are obvious.

We cannot afford to sit back unconcerned as these policies are implemented. Therefore, the TUC is determined to continue to participate in all economic and social policy debates at both national and international levels. We have realized that we need to engage state authorities and the IFIs directly in order to influence policy.

But there cannot be effective engagement on policy issues without the necessary skill, capacity and information. This is our main challenge in the coming years. We are confident that with the support of the International Labour Organization, the ICFTU and our local and international partners, we will get there.

## Notes

<sup>1</sup> The Trades Union Congress (Ghana) is the umbrella trade union organization in Ghana. It was formed in 1945. Currently, it has an estimated membership of about half a million.

<sup>2</sup> Ghana's official poverty line is nutrition-based. The poor are classified into "extreme poor" and "poor". The extremely poor households are those whose annual expenditure per adult was 700,000 cedis (GHC) and the poor households are those whose annual expenditure per adult was GHC 900,000. Based on the official exchange rates in 1999, these figures were equivalent to US\$292 and US\$376 per annum, respectively – a daily expenditure of US\$0.80 for the lower poverty line and \$1.02 for the upper poverty line.

<sup>3</sup> The present Government in Ghana was voted into power in 2001, after almost two decades of a military-turned-civilian regime.

# Unions and PRSPs – an analysis of the World Bank's view

*The World Bank has produced a web-based study on "Trade Union Participation in the Poverty Reduction Strategy Papers (PRSPs) process"<sup>1</sup>. Here, we look at the World Bank's 23-country report and draw out some pointers for the ILO and its constituents.*

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In September 1999, the IMF and World Bank announced a policy shift in which they declared that poverty reduction would be the overarching goal of the two institutions. The International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labour (WCL) welcomed this change of heart. They hoped that the PRSP mechanism would mark a fresh start, in response to the many years of civil society and trade union criticisms of the structural adjustment programmes (SAPs).

The ICFTU's optimistic but cautious advice was that "unions take part in poverty reduction programmes" and that they "participate in monitoring the programmes", while the WCL adopted a "wait and see" position. More than three years into the PRSP implementation, the unions were signalling that they were not getting the best out of the whole exercise. For instance, at the meetings between the international trade union movement (Global Unions and WCL) and the IMF and World Bank (Washington, DC, 21-23 October 2002), trade union representatives spoke of various weaknesses they saw in the PRSP process as currently carried out. These include:

- the fact that unions sometimes cannot participate in the PRSP process because of restrictions placed on freedom of association

- the lack of attention devoted to redistribution as well as growth
- problems posed by World Bank conditionality.

Others raised concerns that governments were self-censoring, while other speakers found PRSP consultations perfunctory and many were disappointed with the policies governments put forward in PRSPs, despite opposition expressed during consultations ... Another speaker emphasized the importance of designing employment-intensive development plans, so as to ensure the sustainability of poverty reduction strategies, and suggested more joint work on PRSPs with the ILO.<sup>2</sup>

The subsequent decision by the Bank to undertake a country-by-country assessment of the PRSP process was, in effect, a response to these union concerns. Covering 23 countries (15 Full and 8 Interim PRSPs), the study identifies the gaps in trade union participation in the PRSP process. The countries studied are Albania, Bangladesh, Benin, Bolivia, Bosnia and Herzegovina, Cambodia, Democratic Republic of the Congo, Ethiopia, Georgia, Ghana, Guyana, Honduras, Indonesia, Kenya, Malawi, Mongolia, Nicaragua, Pakistan, Senegal, Sri Lanka, Tanzania, Uganda and Zambia. Each country report is in three parts:

- the state of social dialogue

- trade union participation in the PRSP process
- the labour content of the full and Interim PRSPs.

What follows is a summary of the main issues that emerged.

## The main findings

**Consultations with unions were not systematic.** In an attempt to ensure inclusiveness in participation, more attention was to have been paid to collecting a large number of stakeholders than to ensuring the quality of the consultations. While some unions were invited by government without having to ask (for instance, in Ghana, Zambia, and Bosnia and Herzegovina), others made the formal request to be included. Even then, there was no guarantee of acceptance. The symbolic nature of involving unions is also apparent from the number of meetings in which they participated. In Albania, the fact that Bashkimi I Sindikatave Te Pavarura Shqiptare (Confederation of Independent Trade Unions of Albania –BSPSh) is a member of the National Civil Society Advisory Group guaranteed its participation in all sessions, whereas in Benin, trade union federations were invited to only two meetings/sessions. Late distribution of materials prevented the Confédération nationale des Travailleurs du Sénegal (CNTS) from making a written submission.

**Some unions were left out.** In some countries, certain unions were altogether “forgotten” by the authorities. The National Organization of Trade Unions (Uganda) was left out of the formulation of the Poverty Eradication Action Plan (PEAP) in early 2000 because “if the Ministry of Labour is invited, then the other social partners, FUE (Federation of Uganda Employers) and NOTU are expected to be carried along”. Despite contacting the Congolese authorities, union officials from the Confédération démocratique du Travail (CDT) were not invited to the PRSP

formulation. In Tanzania, no union was invited to participate. In Albania and Malawi, where more than one national federation exists, the smaller unions did not participate in PRSP discussions. Indonesia’s official union, the Konfederasi Serikat Pekerja Seluruh Indonesia (KSPSI) represents other unions on various government bodies, including on PRSP formulation. In Sri Lanka, while some unions participated (notably the affiliates of the National Workers’ Confederation), a majority did not take part. Later, some 72 trade unions joined the Alliance for the Protection of National Resources and Human Rights (ANRHR) and rejected the final PRSP because government had “failed to carry out even this minimal consultation with the people”.

**Some good cases of union participation in PRSP formulation exist.** The extent of state/trade union cooperation is behind the higher degree of union participation in PRSP formulation in Albania, Bosnia and Herzegovina and Mongolia. Following their active involvement in the Structural Adjustment Programmes Review Initiative (SAPRI) and other forums, unions were active in the formulation of the Ghana Poverty Reduction Strategy (GPRS), while the Zambia Congress of Trade Unions (ZCTU) played a leading role under the Civil Society for Poverty Reduction (CSPR) banner. In Bolivia, the Central Obrera Boliviana (COB) was visible right from the preparatory stages. In Honduras, all the three federations – the Confederación de Trabajadores de Honduras, the Central General de Trabajadores (CGT) and the Confederación Unitaria de Trabajadores de Honduras (CUTH) – are in the Consejo Consultivo de la ERP, the PRSP consultative council.

**No union involvement beyond PRSP formulation.** No country report makes mention of any union involvement in the PRSP process beyond the formulation stages. However, the potential for this does exist. In Cambodia, the PRSP envisages that the private sector (including trade unions) could play a crucial role in poverty reduction, especially through job creation. In

the Democratic Republic of the Congo, the I-PRSP calls for the establishment and application of a realistic wage policy (with the involvement of government, the employers' federation – FEC – and trade unions). In Uganda, "the UDN (Uganda Debt Network) ... is involved in monitoring of the Poverty Action Fund by empowering communities to monitor the implementation of programmes that directly benefit the poor".

**Labour market policies are not a central focus of the PRSPs.** There is little focus on employment and international labour standards in the PRSPs, or on the role of labour market institutions, much as the trade union representatives at the discussions always highlighted these issues. In a number of cases, unemployment is recognized as a cause of poverty. However, the policy implications of this are usually absent or are inadequately covered.

For instance, in Sri Lanka, the clamour for labour law reforms by government is because "current regulations governing employment remain impediments to investment and growth". The reports corroborate the views of the Director-General of the ILO, who in his report to the 91st session of the International Labour Conference entitled *Working Out of Poverty* attributed the meagre coverage of decent work issues to the general absence of labour ministries and other social partners.

However, the evidence points to a positive correlation between ILO participation and the inclusion of the Decent Work Agenda. In Cambodia, where the ILO was very much in the picture, "the NPRS (National Poverty Reduction Strategy) contains some very labour-friendly provisions". In Pakistan, the Draft Poverty Reduction Strategy Paper, in its Chapter Five on "Addressing I-PRSP Gaps: Employment, Gender and Environment", underlines the centrality of employment generation for poverty reduction.

**Few trade unions network with other civil society organizations (CSOs).** In the PRSP Sourcebook, trade unions and guilds fall under the "CSOs Stakeholder

Group", along with networks, NGOs, community-based organizations, academic institutions and research groups. However, few unions have partaken of this potential synergy, as there is not much joint action and collaboration between the unions on the one hand and other CSO groups on the other. In his report *Working Out of Poverty*, the ILO Director-General says that "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 not think of unions and employers' organizations as part of their movement". Unions tend to trust the traditional tripartite structures (involving governments, employers and workers) and thus have yet to play a full part in multi-stakeholder initiatives.

**Doubts still abound as to whether the World Bank and the IMF are genuinely committed to change.** There are complaints that the PRSPs are nothing but an extension of the same neoliberal policies that structural adjustment was accused of promoting. For instance, the General Secretary of the Confédération Nationale des Travailleurs du Sénégal (CNTS) stated the PRSP "lacks ambition to resolve the development issue". And the Union nationale des Syndicats autonomes du Sénégal (UNSAS) withdrew from the PRSP process because "the draft paper was lacking a social dimension and was only dealing with macroeconomics". To the chagrin of labour, Sri Lanka's PRSP proposes privatization and labour law reforms despite opposition of trade unions.

**Unions admit their lack of capacity.** The Central Organization of Trade Unions of Kenya (COTU-Kenya) and the Union nationale des Syndicats des Travailleurs du Bénin (UNSTB) acknowledge that their effectiveness in the discussions was curtailed, due to inadequate capacity. However, the problem is not limited to these countries.

Only in Bosnia and Herzegovina, Ghana, Pakistan and Sri Lanka did unions submit their detailed views in writing. Yet capacity along with legitimacy and representativeness are some of the criteria looked for in any stakeholder group.<sup>3</sup>

## Recommended action

Since inadequate attention is paid to labour market policies in the PRSPs, the positive contribution of the Decent Work Agenda cannot be fully utilized. Because consultations have not been systematic, unions have yet to see their footprint in the PRSP process (formulation, implementation, monitoring and evaluation).

Deliberate policies ought to be put in place to incorporate workers' organizations at all levels of the process. Since they have representative constituencies whose views are necessary for poverty reduction, their guaranteed participation should be ensured, while the question of lack of capacity needs to be addressed through tailor-made programmes organized by the international trade union movement, the ILO, the World Bank, the IMF and governments. The ongoing dialogue between the ILO and the international financial institutions should be aimed at guaranteeing that international labour standards, employment and social dialogue are incorporated in the programmes of the World Bank and the IMF. They need to reach out to all unions at national level and take advantage of their unique skills and traditional roles in poverty reduction.

The onus is on the unions to be proactive and to present well-researched arguments that justify their every position, since no one speaks better for workers than unions themselves.

## Notes

<sup>1</sup> The reports are available on the World Bank website and can be accessed via [www.worldbank.org/labormarkets](http://www.worldbank.org/labormarkets)

<sup>2</sup> See joint report of the meeting on the World Bank's website, <http://wbln0018.worldbank.org/HDNet/HDDocs.nsf/vtlw/236052a7147251eb85256cde005987bb/SFILE/Joint%20Report%20Oct%202002.pdf>

<sup>3</sup> *World Bank Participation Sourcebook*, Ch. 7 (p. 250).

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# Uncomfortable but taking part – Cambodia's unions and the PRSP

*Uncomfortable. That was how the Cambodian unions felt when they first began to talk about the country's PRSP. Uncomfortable because the union leaders knew that they should be involved, but they did not know how. Uncomfortable because it meant tackling national-level issues while the trade union movement was still divided. Uncomfortable because it included economic debates which seemed to go beyond their capacities.*

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Serious difficulties faced the Cambodian unions when they sought to become involved in the National Poverty Reduction Strategy (NPRS) – Cambodia's PRSP. But they managed to tackle these problems, and subsequently gained some meaningful participation in the process.

To understand their situation, some knowledge of recent Cambodian history is needed. After a long and bitter civil war that started in early 1970s, Cambodia embarked on a long and slow process of rebuilding democratic structures. This began after 23 October 1991, when the Paris Peace Accord ended the civil war. However, the country remained very unstable for many years. The 1997 coup is a testimony to this.

## Unions young and divided

The trade union movement is also young, as it only began to develop after the end of the war in 1991. Moreover, it is divided. Some 14 national trade union confederations (499 unions) are currently registered with the Ministry of Labour. About 4 per cent of the total labour force of 5.7 million people is unionized. The workforce is around 44 per cent of the total population. The old alliances with different

political parties still continue, and this to some extent explains the divisions within the union movement. Also, the unionized sector currently is very much confined to the leather and garment manufacturing industry.

Even before the ILO began talking about the PRSP (NPRS) with Cambodia in early 2002, some of the unions and NGOs had already got together and submitted a letter of protest to the embassies of donor countries. This was on the occasion of the donor community getting together for their annual meeting in Cambodia to discuss financial assistance to the Government.

Since the end of the war in 1991, the world community has continued to provide financial assistance to Cambodia for some of its recurrent expenditure. In their letter addressed to the embassies, the unions demanded that the donors ask the Government to show transparency about how the money was being spent. The unions also asked for the eradication of corruption within the Government. They claimed that there was much corruption within the Government and no transparency about the spending of donor funds.

The preparation of the NPRS in Cambodia started in May 2002 and an Interim PRSP (I-PRSP) was produced five months later. The NPRS took over two years to

complete, with the final version coming out in December 2002. The responsible agency was the Ministry of Economy and Finance, but the coordination was by the General Secretariat of the Council for Social Development (GSCSD), an inter-ministerial body chaired by Mr Kim Saysamalen, Undersecretary of State for Ministry of Planning. In March 2003, the Government launched the NPRS and began implementing some of the proposals. The GSCSD is now responsible for the implementation of the NPRS.

### ILO assistance

Cambodia is one of the five countries chosen by the ILO for assistance in influencing the PRPS process. It has thus also become a partner in the global fight to reduce poverty. The ILO objective in giving this support was to incorporate its Decent Work Agenda into the NPRS. The ILO started a process to help the unions, the employers' organizations and relevant government ministries to participate in the NPRS.

It began with a capacity-building workshop for Cambodian union leaders in June 2002. The one-day workshop conducted by the ILO Worker Specialist discussed the process, the reasons why the unions should participate in it and the manner in which they could do so. The manual produced by the International Confederation of Free Trade Unions (ICFTU) on PRSPs was extensively used to build the capacity of the leaders and to make them comfortable with the NPRS. At the end of the workshop, although still sceptical about the final outcome of the NPRS, the participants agreed that the training had given them a better understanding of the whole concept. At least this made them, in a small way, more comfortable with the process.

To get involved in that process, the unions had to think about how to prepare themselves for debates on such national issues. They felt uncomfortable in this regard because their main area of work so far had been dealing with labour issues.

Most of the time, this related to enterprise-level labour-management matters. Part of the challenge of the capacity-building process was to make them understand and address national issues such as the NPRS and also to help them make the connection between their everyday union work and poverty reduction in Cambodia.

The one-day workshop was followed in August 2002 by a bipartite seminar (union and employer organizations) and later a tripartite workshop on the NPRS. These consultations also helped to further develop the draft ILO paper on the NPRS, *Generating Decent Work for Poverty Reduction in Cambodia – the Voice of Workers, Employers and the Government*. The paper reflected union views on fighting corruption and at the same time talked about other issues dear to the hearts of the unions, such as strengthening industrial relations, maintaining the minimum wage and providing social protection. The bipartite seminar identified corruption and a lack of transparency in governance; a weak judicial system, loopholes in the law and poor enforcement; low education and skills; and a lack of fair distribution of support to the poor as the greatest contributors to poverty.

One of the significant developments arising out of the tripartite workshop was that, through the ILO interventions, Kim Saysamalen (NPRS Chairperson) agreed to include two trade union representatives in the Government's consultative process on the NPRS. Under the PRSP structures in other countries, there is no special seat allocated to trade union participation. They, like other NGOs, have to negotiate their position in the system. As a result, Chae Vichea – President of the Free Trade Unions of Workers of the Kingdom of Cambodia (FTUWKC), Mom Niham – President of the National Independent Federation of the Textile Unions of Cambodia (NIFTUC) and Noun Rithy – Coordinator of the ILO workers' education project – were invited to take part in the government consultative process. Both Mr. Vichea and Ms. Niham were on a committee elected by the representatives of trade union feder-

ations tasked with leading the trade union involvement in the NPRS. This trade union committee was one of the outcomes of the initial awareness activity organized by the ILO. Prior to that, the unions could only participate as part of the NGO group and to do that, they had to compete within the NGO group to be accepted as one of the representatives to the meeting.

### Union success

It is interesting to note that at one of the later consultation meetings during the development of the NPRS, the union representatives were able to successfully argue against a proposal to remove minimum wage provisions from the labour legislation. The argument put forward by the opponents of the minimum wage was that its abolition would provide a better competitive environment in relation to other countries like China and Vietnam where the minimum wages were lower than in Cambodia. The Government took the view that this would attract investors from other countries.

The maintenance of the minimum wage legislation was seen as a major win for the union representatives. It showed not only that unions could participate in such national debates but also that they were able to convince the group that the minimum wage was a useful instrument in the fight against poverty. This also created respect for the union representatives within the consultative committee.

The trade union committee responsible for NPRS matters continues to function. Further efforts have been made to gradually strengthen the capacity of the union leaders to understand the issues contained in the NPRS, so that the unions may achieve a stronger position in terms of monitoring the NPRS implementation as well as suggesting changes when the review takes place. In the meantime, through ILO assistance, a “group” comprising some selected academics and those having a good knowledge of the NPRS has been set up to work with, advise and guide the

union leaders on the NPRS. The “group” and the union leaders meet periodically to assist the unions in the NPRS monitoring process. Also as a result of the Cambodian experience, some training and education material has been developed which could be useful in guiding unions through the monitoring and evaluation process. The material will be used in other countries for education and training on PRSP.

Moreover, the unions understood that the NPRS was about poverty reduction and in that regard, they argued that they themselves were part of the working poor. In Cambodia, workers engaged in garment and leather products manufacturing are considered to be the best-paid group of workers, as they are paid a minimum of US\$45 per month. Even the civil servants are paid much less than that. This is a legacy of the command economy which existed prior to 1991.

In the tripartite workshop and at later meetings, the unions were able to argue that the minimum wage was not sufficient to meet the expenses of the number of people dependent upon one garment industry worker. In this regard, through the assistance of ILO education activities, the unions had set up a “minimum wage research committee”. Its research showed the deficiencies in the current minimum wage. There is no national minimum wage, nor any sectoral one other than that for the garment and leather products workers.

At the ILO tripartite workshop, a representative from the Government, when defining the word “poverty”, commented that somebody who owned a bicycle, even if it had only one wheel, was considered to be above the poverty line.

This helped to clarify the unions’ own thinking about what they meant by poverty, and they then felt more comfortable about putting forward their views on poverty eradication in Cambodia. Amongst other things, they emphasized the need to protect workers and guarantee fair labour practices. The unions argued that, with the help of such protection, they would be able to bargain for fair wages which would contribute to poverty reduction.

Decent wages and working conditions would, they pointed out, increase workers' purchasing power. Their spending would, in turn, create opportunities to increase employment, particularly in the service industries. They argued that a rise in the living standards of workers would create a bigger need for goods and services, thus creating employment and ultimately resulting in the reduction of poverty.

### Labour issues included

The various proposals made in the NPRS with regard to poverty reduction include some specific industrial relations and social security issues:

- Dissemination of information on labour law to both employers and employees, and the enforcement of labour law
- Training and education on workplace relations
- Promotion of tripartite dialogue
- Strengthening the National Sub-Committee on Child Labour, so as to implement and monitor child protection programmes
- Training in service provider skills (skills development)
- Preparing for the establishment of a National Social Security Fund for injury, sickness, maternity and pensions coverage.

In this regard, the two ILO tripartite projects – the Garment Sector Working Conditions Improvement Project and the

Labour Dispute Resolution Project – are seen as part of the poverty reduction process, and they are included in the NPRS.

The trade unions, as part of their monitoring process, are planning to carry out surveys to measure the enforcement of labour law. They see a lack of enforcement as a major impediment to good industrial relations and as a reason for the high number of industrial disputes.

The education and training has made the unions comfortable with, and able to participate in, the NPRS process. The establishment of the union committee on NPRS and their linkage with the "academic group" continues to help the unions understand complex and difficult issues, and as such helps them in their participation in the process. The close cooperation between unions and NGOs has also helped the unions to strengthen their voice in the community and build an alliance on NPRS matters.

From August 2002, the ILO had engaged a local consultant, Saeng Bunly, to follow up on the NPRS. This was seen as necessary, as the ILO does not have an office in Cambodia. His continued relations with the trade union NPRS committee have also helped the unions to keep up with the latest information on the NPRS. The ILO-DANIDA workers' education Project Advisory Committee (PAC) continues to provide a joint forum for all national confederations and acts as the *de facto* national trade union centre. The trade union committee on NPRS makes periodic reports to the PAC meetings.

How long the unions will keep up the interest and continue to participate in the NPRS, time alone will tell.

# Structural adjustment and poverty reduction in Africa

*A lack of rapid, broad-based growth lies at the heart of Africa's economic problems. Can poverty reduction strategies help?*

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The failure to attain rapid and broad-based growth in Africa is at the heart of the continent's problems. Over the past two decades, growth in income in sub-Saharan Africa (SSA) has barely kept pace with population growth, and longer-term growth projections at around 3.5 per cent are half the levels required to meet international poverty alleviation targets. Slow and erratic growth in SSA has also been accompanied by regressive changes in income distribution. The decline in average per capita income for the poorest 20 per cent of the SSA population was twice that for the population as a whole between 1980 and 1995. Hollowing out of the middle class has become a prominent feature of income distribution in many developing countries.<sup>2</sup>

## The new elements in poverty reduction programmes

**Country ownership and participation.** An important novelty in the post-1999 approach to poverty alleviation is the preparation of PRSPs by recipient countries as a prerequisite for reduction of their debt and for concessionary loans and grants. Broad-based participation by civil society organizations, stakeholders and the poor is also required. The new framework also defines the role and involvement of the staff of the two Bretton Woods institutions in various stages of the design and implementation of poverty reduction programmes:

- Staff are not expected to play more than a supportive role in the preparation of the papers.
- A “joint staff assessment” (JSA) by the World Bank and IMF of, first, the “Interim Poverty Reduction Strategy Papers” (I-PRSPs) and, ultimately, the final versions of the PRSPs is required before they are endorsed by the Boards of the two institutions as the basis of the relevant aid package.

“Ownership” of the PRSP process has been a contentious issue. Some of the concerns expressed in this respect have been summarized in a joint IMF/World Bank review of the PRSP experience:

... Some NGOs contend that alignment of donor strategies to the PRSPs will always be a trivial matter because the content of the strategies will necessarily be determined largely by the agendas and preferences of the donors, especially the Bank and the Fund ... Governments write into the PRSPs what they already know the donors want to hear ... [and] this will be the case as long as the Bank and the Fund must endorse the strategy as a condition for concessional assistance.

As far as the participation of the poor is concerned, a comparison of the policy aspirations of the African poor with the policy recommendations in the PRSPs suggests that there are significant divergences between the two. For example, while the poor place emphasis on employment, the

policy recipes call for a reduction of rigidities in labour markets; or where the poor aspire to lowering school fees at all levels and to free curative health care, the emphasis in PRSPs is on provision of primary education and preventive health, with user fees for higher levels of education and curative health care.

**Conditionality and poverty reduction.** An important issue in the current approach to poverty reduction is how to reconcile country ownership and participation with the conditionality attached to aid and debt reduction. The original rationale for conditionality was to protect the financial integrity of the Bretton Woods institutions (the International Monetary Fund and the World Bank) and, in particular, to preserve the revolving character of IMF resources. Over the years, however, conditionality became tighter, gradually encompassing a large number of areas, including actions related to the restructuring and privatization of public enterprises, deregulation of markets, trade regimes, pricing and marketing policy, public sector management, public safety nets, the agricultural sector, the energy sector, the financial sector and more recently issues of political and economic governance.

There is now a general recognition that conditionalities imposed by the international financial institutions go beyond their respective areas of competence. Slow progress in streamlining conditionality was one of the “strong concerns” expressed by Heavily Indebted Poor Countries (HIPC) ministers in their declaration at the 6th HIPC Ministerial Meeting, held in London on 5 March 2002.

### **Stabilization, adjustment and poverty**

**Macroeconomic and structural policies.** The IMF recognizes that macroeconomic stability may require some temporary sacrifice of growth, possibly to the cost of the poor. Similarly, measures to attain stability may lead to regressive changes in income

distribution in the short term, with attendant consequences for poverty. Accordingly, such transitory effects should best be dealt with through appropriate compensatory measures, rather than by giving up macroeconomic stability. In such cases, it is recommended that a poverty and social impact analysis (PSIA) be undertaken. Although, according to recent reports, the World Bank has now started undertaking a significant number of PSIAs, as yet, no significant work on poverty and social impact analysis appears to have been completed. Furthermore, there seem to be definitional problems as to what should constitute an adequate PSIA. As noted by HIPC ministers at their recent meeting, “analysis of the links between macroeconomic and structural policies and poverty reduction remains among the weakest areas of most PRSPs”.

**Stability and growth.** The mainstream policy advice in responding to external shocks is to tighten macroeconomic policy if the shock is not just a temporary one. Bearing in mind a secular decline in the prices of commodity exports of most poor countries, tight macro policies have led to weak, erratic growth resulting in increased poverty.

Regarding the balance between growth and price stability, prudent, non-inflationary budgetary policies and monetary restraint constitute the main macroeconomic elements of guidelines on poverty-reducing strategies. Paradoxically, SSA is a region of the developing world that has rarely experienced hyperinflation, and it is significant that the African poor do not consider inflation as a major issue affecting their welfare; their concern is contractionary macroeconomic policies.

**Public spending and taxes.** The role of the budget is particularly important in poverty reduction strategies supported by the Bretton Woods institutions. Thus, it is necessary to assess public spending in terms of its overall impact on growth as well as its direct impact on poverty. On the domestic side, high interest rates resulting from tight monetary policies constitute a serious impediment to poverty reduction

programmes by raising interest payments on government debt at the expense of social spending, as well as by distorting income distribution. This problem may be aggravated by capital account liberalization, which often necessitates maintaining high interest rates on domestic assets in order to attract foreign financial capital or prevent capital flight.

It is essential to attain a reasonably rapid growth in public revenues in order to increase social spending and avoid further debt accumulation. In this respect, tax policies are of particular importance. In general, the recommendation in PRSPs is to lower taxes on corporate and personal incomes because of their adverse effects on investment and capital flows and lowering trade taxes. The only remaining options for increasing public revenues are introducing a broad-based consumption tax, usually in the form of VAT, and improving tax administration and broadening the tax base. But at the same time, as recently noted by the World Bank, indirect taxes tend to augment poverty because they are generally regressive.

**Reforming the financial system.** The shift to financing public deficits by means of government debt papers on market terms under conditions of very thin financial markets has produced very high and volatile real interest rates, leading to rapid accumulation of domestic debt. High interest rates have also contributed to the stagnation of private investment. Public investment has equally been hit by interest rate payments from the budget. The redistribution of income from the productive segments of the society in favour of the *rentier* elements has also tended to undermine the incentives to invest within the economy.<sup>3</sup> In short, in the light of this experience, it is difficult to share the optimism of PRSPs regarding the positive impact of financial liberalization on growth, distribution and poverty in Africa.

**Capital account liberalization.** Recent years have witnessed the increasing elimination of exchange controls and the

opening up of the capital account in Africa. Opening of the capital account is endorsed as a pro-poor policy in the IMF's *PRSP Sourcebook*. However, efforts in the region to integrate into the global financial system and to attract private flows through a rapid liberalization of the capital account have resulted in greater volatility, with attendant consequences for exchange rate instability and misalignments.

**Trade reform.** Trade policy advice in poverty reduction programmes calls for maintaining liberal trade regimes, reduction of import tariffs and avoidance of non-tariff barriers. African PRSPs have generally followed this advice. Although a number of studies have concluded that trade liberalization in developing countries does not adversely affect employment, these findings have been roundly criticized on both methodological and empirical grounds.<sup>4</sup>

In general, evidence suggests that the effect of trade liberalization on wages, income distribution and poverty differs among countries, depending on the domestic and international conditions under which it is implemented. In SSA, liberalization has largely been the policy response to the failure to establish efficient, competitive industries in labour- and/or skill-intensive sectors. Contrary to the situation in East Asia, it has taken place before a successful export drive. Increased foreign competition brought about by rapid import liberalization has led to the wholesale closure of industries, with an even greater impact on jobs, pay and poverty because international competitiveness could not be improved despite substantial cuts in real wages in manufacturing.<sup>5</sup>

A significant indicator of the drift into de-industrialization in SSA is the elasticity of industrial value added with respect to GDP growth, which has declined by over 50 per cent in the past two decades. As pointed out by the United Nations High-level Panel on Financing for Development, past mistakes in trade and industrial policies cannot justify going to the other extreme and denying limited, time-bound protection for certain industries so as to

provide an opportunity for actively nurturing the development of an industrial sector.

Clearly, the long-term solution lies in improving the productive capacity of the region and resolving the deep-seated imbalances and distortions in the international trading system in areas of export interest to African countries. Furthermore, adequate attention has not always been paid to forces of protectionism in industrial countries in designing trade policies in structural adjustment programmes.

**Agricultural policies.** The recommended policies for the agricultural sector include exchange rate corrections, withdrawal of governments from agricultural markets, the dismantling of marketing boards and deregulation of markets for agricultural inputs and outputs.

The result has been that farmers have suffered not only from declining output prices but also from rising input prices for food crops and the elimination of fertilizer subsidies (World Bank, *Can Africa Claim the 21st Century?*, 2000, pp. 184–189). Such observations have led the World Bank to conclude that “market-friendly reforms have also sometimes hurt the rural poor ... Agricultural market liberalization without the institutional framework ... could have serious consequences for poor people”.<sup>6</sup> However, the final verdict is still that, on balance, “market-oriented reforms ... reduced anti-agriculture bias and generally increased agricultural growth”<sup>7</sup> and despite the problems confronted, in Africa “reforms need to be further consolidated” by encouraging private firms to enter output and input markets and by strengthening property rights (World Bank, *Global Economic Perspectives and Developing Countries*, 2000, pp. 184 and 196–197).<sup>8</sup>

African farmers need much greater investment in the sector, and the emphasis put on higher public expenditure on rural infrastructure in recent PRSPs and official development assistance packages is to be welcomed. But official policies need to go further and seek to create the conditions

needed for higher levels of investment and input use by farmers themselves. The provision of a stable market environment, predictable output prices and input supplies at affordable costs, the easing of financial constraints on small-scale farming and significant improvements in the physical and technical environment are the necessary components of such a re-orientation, and all of them call for active engagement of the public sector.

### Growth: Removing the external constraints

The analysis in the previous sections suggests that the new focus on poverty, rather than revising and improving the structural adjustment programmes, merely adds new elements to them.

The emphasis on ownership and participation in poverty reduction programmes appears to grant considerable autonomy to countries in the design of safety nets and targeted anti-poverty spending programmes. However, the freedom of action of recipient governments in determining the nature and content of macroeconomic stabilization and structural adjustment programmes, or more generally of their development strategies, continues to be severely constrained by conditionalities attached to multilateral lending and debt relief.

A major concern is that while the current approach rightly emphasizes the central role of rapid and sustained growth in poverty alleviation, it does not call into question the very stabilization policies and structural reforms that have barely succeeded in bringing about growth and reducing poverty in Africa over the past two decades. It therefore stands to reason that the new emphasis on poverty alleviation should be founded on a careful and frank independent assessment of the effects of those policies and reforms on economic growth and income distribution.

Another concern relates to the direct impact of stabilization and adjustment on poverty. Although the new approach

recognizes that these policies may have unfavourable consequences for the poor, very little attention has so far been given to social impact analysis, although such analysis is necessary to determine the kind of measures needed subsequently.

A third source of concern is the approach adopted in anti-poverty policies in two key areas, namely, education and health. As in structural reforms, here too there is a tendency to adhere, to the maximum extent possible, to market principles in the provision of education and health care, relying on across-the-board user fees except for primary education and basic health services. That the rich may benefit more than the poor from such services does not provide a rationale for introducing across-the-board user fees but calls for more ingenious schemes that differentiate between the poor and the rich in their access to these services.

Even if considerable improvements can be made in policies and governance in the recipient countries, the success of the new approach depends crucially on removing the balance of payments and resource constraints on capital accumulation and growth in poor countries. Increased aid, debt relief and greater market access all have their part to play in this respect. Thus, to increase the probability of success of the strategy to reduce poverty in Africa and other poor regions, as reaffirmed in the Millennium Summit, calls for a reconsideration of the respective responsibilities of national authorities and the international community in providing the conditions needed. In the last resort,

greater domestic policy effort, even of the right kind, and good governance cannot make up for inadequate external financing and the adverse effects of protectionism in industrial countries.

## Notes

<sup>1</sup> This article is based on an UNCTAD study entitled *From Adjustment to Poverty Reduction: What is New?* The study is part of UNCTAD's annual publications on Economic Development in Africa (UNCTAD/GDS/AFRICA/2, August 2002). However, some of the views expressed in the present article are the author's and do not necessarily reflect those of the UNCTAD secretariat.

<sup>2</sup> See UNCTAD *Trade and Development Report, 1997*, Part Two, Ch. III-IV.

<sup>3</sup> For an earlier analysis of African experience on financial liberalization, see UNCTAD *Trade and Development Report, 1998*, Part Two, Ch. V, sect. B.1(a).

<sup>4</sup> The most prominent of these studies is Papageorgiou et al. 1990. *Liberalizing Foreign Trade in Developing Countries: Lessons of Experience*, 1. Washington, DC, World Bank. See also Matusz and Tarr. 1999. *Adjusting to Trade Policy Reform*. World Bank Discussion Paper 2124. For critical reviews, see Greenaway, D. 1993. "Liberalizing foreign trade through rose tinted glasses". *Economic Journal*, No. 103, and Buffie, E. 2001. *Trade Policy in Developing Countries*, Cambridge University Press.

<sup>5</sup> See UNCTAD. 2001. *Economic Development in Africa: Performance, Prospects and Policy Issues*, Table 10 and related text.

<sup>6</sup> World Bank. *World Development Report 2000/2001*, pp. 68-69. On the impact of these reforms on poverty in the United Republic of Tanzania, see Social Watch. 2002. *The Social Impact of Globalization in the World*, p. 162.

<sup>7</sup> World Bank. *World Development Report 2000/2001*, p. 67.

<sup>8</sup> World Bank. 2000. *Global Economic Perspectives and Developing Countries*, pp. 184 and 196-197.



# Pro-poor growth: Linkages and policies

*Which types of growth offer the best chance of reducing poverty? And what kinds of employment and labour market policies are needed? The answers will vary according to the circumstances, but the experience of selected countries does give some pointers.*

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The persistence of poverty at high levels and the slow rate of poverty reduction pose major challenges for world leaders, governments, policy-makers and development practitioners. Some projections (e.g. those by the World Bank 2003) indicate that the Millennium Development Goal of halving poverty by 2015 (from the benchmark level of 1990) could be attained at the global level. However, doubts remain about certain regions (e.g. sub-Saharan Africa) and countries.

It is only in countries of East and South-East Asia that real success in poverty reduction has been achieved, although that achievement also looked rather fragile during the economic crisis of 1997-98. Progress in poverty reduction outside that region has been rather disappointing.

The experience of countries that succeeded in reducing poverty significantly indicates the importance of sustained high growth in achieving this result. However, studies on poverty also mention that high growth alone is not adequate. The pattern and sources of growth, as well as the manner in which its benefits are distributed, are extremely important for achieving the goal of poverty reduction. And in that regard, the importance of employment in linking growth with poverty reduction is often pointed out.

## Conceptualizing pro-poor growth

The linkage between output growth, employment and poverty can be analysed at both macro and micro levels. At the macro level, the linkage between poverty in its income dimension and output growth can be conceptualized in terms of the average productivity of the employed work force, which in turn is reflected in low levels of real wages and low levels of earnings in self-employment.

At the micro level of a household, the same linkage between employment and poverty operates through the type and the low productivity of economic activities in which the earning members of a household are engaged, the low level of human capital of the members of the workforce, the dependency burden that limits participation in the workforce, and the scarceness of remunerative employment. Low average productivity of the workforce can be due to the deficiency of capital relative to labour and the use of backward technology.

To result in poverty reduction, economic growth has to lead to sustained increase in productive capacity as well as employment opportunities with rising productivity. The latter would allow for a progressive absorption and integration of the unemployed and underemployed into expanding economic activities with higher levels of productivity. In the process, the

poor would be able to achieve higher productivity and increase their incomes in existing occupations, or shift to new occupations involving higher-level skills and/or better technology. The result of the process described above could be reflected in:

- improved productivity of various sectors and occupations
- a shift in the structure of employment towards occupations and sectors with higher levels of productivity
- increases in real wage earnings from self-employment, and earnings from wage employment.

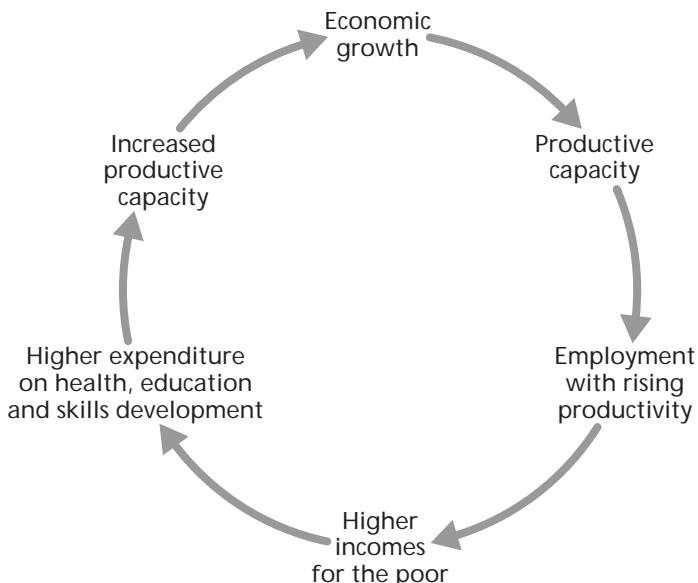
Higher levels of earnings resulting from the process mentioned above would enable workers to spend more on education and skills formation for their children, thus raising the productive capacity of the future workforce and creating the necessary conditions for achieving higher levels of economic growth. The process would thus complete the virtuous circle of economic growth leading to poverty reduction via growth of employment with rising

productivity, and reduced poverty creating the possibility of further increases in productivity and higher rates of economic growth (see Figure 1). Growth with such a virtuous circle in operation may be termed “pro-poor growth”.

Indeed, the conceptual framework outlined above for analysing the linkage between economic growth, employment and poverty basically follows a demand-supply approach. The variables that are expected to influence the incomes of the poor from the demand side include the employment intensity of growth, shifts in the employment structure towards higher productivity sectors, technology, creation of assets for the poor, etc. On the supply side, an important factor is the ability of the poor to integrate into the process of economic growth and get access to the jobs that are created. The levels of education and skills of the workforce are amongst the key variables that determine the ability of the poor to integrate into and benefit from the growth process.<sup>2</sup>

A summary indicator of the employment growth that is associated with a given

**Figure 1. Virtuous circle of links between growth, employment and poverty reduction**



output growth is provided by the employment elasticity of output growth (for overall GDP, measured as the proportionate change in employment divided by the proportionate change in GDP during a given period). This implies that talking about a high employment intensity of growth would mean talking about a high employment elasticity. But employment elasticity reflects the inverse of labour productivity. While an elasticity higher than unity implies decline in productivity, a lower-than-unity elasticity means that employment expansion is taking place along with an increase in productivity. A rise in productivity would lead to a reduction in employment elasticity. Therefore, raising employment elasticity in individual activities cannot be the objective, as that would mean a further lowering of productivity in economies that may already be characterized by widespread low-productivity employment.

One more question needs to be raised in the context of levels as well as changes in employment elasticity. Regarding the level, the desirability of an elasticity of lower than unity has been mentioned above. How much lower than unity it should be (i.e. the right order of magnitude for the elasticity of employment) depends on the level of development and the relative factor endowment of the country concerned. The magnitude would also have a good deal of sectoral variation. As the overall elasticity is a weighted average of sectoral elasticities, greater allocation of investment in more labour-intensive sectors and higher growth rates in such sectors could yield a situation where the overall employment elasticity increases (even with declining elasticities in some sectors). And the result could be higher employment growth with given GDP growth or employment-intensive growth.

A simple illustration may be useful to show the magnitude of employment elasticity (and output growth) that may be desirable for an economy in order to quickly absorb its surplus labour. With a labour force growth of 2.5 per cent per annum and an overall employment elasticity of 0.4, a GDP growth of 6 per cent would be required merely to absorb the annual additions to the

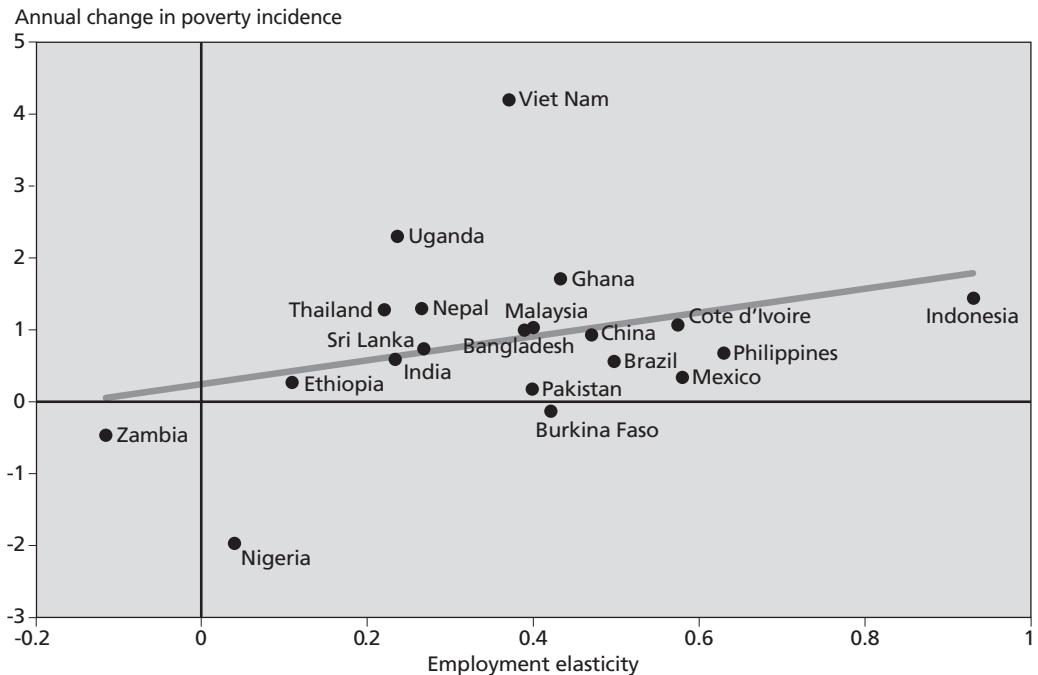
labour force. And in order to have employment growth, so as to enable the economy to absorb its backlog of the unemployed and surplus labour, the required GDP growth would be of the order of 7 per cent. On the other hand, if this hypothetical economy could achieve a high growth of its more labour-intensive sectors (e.g. labour-intensive manufacturers, construction and services), the overall employment elasticity could perhaps be raised (say, to 0.6) and a lower GDP growth (say, of 6 per cent) could enable it to achieve the same objective (the absorption of surplus labour in modern sectors).

### **Employment-intensive growth for poverty reduction**

***Employment-poverty linkages.*** It follows that the employment intensity of growth can be an important factor in determining its poverty-reducing effect. But it is not easy to establish this empirically, because of the difficulty in measuring the overall employment intensity (or employment elasticity – the measure suggested above) of growth. The difficulty in measuring the elasticity of employment with respect to GDP in developing countries arises from the problem of obtaining a reliable estimate of aggregate employment. This is particularly the case where there are large unorganized sectors for which estimates of employment at constant intensity of employment are difficult to come by. What are often available more readily are data on the manufacturing sector. Although the latter accounts for relatively small segments of many developing economies, and one cannot expect to find a strong correlation between the employment intensity of that sector and the overall change in the incidence of poverty, an attempt was made to examine this relationship empirically.

It was possible to compile figures for employment elasticity in manufacturing and the incidence of poverty for roughly similar periods for 23 developing countries. Figure 2, which shows a scatter of the data, indicates a positive relationship between annual change in the incidence of

**Figure 2. Percentage decline in poverty and manufacturing employment elasticity**



poverty and the elasticity of employment in manufacturing. Regression analysis in Islam (2003) shows that the influence of employment elasticity on poverty reduction is statistically significant.

Apart from the overall employment intensity of growth, employment and labour market variables, e.g. the sector in which one is engaged, labour force participation rate (or its inverse, the dependency ratio) or the level of education and skill of the workforce, can have a significant influence on the incidence of poverty. This has been examined empirically (Islam, 2003) by employing regression analysis with data from 41 developing countries. The results of that analysis lend support to the hypothesis of the impact of employment and labour market variables on poverty. More specifically:

- The concentration of workers in agriculture causes poverty.
- A shift of workers to manufacturing reduces poverty.

- The education and skills of the workforce contribute to poverty reduction.
- A higher dependency burden causes poverty.

In-depth analysis of household survey data in a number of countries (viz. Bangladesh, Bolivia, Ethiopia, India, Indonesia and Vietnam) also provides support to the above hypothesis. The sector of employment, diversification of the sources of income, access to income-generating assets, receipt of remittance income, education and skills and the dependency ratio are found to be significant in explaining either the profitability of a household being poor or the actual income of the poor households.

**Different combinations of growth and poverty reduction.** While high rates of economic growth are a necessary condition for poverty reduction, it is possible to demonstrate empirically that there is no invariant relationship between the rates of eco-

nomic growth and poverty reduction. The poverty-reducing effect of growth depends on a variety of factors that characterize the pattern of growth. Important among these factors are the degree of employment intensity of the growth process and the ability of the poor to benefit from the employment opportunities that are created.

The relevance of these two broad sets of factors for poverty reduction has already been demonstrated. Given the importance of such factors in poverty reduction, it is quite possible to see in reality different experiences of growth and poverty reduction. While on the one hand, high rates of growth can be accompanied by moderate or slow rates of poverty reduction, it is also possible to have rapid rates of poverty reduction with moderate rates of growth – if the pattern of growth is sufficiently employment-intensive and the poor can readily integrate into the growth process and benefit from the income-earning opportunities that open up.

Using data from in-depth studies of growth-employment-poverty linkages in seven countries,<sup>3</sup> six different combinations of growth and poverty have been identified (see Table 1). High growth leading to rapid rates of poverty reduction is only one of these six combinations. What

is also interesting is that the same country can have different growth-poverty outcomes in different periods – depending on the nature of policies pursued. For example, in Indonesia during the 1970s and the 1980s, high growth was associated with high rates of poverty reduction; but the rate of poverty reduction slowed down during the 1990s, although output growth rates remained high. In India, high growth during the 1990s was associated with a slow rate of poverty reduction in rural areas and a moderate rate of poverty reduction in urban areas. Given the problems involved in comparing data from different surveys in India, it is difficult to arrive at a definite conclusion as to whether higher GDP growth has produced better results on poverty reduction during the 1990s compared to the earlier decade. Sundaram and Tendulkar (2002), for example, conclude that the rate of poverty reduction during the 1990s has been faster than during the 1980s. Using an alternative approach for producing comparable estimates, Datt, et al. (2003) arrive at a different conclusion. According to the latter, the rate of poverty reduction during the 1990s has been “slightly lower than India experienced during the 1980s” (see Table 2). Deaton and Dreze (2002) regard

**Table 1. Varying rates of GDP growth and poverty reduction: Some examples**

Rates of GDP growth	Rates of poverty reduction		
	High	Moderate	Low
High	Indonesia (1970s and 1980s)	India (1990s) <sup>a</sup>	India (1990s) <sup>b</sup>
	Vietnam (1990s)	India (1990s – urban) <sup>b</sup>	India (1990s – rural) <sup>c</sup>
	Uganda (1990s)		Indonesia (1990s)
Medium	Bolivia (1990s)	Bangladesh (1991-96)	Ethiopia (1990s)
			Bangladesh (1996-2000)
			India (1980s) <sup>a</sup>

Notes: The cut-off points used in this table to categorize countries by “high” and “medium” growth, and various rates of poverty reduction are rather arbitrary. An annual GDP growth of 6 per cent and over has been regarded as “high”. For poverty reduction, the following cut-off figures have been used: “high” – 2 percentage points and over per annum; “moderate” – 1-2 percentage points per annum; “low” – less than 1 percentage point per annum.

<sup>a</sup> Based on Sundaram and Tendulkar (2002). <sup>b</sup> Based on Datt, et al. (2003). <sup>c</sup> Based on Deaton (2003).

Sources: Bangladesh: Rahman and Islam (2003); India: Sundaram and Tendulkar (2002), Deaton (2003), Datt, et al. (2003); Indonesia: Islam (2002); Vietnam: Huong, et al. (2003); Ethiopia: Mulat, et al. (2003); Uganda: Kabann (2003); Bolivia: Jemio and Choque (2003).

**Table 2. GDP growth and poverty reduction in selected countries**

Country	GDP growth (% per annum)	Incidence of poverty (% of population below poverty line)	Annual percentage point change in poverty
<b>Bangladesh</b>			
1986-91	2.46	51.7 (1985-86) <sup>a</sup>	+1.18
1991-96	4.50	58.8 (1991-92)	-1.43
1996-2001	5.29	53.1 (1995-96) 49.8 (2000)	-0.83
<b>India</b>			
1970-80	3.8	<i>Sundaram and Tendulkar (2002)<sup>b</sup></i>	-0.92
1980-90	5.8	46.5 (1983:URP)	-1.32
1990-98	6.1	37.3 (1993-94: URP) 35.5 (1993-94: MRP) 27.6 (1999-2000) <i>Deaton (2003)</i> 37.2 (1993-94: rural) 30.2 (1999-2000: rural) 32.6 (1993-94: urban) 24.7 (1999-2000: urban) <i>Datt, et al. (2003)</i> 39.1 (1993-94) 34.3 (1999-2000)	-0.70 -1.32 -0.80
<b>Indonesia</b>			
1970-80	7.5	40.1 (1976)	-2.88
1980-90	5.7	28.6 (1980)	-1.35
1990-96	7.3	15.1 (1990) 11.3 (1996)	-0.63
<b>Viet Nam</b>			
1990	5.1	58 (1993)	-4.2
1995	9.5	37 (1998)	-2.5
2001	6.8	32 (2000)	
<b>Ethiopia</b>			
1980/81-1991/92	2.3	45.4 (1995-96)	-0.33
1992/93-2000/01	4.6	44.2 (1999-2000)	
<b>Uganda</b>			
1990	6.5	56.0 (1992-93)	-2.4
1995	11.5	44.0 (1997-98)	-3.0
1999	7.4	35.0 (2000)	
2000	6.0		
<b>Bolivia</b>			
1987-90	3.45	57 (1989) <sup>c</sup>	-3.0
1991-98	4.36	65 (1996)	+4.0
1999-2001	1.34	56 (1999) 64 (2001)	

Notes: <sup>a</sup> Using the “cost of basic needs” method. <sup>b</sup> URP in this study refers to “uniform recall period” and MRP refers to “mixed recall period”. The first figure (37.3) for 1993-94 is comparable to 1983, while the second (35.5) is comparable to 1999-2000. <sup>c</sup> Percentage of households; and hence, this figure is not comparable to the subsequent ones.

Sources: Bangladesh: Rahman and Islam (2003); India: Sundaram and Tendulkar (2002), Datt, et al.(2003), and Deaton (2003); Indonesia: Islam (2002); Vietnam: Huong, et al. (2003); Ethiopia: Mulat, et al. (2003); Uganda: Kabann (2003); Bolivia: Jemio and Choque (2003).

the decline of poverty in the 1990s “as an example of *continued progress*”. They conclude: “There is, at any rate, no obvious pattern of ‘acceleration’ or ‘slowdown’ in this respect” (p. 3743). Thus, the literature on poverty in India does not indicate any consensus on whether higher GDP growth during the 1990s was associated with a faster rate of poverty reduction compared to the 1980s. The answer seems to depend on how the rate of progress is measured.

Bangladesh experienced a decline in the annual rate of poverty reduction from 1995/96 to 2000, compared to the period of 1991/92 to 1995/96, although the rate of economic growth was higher during 1996–2001, compared to 1991–96. Ethiopia provides another example of moderate growth producing very little reduction in poverty.

#### **Which pattern of growth can make a more effective contribution to poverty reduction?**

In-depth country studies (mentioned above) indicate that there is no single answer to this question.

In **Indonesia**, for example, a reduction in rural poverty during the 1970s was helped by high rates of growth of agriculture and rural non-farm activities – both highly employment-intensive in nature. In the urban areas, much of employment growth came from construction and services. But in the 1980s, manufacturing employment registered high growth, and employment elasticity in the sector also increased. Real wages and labour productivity grew in tandem (with, of course, exceptions in some years).

In **Vietnam** (during the 1990s), rural poverty declined mainly due to improvements in farm productivity which were made possible by intensification as well as diversification away from low-value outputs like staple crops to higher-value ones like livestock, aquaculture, fruits and perennial crops. While the shift to higher-value crops generated additional employment, the linkage effects of higher

agricultural income helped create non-farm employment. In the urban areas, enterprises in the private sector have been the main source of new employment.

In **Uganda**, agriculture has played a prominent role in achieving high growth and poverty reduction during the 1990s. Cash crops like coffee and tobacco have benefited from price increases in the world market. As coffee growing is primarily a smallholder-based activity, and the distribution of landholding is also quite egalitarian, the poor have benefited from the price increases. It needs to be noted, however, that Uganda has not yet undergone a change in the structure of employment towards manufacturing. The share of the latter has remained virtually unchanged despite healthy growth of output in the sector. The only notable change that has taken place in the structure of employment is a shift away from food crops to cash crops.

The experiences mentioned above (and elsewhere, e.g. Islam, 2003) bring out a few issues concerning the ingredients of pro-poor growth. The first relates to the role of agriculture. Given the importance of this sector in many developing countries with high incidence of poverty, it has to have a prominent role in a strategy for pro-poor growth. The empirical finding that a shift away from agriculture to higher productivity sectors is associated with poverty reduction does validate the hypothesis that a structural shift in employment is an important element of pro-poor growth. This, however, does not mean that agriculture itself cannot contribute to the pro-poor growth process. Important factors in this regard are the relative prices of agricultural products, and the productivity and real wages of agricultural labourers. The second important factor in pro-poor growth is a structural shift in employment. In countries with an abundance of labour, such a shift should result from a growth of the relatively more labour-intensive sectors and sub-sectors, e.g. manufactures and other non-farm activities. Third, one of the principal means of enhancing the ability of the poor to integrate into the growth

process and of increasing their productivity is to endow them with education and skills. Investment in human capital, therefore, needs to be an important ingredient in a country's strategy for pro-poor growth.

### **Employment and labour market policies for poverty reduction<sup>4</sup>**

In the literature on poverty reduction, as well as among development practitioners, it is possible to find two broad strands representing two different approaches to the problem. One of these maintains the importance of interventions aimed at bringing about structural changes in economic organization which could contribute to poverty alleviation through a redistribution of productive assets in favour of the poor. A variant of this approach focuses on the need to reorient macroeconomic and sectoral policies with a view to facilitating a pro-poor, employment-intensive growth of the economy, and thereby making possible a broad-based sharing of the benefits of economic growth. The second approach is to implement policies and programmes directly aimed at the poor. Advocates of the latter usually are sceptical of the feasibility and practicability of reorienting development strategies through redistributive measures, and consider direct interventions to be a surer way of reducing poverty.

While there are merits in both the approaches mentioned above, in order to achieve a faster and more sustained rate of poverty reduction, it is essential to adopt an integrated approach because the two approaches can complement each other effectively. For example, the direct programmes can provide much-needed interim support to the poor, as the benefits of a reoriented development strategy with a conducive macroeconomic policy environment may take time to reach the poor. This issue can be important, especially in situations of acute poverty, which often get aggravated by external shocks causing crisis situations.

Direct programmes can also help bring about necessary enhancements in the capabilities of the poor. However, it may often

be difficult to reach all (or even most of) the poor people through such programmes. More importantly, major changes in policies are often required in order to ensure that direct programmes achieve their objectives fully. Indeed, programmes aimed at raising the productivity and incomes of the poor have the best chance of success when they are implemented within a macro policy environment which is conducive to their operation.

The two approaches mentioned earlier should, therefore, be adopted and applied in such a manner as to derive the maximum benefit from their complementarity. Keeping the above in view, the rest of this section enumerates policy reforms in a few areas that would contribute to the objective of poverty reduction:

- greater pro-poor orientation in macroeconomic and sectoral policies as well as in public investment programmes
- promoting productive employment in sectors where the poor could benefit
- labour market regulations
- reducing vulnerability in the labour market
- enhancing the capabilities of the poor through human resource development.

***Macroeconomic policies and public investment programmes.*** Macroeconomic policies can affect the levels of income and living conditions of the poor by changing any of the following:

- access to productive assets (e.g. land, equipment and machinery, knowledge and information, etc.)
- returns on productive assets
- employment opportunities
- access to social services (e.g. education and health) which in turn can influence the quality of labour supply.

Indeed, there are studies showing that appropriate policies in the areas of trade, exchange rates, taxation, credit, subsidies

and pricing have played an important role in alleviating poverty in Asia through the channels mentioned above (Islam, 1990; Khan, 1997). The process of formulating such policies, therefore, needs to be more sensitive to their potential impact (either via the labour market or directly). Likewise, public investment programmes can also be given a greater pro-poor orientation by factoring in the potential impact on poverty (through the creation of jobs for the poor, for example) in the allocation of such investment.

### The informal economy

While the informal economy is known to be characterized by a degree of heterogeneity, not only in terms of the type of activities, but also in terms of their productivity and returns, it is true that a large number of the so-called "working poor" are engaged there. Many of them are self-employed, and their low income could be due to a variety of factors, e.g. limited access to finance and productive assets due to their initial poverty, low levels of education and skills, etc. A large number of them are in exploitative or coercive external economic relationships (e.g. with the suppliers of assets, inputs or credit or with purchasers of output). Policies and action to fight against their poverty will need to be based on a clear understanding of such varied factors.

There is, understandably, a degree of anxiety to put an end to the poverty of such people, who work hard and yet are unable to generate enough income for a decent living. And the ultimate goal in that context is seen as the progressive integration of the informal economy into the formal economy, together with the application of the protective measures articulated in international labour standards. It is, however, important to remain aware of the difficulty of applying universal labour standards, both because of the difficulty of enforcement and because of the inability of many informal producers to comply. Furthermore, it is essential to remember that

the emergence of the informal economy is itself due to the poverty of those for whom the alternative could have been even more acute poverty in the absence of alternative opportunities for income and livelihood. Seen that way, the informal economy, even in its present form, perhaps provides the poor with some degree of cushioning.<sup>5</sup> An ILO study summarizes the situation as follows:

Analysis of the constraints imposed upon the informal sector by existing institutional, legal and regulatory structures suggests that, while it is important to provide basic social protection to informal sector producers and workers, it would be unrealistic to try to immediately apply to them all the existing labour legislation. Most informal sector producers are unable to comply with such regulatory structures, and such a move would only cause them to retreat further into the hidden economy, thus depriving the labour market of a vital source of employment. However, if action in the informal sector is to contribute to reducing poverty it is essential to ensure that at least minimum levels of income and protection be attained.

It is thus clear that in order to achieve the goal of reducing poverty in the informal economy, action will be needed on the normative as well as the developmental front. On the latter, interventions will have to focus on access to capital, skills, technology and markets. While we do have useful experience based on work in these areas by government agencies, NGOs and multilateral agencies, what is important is to look for means of action through which such work can be replicated on a larger scale in order to have a significant impact on overall levels of poverty.

### The rural economy

A large number of the rural poor in developing countries are engaged in agriculture (including fishery and livestock) either as wage labourers or marginal farmers and self-employed workers. Interventions

needed to alleviate their poverty include policies and programmes to raise productivity in such activities on the one hand, and labour market interventions (e.g. wage protection through legislation, and increasing the negotiating power of the poor by promoting organization) on the other.

It should be noted, however, that a sustained reduction of rural poverty hinges on the growth of a productive and dynamic non-farm sector. Experience shows that rural non-farm activities can be of two broad types:

- activities to which the rural poor turn in desperation, when there are very few alternative ways of making a living
- activities (often with strong linkages to agriculture) where productivity and wages are no less than in agriculture and which have a dynamic growth potential.

It is through the promotion of the latter type of activities that one can make a significant contribution to the goal of poverty reduction.

In formulating strategies for reducing rural poverty through the promotion of non-farm activities, it is essential to take note of the two broad types mentioned above and identify the major constraints that hinder the growth of the relevant type. By now, a number of studies on this topic are available, indicating that while capital is an important constraint, infrastructure (e.g. roads, transport, electricity, education and skills of workers and access to markets – for inputs as well as outputs) is also critical. Policies and action to promote rural non-farm activities with the goal of poverty alleviation should take this into account. However, as in the case of the urban informal sector, it would be necessary to find means of action through which large-scale programmes can be undertaken.

## Infrastructure and labour-based approaches

The critical importance of infrastructure in catalysing development is well-known. Also, as mentioned above, by opening up and linking hitherto isolated rural areas, roads and improved transport can play a critical role in facilitating the growth of poverty-reducing non-farm activities. There are at least two more reasons for paying particular attention to investment in this sector (from the point of view of poverty reduction).

The first relates to the weight of this sector in a typical developing country economy. According to a World Bank report (World Bank, 1994), some 20 per cent of total investment and 40 to 60 per cent of public investment are allocated to infrastructure in developing countries.

Secondly, given the range of technological options that are available for this sector, it is possible to use investments here as a means of generating much-needed employment for the poor (while at the same time, carefully planned infrastructure can help the growth of economic activities that would benefit the poor). This can often be done without compromising on quality and cost-effectiveness. In fact, labour-based approaches could also be applied in urban situations where they would contribute simultaneously to an improvement in conditions of living of the urban poor and improvements in urban environment. Upgrading urban slums (through clearing and paving of roads, improving drainage, etc.), and management of solid wastes are examples of such activities.

While the approach outlined above is often taken as synonymous with public works programmes, experience (especially with the ILO's programmes in this field) shows that it is possible to involve the private sector and communities in executing the infrastructure schemes. It is also possible to introduce elements of core labour standards (e.g. those relating to forced and child labour, non-discrimination, wages, safety requirements, etc.) in their execution.

Thus, although many experiences with public works programmes have been rather disappointing, that need not be an argument against such an approach. Rather, it should be an argument for devising and implementing programmes that can successfully contribute to poverty reduction. Indeed, evaluations show that, with good programme design, especially based on decentralized planning and community involvement, and effective implementation, labour-based approaches in infrastructure can make a valuable contribution to the goal of poverty reduction.

**Labour market regulations.** Regulation of contractual relations in employment can cover a variety of aspects, such as wages, other terms and conditions (e.g. those relating to the basis of wage calculation or the type and duration of contracts), the right to negotiate terms and conditions, etc. While some of them may be applied only (or mainly) in the formal sector (which usually accounts for a small part of the economy in developing countries, and where poverty is less) and as such may not be directly concerned with poverty, there are aspects which are potentially important in any action against poverty.

This is particularly true of the regulation of wage-setting, although it must be mentioned that the relationship between minimum wages, employment and poverty may not be so obvious.<sup>6</sup>

Whether the potential role of minimum wages in reducing poverty can be realized depends on several factors, e.g. the extent of coverage, the extent of compliance, the indirect effects of the minimum wage on overall labour demand, the effects on labour productivity, etc. For minimum wages to be effective against poverty, they have to be widely applied and complied with.

Regulations relating to other aspects of the labour market, e.g. employment security, forms of contractual arrangement (especially measures designed to put an end to exploitative practices) can also contribute to the fight against poverty. But in order to be effective, they also need to be applied widely.

**Human resource development.** Investments in education and training are a potentially powerful instrument for raising the productivity and earnings of the poor. Improving the human capital base of the poor through the spread of literacy and basic education enhances their capabilities in several ways. In the rural economy, improved educational levels have been shown to raise productivity in peasant agriculture by enhancing the willingness to innovate and the capacity to absorb information on new techniques of production. More generally, they also enhance the capacity to respond to market opportunities in both farm and non-farm rural activities, and offer an access route to training and, through this, to better jobs. In the urban economy, improved access to further education and training for the poor is a key escape route from poverty to more skilled and better-paying jobs. Training is also an important component of support services provided to raise productivity and incomes in the informal sector.

The above view of the role of human resource development in poverty reduction suggests that policy interventions are required at several levels. At the macro level, policies are needed which ensure that adequate provisions are made for expenditures in education and training and that these are allocated equitably. It is particularly important to ensure universal access to good basic education, since this is most beneficial from the standpoint of poverty reduction. At the meso level, policy interventions are required to ensure that school fees and other cost recovery measures do not prevent access by the poor to education and training. Positive measures to promote greater school enrolment and attendance by the poor will also often be required. At the same time, labour market interventions may often be required to remove barriers to the access of the poor to training opportunities. Finally, direct interventions at the micro level will also be required to provide training to upgrade production among the poor in peasant agriculture and the urban informal sector.

Such targeted interventions also serve to promote new income-generating activities among the poor.

It needs to be noted, however, that vocational and technical training in formal institutions benefits a relatively small proportion of the labour force who may find jobs in the formal sector. In order to make a real contribution to the objective of poverty reduction, training systems must be geared to the tasks of imparting and upgrading skills for the informal economy and rural non-farm activities of the type that can raise the productivity and incomes of the poor.

## Notes

<sup>1</sup> The views expressed in this paper do not necessarily reflect those of the organization with which the author is associated.

<sup>2</sup> See also ILO (2003), for the promotion of such an approach to poverty reduction.

<sup>3</sup> The countries are: Bangladesh, Bolivia, Ethiopia, India, Indonesia, Uganda, and Vietnam. The major criteria used in selecting them were (i) at least moderate (preferably high) economic growth during the 1990s, and (ii) representation from the three developing continents (Africa, Asia, and Latin America). Countries that attained moderate to high rates of economic growth were selected because the purpose was to examine the contribution of growth to poverty reduction.

<sup>4</sup> Parts of this section draw on Rodgers (1995).

<sup>5</sup> Indeed, an ILO instrument – the Employment Policy (Supplementary Provisions) Recommendation No. 169, 1984, does recognize the need to maintain the employment-creating potential of the sector.

<sup>6</sup> Saget (2001) finds that a decent minimum wage may help to alleviate poverty.

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# India: Hope dawns as women beat poverty

*In the villages of India, women are organizing against poverty. With the backing of a team from the ILO Bureau for Workers' Activities (ACTRAV) hundreds of "self-help groups" have been set up. These groups now ensure a trade union presence in some of the most remote areas of southern India.*

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Some 75 kilometres from Chennai, formerly known as Madras, lies Kanchipuram, the "city of the thousand temples". One of India's seven holy cities, Kanchipuram is an important place of pilgrimage for Hindus. Just next to a temple, beneath the scorching sun, Neela is selling souvenirs from her little stall. Aged 41, this smiling young woman sees herself as a survivor. A survivor of poverty. Her first husband, a truck driver, died leaving her one daughter and later the daughter died. In line with tradition, Neela "was remarried" to a man almost twice her age. They have two daughters and two sons. She also took care of her new husband and the four children. "If it were not for the project, I suppose I would have had to send my children out to work", she sighs.

"The project" – for Neela, the words seem to have an almost magical ring. The same goes for hundreds of other women we meet on the trail of the "self-help groups" set up with the backing of a team from the ILO Bureau for Workers' Activities (ACTRAV). These groups now ensure a trade union presence in the most remote areas of southern India.

Neela is a pioneer. Twelve years ago, when she joined the Indian National Rural Labour Federation (INRLF), she had never been outside her village, Keesavarayampatti. There, some 120 families try to scrape

a living from the land. Neela worked long days in the rice paddies to support her children and her ageing husband. Many of the men have left village to work as truck drivers or on building sites. Because work in the paddies depends on the whims of the climate. "No rain, no work, no income." In the south-east Indian state of Tamil Nadu, rain is often in short supply. From January to May, drought prevails, and the summer monsoons, from June to September, cover less than 50 per cent of the people's water needs.

In 1997, with her union's assistance, Neela set up the first self-help group. She and about twenty other women from Keesavarayampatti decided to set aside 1 rupee per day (1US\$ = 40 rupees). The money was kept in a chest belonging to the group. Six months later, they had about 3,600 rupees in the kitty – enough to raise a bank loan. Later, through the ILO IGP programme, the group was assisted to buy 15 cows. Seeing this, the Government as well as the Banks came forward to give them some more loans. "Before that", Neela recalls, "we didn't have enough milk for our village and our children used to drink black tea. Now, they drink fresh milk, and we even sell some milk on to other villages." Fired by this success, Neela went on to organize about 100 women. Today, the INRLF has more than 300 self-help groups.

So the goal of organizing Tamil Nadu's rural village women was met. That challenge had been set the year before by the lawyer and ILO activist Susamma Varghese. She soon became the lynchpin of a project financed by the Danish Government and implemented by the ILO Bureau for Workers' Activities.

The aim of the project is to integrate women from the rural sector into the unions. This is all about new organizing, of course, but it is also a response to a pressing social need. "Rural village women are the most vulnerable group in Indian society", Susamma explains. "If you take a look at their working conditions, you'll think you have gone back a hundred years in time. The labour legislation does not protect them. As for their living conditions, many of them see the poverty threshold as a distant horizon. Generally, they are far below it. So unless they can act as a group to take charge of their lives and collectively improve their lot, nothing will change. That's why union organizing was a must."

For many of these women, the first thing is to break free from money-lenders who have no compunction about demanding interest rates of 10 per cent a month! In the villages, stories of loan sharks abound. Avantiben Laxman, a woman from Bhadakya, near Indore in the central state of Madhya Pradesh, tells just such a tale: "My husband had borrowed 4,000 rupees (100 Euro) from his boss, a landlord, to pay for his brother's wedding. He had to work for four years to pay it off. The landlord docked it from his wages each month. In fact, there was virtually nothing left to live on. He never knew how much he had really paid back. He just toiled on in the fields to pay it. During that time, I had no choice but to take the children out to work with us in the fields."

Often, the victims of this usury are just one step away from debt bondage. According to figures published by the ILO in its 2001 *Global Report on Forced Labour*, more than 2 million Indians were still thought to be victims of debt bondage by the end of 2000. They have to work free of charge for somebody else for years on end, until

a supposed debt is finally purged. Parents indebt themselves for life in order to give their daughters a dowry and a wedding that does the family proud, to send a child to a good school or to provide a decent funeral for a loved one.

The great majority of bonded labourers are from the *dalit* ("untouchable") or *adivasi* (indigenous) communities. The debts they contract rarely exceed 10,000 rupees, but repayment through work can take many years, and this duty can even pass on from one generation to another, without the bonded labourers' ever knowing how much has finally been paid. Unfortunately, there is no shortage of people willing to profit from the distress of the poorest castes. So to get the self-help groups up and running, barriers had to be surmounted and suspicions overcome. Bhuribai, who set up a group in Joshiradja, near the village of Dattoda in Madhya Pradesh, remembers one such problem. "Some people came along who said they wanted to help us save up and to raise loans for those of us who needed them. For the loans, they told us to 'save and your turn will come'. Too late, we found out that it was a swindle. They went away and took all our savings with them."

But these days, thanks to trade union support and appropriate training for all members about microcredits, the self-help groups are working. Six trade union organizations are taking part in the ILO project, financed until recently by Danish development assistance and now funded by Norwegian aid. Almost 1,200 groups, each consisting of about 20 women, meet once a month and some groups even meet once a week in several dozen Indian villages. And a multiplier effect seems to have set in: since January, more than 50 new groups have been formed. "Before, the banks just didn't want to know. Now, they are seeking us out and offering us special loan terms. If you can get 2000 rupees together, you can raise a loan of 8,000 at reasonable interest rates", explains Neela in Kanchipuram. For most of the self-help groups, collective action plus a small helping hand from the ILO has made it possible

to start up income-generating activities, such as cattle-raising, weaving or baking. Freed from the clutches of the usurers, the women in these groups are now bringing money into their households.

Karaikkudi is the site of sumptuous palaces once built by the Chettiar, Tamil Nadu's banking caste. But just 20 kilometres from there, the village of Keelavanthippatti makes a striking contrast. Here, the small houses have an improvised look – four grey concrete walls topped by a roof of palm leaves and surrounded by trellises to keep off the sun. Paths of earth and pebbles run between the dwellings of several hundred people. Highlighted by the dazzling sun, the women's bright, cheerful saris stand out joyously against this sombre backdrop. There is dignity in every face. Vijaya is smiling. She is 38 years old, and her husband Estore is five years her senior. They have just put down a concrete floor in their cottage and they have been connected to the electricity supply. They have even paid their first bill. Their son has been able to finish his studies and has gone to Malaysia, where he is working in a hotel. Vijaya is a beneficiary of the programme implemented by the ILO Bureau for Workers' Activities. In all, some 250 women have benefited from it in the villages of Tamil Nadu and Madhya Pradesh. With her first loan of 10,000 rupees (an ILO assistance through the project), Vijaya bought a cow. Now, she has eight of them and she sells several litres of milk a day. "I used to spend more than 400 rupees a month on milk for my family. Now, I earn 530 a week by selling the surplus that we don't use ourselves. Thanks to the ILO, I have gained my freedom, and now I want to help others to do the same." Vijaya does voluntary work with the Panchayat, a sort of local authority for one or several villages, to help kids who have dropped out of school. In the neighbouring village of Velyari, Vellaiyammal also obtained a loan of 10,000 rupees from the ILO programme. She topped this up with another loan from the Pandiyan Grama Bank, which specializes in microcredit. Now the owner of two cows and four calves, she earns 720 rupees

a week. One of her two daughters has married and has a baby. The self-help group lent her 10,000 rupees to pay for a caesarean. "The baby is doing fine. He's fed on pure milk!" The cows are insured. She has donated a calf to the temple.

From raising dairy cows or goats to charcoal-burning, selling vegetables or making cakes and snacks, the groups' income-generating activities are diversifying. The groups meet once a week. Dues and loan repayments are collected, the accounts are updated and new loans are granted, on the basis of well-defined priorities including the children's health and education. For most of these women, the first fruits of the project have been a certain degree of emancipation and a new awareness. Educating their children has become a priority for women who, just a few months ago, thought they had no other choice but to put their children to work.

While the incomes generated have certainly put the groups on a stable footing and made the project more durable, the real benefits are to be found elsewhere. Now, the village women can make themselves heard and can defend their interests collectively. At a meeting of the group in Ayyampaliam, to the north of the town of Tiruchirappalli along the River Kaveri, things become heated when the discussion turns to the village dispensary and the nurse in charge of its maternity ward. What is the problem? The report of the previous meeting makes things clear. For each birth, the nurse charges 750 rupees if it is a boy and 500 for a girl. This little scam has been going on for 10 years, and women who refuse to go along with it are threatened. The fear of an unassisted birth always gets the better of them. And yet the services of the dispensary are supposed to be free of charge for the village women, including births and the injections for which the nurse now charges between 25 and 35 rupees, depending on who she is dealing with ... Calmly, Mr. Pathmanabhan, the coordinator of the UNIFRONT union to which the group belongs, asks if there has been any progress. It seems there has. Since the group took up this case and

used some solidarity, several other self-help groups have signed up to a complaint lodged with the "collector", the officer responsible for the district. He has promised to launch an enquiry. And the nurse's attitude already seems to have changed. She has even apologized, the group hears. Rationing is another issue settled by the group. The women who run the village shop had got into the habit of selling underweight and charging for items that should normally be distributed at a very low price under the rationing system for the worst-off. And it was the group which secured improvements in the meals served to the 350 children attending the village primary school, got a road built into the village, sanitized the well that provides the village's drinking water and installed toilets near the houses. The group even won a prize from the Panchayat for the cleanliness of its toilets.

But the women also tell the trade unionists again about a problem which they thought had been solved. Alcoholism is still rife in Ayyampaliam. Pathmanabhan whispers: "Trichy (short for the Tiruchirappalli region) was long known as Little Pondicherry." Pondicherry is about 150 km to the north-east of Trichy, on the Coromandel coast in the Gulf of Bengal. Restored to India in 1956, this territory was the bastion of French traders and the headquarters of the East India Company. It is best known for its night life which, according to Pathmanabhan, features the copious, duty-free quaffing of "Sharab" (alcohol).

In Trichy, UNIFRONT had already managed to undertake campaigns and struggles to get rid of alcohol, since this was creating a lot of problems for the women. But it seems that a new campaign is needed, and many other villages are in the same quandary as Ayyampaliam. More than 1,200 kilometres to the north of Trichy, in the state of Madhya Pradesh, lies the splendidly isolated hamlet of Chikli. Here, a woman named Lalita tells us, "the women make their own alcohol and sell it". A member of the Chikli self-help group concurs: "For 80 rupees, they can buy five crates of

Mahua flowers. They mash them and let them ferment for five days. They then have 300 rupees' worth of alcohol..." The Chikli group, too, has decided to make the fight against alcohol a priority in future.

But the self-help groups also face more pressing problems. They will have to apply the lessons in trade unionism provided by the federations. In Ayyampaliam, three-quarters of the villagers work in gem polishing. Agents working for firms in Gujarat, thousands of kilometres to the west, came and installed polishing wheels. Jeipal, a young man, is too focused on his wheel to notice our arrival. His fingers are black and his gestures precise. The stone that he is polishing gives off a strident abrasive noise. Jeipal spends nine hours a day at this little machine. Today, he will earn 85 rupees. That means polishing more than a hundred gems. And even then, the middlemen are getting greedier and greedier. They used to pay 80 rupees for a hundred gems. Now, they have pushed that down to just 60 rupees. And the first five gems don't count. Their commission, no doubt. They are also very picky: some 20 gems, which they claim have been badly polished, will not be counted either. As anger mounts among the diamond polishers in the groups, the middlemen are ready with their comeback. "Our bosses are going to automate all this. They're going to buy Chinese machines to replace you." True or false? Whatever. The threat is taken seriously. "They want to get rid of us", says Rajamani, wrapped in her blue sari. The struggle for a decent wage is now firmly on UNIFRONT's agenda. Meanwhile, collective action has already brought significant advances for the women workers in the self-help groups.

"One of the first aims of trade union education", notes Susamma Varghese, "is to inform these women about their entitlement to benefits from the government or the social security funds." Thanks to this information, 45 retirees who are related to group members now draw pensions worth 9000 rupees a month (200 rupees per person per month). Sixteen women get a widow's pension of 3,200 rupees a

month and 27 people have benefited from family planning services. After representations from the groups, four villages have been connected to the power grid and 162 toilets have been installed. Loans, ration cards, education grants (68 families have received more than 40,000 rupees' worth of assistance for their daughters' schooling), housing aid, assistance for disabled people... to many women, these services seemed beyond their reach. Now, the groups are making sure they get used.

With the help of their union federations, the groups can also enroll their members in the social security funds. Working women are now in the funds covering the construction sector, agriculture and the informal economy. These schemes provide benefits in case of maternity, marriage, occupational accidents or death. All in all, the groups have raked in 1.3 million rupees for their members!

"The trade union side of our activities is essential", explains A. Raam. He is the President of the Rural Workers' Organization (RWO), which organizes rural workers in particular in Sivagangai District, to the south of Trichy. With some 400 groups, the RWO is a well-respected institution in the district. "Even though the employer-employee relationship is often blurred in the rural sector, collective action can solve many problems of which women are the main victims", Raam insists. The RWO does a lot of work with non-governmental organizations, but it is also very close to the other unions, UNIFRONT and the INRLF. "The NGOs implement projects, but we as unions are putting across a new idea of durable, continuous solidarity", Raam points out. In the RWO and the five other trade union federations, every member pays dues of 2 rupees a month. "Because they join on this basis, the women workers will very quickly demand that their organizations show results, and they will also be more likely to participate in union activities", Susamma says. "So it's also a school for democracy."

Rani, the project coordinator in the Salem region, has recruited more than 1,500 members in the villages around Met-

tur, where the Kaveri flows into the plains. Now, she has the ear of people throughout the district. The brand new phone box in the village is down to her. Bordering on the Stanley Reservoir, next to one of the country's longest-established dams, Mettur is famous for its textile industry. In the villages, the looms are at floor level and the weaving women sit in holes scooped out in front of them. Shanta, who chairs the Mettur group, weaves two cotton carpets a day. The merchant's middleman pays her 25 rupees apiece, usually with bad grace. In Chennai, carpets made by Shanta and some 3,000 other weavers in the neighbouring villages go for 200 rupees each. Standing in front of an electric loom, another member of the group works amidst the infernal din of the machine. She and her husband take turns on this loom, producing two synthetic saris a day. They earn 200 rupees per day, enough to start paying back the loan for the machine, which cost 100,000 rupees. The saris sell for 800 rupees each.

Jagajeevan, the President of the INRLF, feels that the time has come to put pressure on those who profit from the weavers' sweat: the unseen employers and the middlemen who lie about the end price fetched by the products. Jagajeevan restarted the INRLF virtually from scratch. This union had its heyday in the 1960s and 1970s, but then virtually collapsed when its original leader went into politics. Now, it has staged a comeback and today it boasts 68,000 members. "More than 35 per cent of our members are women, but women make up more than half of our leadership", the President proudly declares. After a meeting with more than a hundred women weavers from the Salem region, he decided to approach the employers for negotiations on pay and conditions. The self-help groups also plan to form cooperatives. Jagajeevan has decided to visit the district every week, in order to strengthen trade union activity.

This is not the first time that self-help groups have taken on the employers. In the Trichy region, women agricultural workers in the UNIFRONT union recently went on

strike for a rise in their daily pay. They demanded an increase of 15 rupees per day on a wage of 20 rupees. So they would then be on 35 rupees, although the minimum wage is 50. But at least they would have breached the dyke. At first, the landlords refused to budge. "If you don't want to work for 20 or 25 rupees, stay at home", they declared, and off they went to recruit labour in the neighbouring village. Not that it did them much good. The women in the other village lined up behind the first group's demands, and the landlords finally had to give in. UNIFRON'T's ranks swelled. Today, it has almost 40,000 members, despite a generally hostile environment.

In Joshiburabai, Madhya Pradesh, the landlords' power is plain to see. Most of the village men work in the landlords' houses, at the entrance to the village. Nobody can get in or out without attracting their attention. But go further up the village street, to where the tarmac peters out, a rocky, bumpy road takes over and the electricity pylons end. There, the scene suddenly changes. You are looking at little houses thatched with palm leaves. Weather permitting, the women work in the fields from nine to seven, for 25 rupees a day. Harvesting onions or garlic is particularly tough. "Sometimes, we get cut when we're pulling them, but we just have to press on - we've no choice", says Saraswati. She is an organizer with the Grameen Mazdoor Chetna E�am Vikas Sangathan (GMCEVS), which unionizes women in the most remote villages. Bhuribai knows all about the local landlords. "They take a very dim view of our union," she confides. Sometimes, certain landlords cruise around the village

on motorbikes, reminding people that "it's better to work for 25 rupees a day than to attend group meetings for nothing".

"We used to be afraid", comments one woman, "but now we have the group."

On the way back, our jeep slows down behind a herd of cows. Two children are taking them back to the sheds after a day in the fields. "Child labour is very common here. They help their families, raise the cattle and work in the fields," says Seema Goud, a GMCEVS coordinator.

Today, throughout Tamil Nadu and Madhya Pradesh, the self-help groups have woven themselves into a real network. Increasingly, they are coordinating their activities, under the stimulus of Susamma and her team in the field. Altogether, the unions now have more than 100,000 members, in addition to those in the groups. On 12 June, the World Day Against Child Labour, they mobilized thousands of women in the two states. This year, their activities focused on workers' rights, but their structures also help with vaccination and literacy campaigns and the fight against HIV/AIDS. In Indore, Madhya Pradesh, the competence, activism and commitment of the 3,000-member union group SRUJAN never fail to impress. USAID, the American government's official aid agency, has asked them to take on the responsibility for a health promotion project in eight villages.

Never before has the ILO been so close to the grassroots. In India as elsewhere, the fight against poverty starts with collective action. This is, Susamma concedes, still just a drop in the ocean. "But a drop plus a drop plus a drop..."

# Equality and poverty reduction

*Which is the best way of reducing poverty: more growth, more equality – or a bit of both?*

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In the late 1990s, the bilateral and multilateral development agencies came to place increasing emphasis on poverty reduction in developing countries. As a consequence, financial support to low-income developing countries by the international financial institutions is now provided under the aegis of Poverty Reduction Strategies,<sup>2</sup> while the first of the Millennium Development Goals requires a halving, between 1990 and 2015, of the number of people living in extreme poverty.

Achieving targets requires policies, and policies are most effective within an overall, coherent strategy. A central strategy choice is between poverty reduction through faster economic growth and reduction through redistribution, though the two may be complementary. Here, we discuss which strategies would be the most effective for different groups of countries, given specific poverty targets, and the initial country conditions.

## Growth and distribution

Of the many issues central to the development process, few have been characterized by the shifts, reversals and re-affirmations that have plagued the analysis of the interaction of growth, poverty and inequality. Evidence that inequality and poverty increased in many countries in the 1980s and 1990s, including some of the OECD countries, rekindled ever-smouldering controversies.<sup>3</sup>

From the 1950s to the 1970s, analytical emphasis was on probable trade-offs between growth and income distribution. This derived in part from the famous “inverted-U hypothesis” which postulated that inequality would rise in the initial phases of development, then decline after some crucial level was reached.<sup>4</sup> Growth theories could be cited in support of the hypothesis, such as the Lewis model of “economic development with unlimited supplies of labour”.<sup>5</sup>

Kaldor’s growth model, in which capitalists have a higher marginal propensity to save than workers, also implies that redistribution to profits raises the growth rate. This model is most appropriate for developed countries, in which the functional distribution of income largely consists of wages and profits, and of less relevance to developing countries, considered here.<sup>6</sup>

The Chenery and Ahluwalia model<sup>7</sup> of “distribution with growth”, which came into fashion in the mid-1970s, distinguished social groups by asset ownership or mode of access to assets. The interaction between growth and distribution was modelled through “income linkages” between the groups – i.e. via the labour and commodity markets. In simulation experiments with this model, progressive redistribution of income and assets led to substantial improvements in the incomes of poverty households, and non-poverty households as well, via increases in aggregate productivity. As a consequence, in the 1970s emphasis

shifted to the identification of redistributive mechanisms to reduce poverty without hampering growth.

This focus proved to be short-lived. It was abandoned with the rise of neo-liberalism and the Washington Consensus in the late 1980s. In the Washington Consensus approach,<sup>8</sup> growth itself is the vehicle for poverty reduction, achieved through “trickle-down” mechanisms not always clearly specified. The perceived ineffectiveness of redistributive measures under the Washington Consensus also led some to advocate targeting public expenditure to the poor, and to judge effectiveness by the accuracy of that targeting.

However, targeting of expenditures in developing countries is fraught with difficulty. Amartya Sen<sup>9</sup> argued against targeting public spending for several reasons:

- Information asymmetries reduce the effectiveness of targeting in the presence of “cheating”.
- The prospect of losing targeted subsidies may reduce beneficiaries’ economic activities.
- Targeting may negatively affect the self-respect of the poor.
- The sustainability of targeted programmes is doubtful, as the potential beneficiaries are politically weak.

To the list can be added the formidable measurement problem of identifying who qualifies – a serious issue in industrialized countries, and virtually intractable in most developing countries. Targeting public spending is more likely to be effective if the poor are a small proportion of the population – i.e. if poverty is not a major problem. For countries in which poverty is widespread, the administrative cost, identification, monitoring and delivery of programmes may outweigh benefits. This is particularly the case if a country is experiencing, or has recently experienced, conflict.

In the 1990s, both the neo-liberal analysis and the earlier view of a trade-off between growth and equity were challenged

by a number of studies.<sup>10</sup> In particular, doubt was cast upon the sanguine view that orthodox macro policies were, by their nature, poverty-reducing. Much of the work on the relationship between growth and income distribution in the 1990s is basically empirical. It concluded that during recessions inequality rises, and that on average positive growth rates are distribution-neutral while lower initial inequality raises the likelihood that growth will reduce poverty.<sup>11</sup>

A recent strand of theoretical discussion involves so-called political economy arguments against inequality and, by implication, poverty.<sup>12</sup> This analysis predicts a negative relationship between income inequality and growth on the grounds that higher initial inequality would:

- lead to increased public expenditure, because it prompts a demand for redistributive policies
- incite political instability that undermines growth.

This excursion into political science is somewhat dubious.<sup>13</sup> For example, it is not at all clear how a society with the power relationships to generate inequality would, at the same time, produce an underclass with the political power to force redistributive policies upon a government.

On somewhat firmer analytical ground, it is also argued that inequality has a negative impact on growth through imperfect capital markets, to which the poor have limited access.<sup>14</sup> In other words, if capital markets discriminate against the poor, potentially profitable activities by the poor are constrained by lack of credit. However, the imperfect capital markets argument has practical limits, in that it assumes the poor to be self-employed, or to have the option to become so. While this may be applied to a portion of the households in poverty, empirical evidence suggests that, during the 1990s, those in the lowest income quintile in Latin America, at least, and perhaps elsewhere, were increasingly in waged employment. The idea that most low-income wage earners could escape

poverty through self-employment is something of a challenge to the imagination, as well as to historical trends.

Overall, the literature of the 1990s was relatively limited in its theoretical contribution, and most striking in that it demonstrated, yet again, the ambivalence of economists towards the issues of inequality and poverty. On the one hand, the mainstream literature, with its emphasis on the efficiency of markets, had a predilection for viewing inequality and poverty as accidental or occasional outcomes of a deregulated growth process. On the other hand, the persistence and severity of poverty in many, if not most, developing countries brought forth periodic arguments for their alleviation. The shifts in emphasis in the literature reflect the difficulty of reconciling these two.

However, there seems to be a growing consensus that countries with an “initial condition” of relatively egalitarian distribution of assets and income tend to grow faster than countries with high initial inequality. This is an extremely important conclusion, because it means that reducing inequality strikes a double blow against poverty. On the one hand, a growth path characterized by greater equality at the margin directly benefits the poor in the short run. On the other hand, the resulting decrease in inequality creates in each period an “initial condition” for the future that is growth-enhancing. Thus, any growth path that reduces inequality reduces poverty through redistribution and via “trickle down”.

### Policies for redistribution with growth

The major element required to introduce and effectively implement a redistributive strategy in any country is the construction of a broad political coalition for poverty reduction. The task of this coalition would be the formidable one of pressuring governments for redistribution policies, on the one hand, while neutralizing opposition to those policies from groups whose self-in-

terest rests with the status quo. How such a political coalition might come about is beyond the scope of the present article. We focus on a less fundamental, but crucially practical issue: the policies that could bring about a redistribution strategy. To be policy-relevant, our consideration of redistribution mechanisms must move beyond a listing of possibilities to an analysis of the likely effectiveness of these.

Perhaps the most important determinant of the effectiveness of the various measures and specifics of each redistribution strategy is the structure of an economy. This structure will depend on the level of development, which will to a great extent condition the country’s production mix, the endowments of socio-economic groups, the remuneration to factors, direct and indirect taxes on income and assets, prices paid for goods and services, and transfer payments. These elements of the distribution system are initial conditions that delineate the scope for redistributive policies. In this analytical context, the implementation requirements of redistributive policies can be summarized in a simple theoretical framework (see next page).

***The effectiveness of tax and expenditure policies*** (V and T) in generating secondary and tertiary distributions more equitable than the primary distribution depends upon the relative importance of the formal sector. This is for the obvious reason that governments can most effectively apply progressive income taxes to wage employees and corporations. All empirical evidence shows that the formal sector wage bill and profit shares increase with the level of development. Along with the importance of the formal sector goes a high degree of urbanization, and working-poor urban households are more easily targeted than either the rural poor or urban informal sector households. The experience of a number of middle-income countries has demonstrated the effectiveness of basic income payments for poverty reduction, an example being the basic pension paid to the elderly in South Africa.

Define the following terms: Y denotes the income of a household, V is transfer payments, T is taxes, k is a set of assets (including human capital), w is a set of rates of return (including wages), p is the price set of goods and services, q is the quantity of those goods and services, and S is household saving.

Then, by definition, it follows that:

$Y = (V - T)$	$+ wk$	$= pq$	$+ S$
Transfer payments (unemployment compensation, pensions, child benefits, aid to disabled) and progressive taxes (on income and wealth)	Minimum wages, low-wage subsidies, other labour market regulations, public employment schemes (w); credit programmes for the poor, land reform, education (k)	Subsidies for basic needs goods, public sector infrastructure investment (p); child nutrition programmes (q)	Facilitate future asset acquisition: 'village banks' and other financial services for the poor
Effective in middle-income countries	Effective in middle-income and some low-income countries	Effective in most countries	Effective in most countries

A tax- and expenditure-based redistribution strategy is most appropriate for middle-income countries, because their per capita incomes are high relative to the absolute poverty line. These are also the countries whose economic structures make taxation and expenditure instruments effective for redistribution. Such countries would include the larger ones in Latin America (Argentina, Brazil, Chile, Mexico and Venezuela), several Asian countries (the Republic of Korea, Malaysia and Thailand), and virtually all former socialist countries of Central and Eastern Europe.

To a certain extent, specific economic structures allow for effective use of taxation for redistribution in a few low-income countries, although this would typically be relevant only for middle-income countries. If the economy of a low-income country is dominated by petroleum or mineral production, then a large portion of national income may be generated by modern sector corporations. This allows for effective taxation even though the administrative capacity of the public sector may be limited. The tax revenue can be redistributed through poverty reduction programmes, though not through transfer payments if the labour force is predominantly rural. Examples of mineral-rich

low-income countries with the potential – albeit unrealized – to do this are Liberia, Nigeria and Zambia.

**Interventions to change the distribution of earned income** (wk in the equation above), which alter market outcomes, will also tend to be more effective in middle-income countries. The most common intervention is a minimum wage, though there are many other policies to improve earnings from work. Further mechanisms include public employment schemes and tax subsidies to enterprises to hire low-wage labour. Some of these would be effective in low-income countries (employment schemes), but others might be still less effective because of enforcement problems (minimum wage), targeting difficulties and the narrowness of impact (wage subsidies).

**Land reform might achieve poverty reduction** for rural households, but the relationship between land redistribution and the level of development is a complex one. On the one hand, low-income countries are predominantly rural, so if land ownership is concentrated, its redistribution could have a substantial impact on poverty. Furthermore, the more underdeveloped a country, the less commercialized tend to

be its poor rural households. Therefore, the benefits to the poor from land redistribution in low-income countries are less likely to be contingent on support services. On the other hand, lack of administrative capacity and so-called traditional tenure systems represent substantial constraints on land redistribution in many low-income countries, and especially in the sub-Saharan countries.

The usual approach to land redistribution presupposes private ownership, such that it is clear from whom the land will be taken and to whom it will be given. There are few sub-Saharan countries in which private ownership is widespread, making redistribution difficult or impossible without prior clarification of ownership claims. While land redistribution is probably not an effective poverty-reducing measure for most low-income countries, a few notable exceptions in Asia (e.g. India and Vietnam) suggest that it should not be ruled out in all cases.

For middle-income countries, experience in Latin America has shown that governments can effectively implement land redistribution. However, the high degree of commercialization of agriculture in middle-income countries requires that redistribution be complemented by a range of rural support services, including agricultural extension, marketing facilities and other measures. Perhaps more seriously, the relevance of land reform for poverty reduction tends to decline as countries develop and the rural population shrinks relatively and absolutely. For example, at the end of the twentieth century in the five most populous Latin American countries, 20 per cent or less of the labour force was in agriculture. Minimum wages may be more relevant than land redistribution in reducing poverty among the landless and near-landless in such countries.

***Interventions that directly affect the prices and access to goods and services*** (pq) could potentially be quite powerful instruments for poverty reduction. Subsidies to selected commodities have the

administrative advantage of not requiring targeting, only identification of those items that carry a large weight in the expenditure of the poor. While multilateral adjustment programmes typically require an end to such subsidies on grounds of allocative efficiency or excessive budgetary cost, the rules of the World Trade Organization do not – as long as subsidies do not discriminate between domestic production and imports. Whether subsidies would generate excessive fiscal strain would depend on the products covered and financing. Again, the level of development of a country is of central importance for the effectiveness of subsidies. In low-income countries, with the majority of the poor in the countryside, consumer subsidies are unlikely to have a significant impact on the poor outside urban areas. Basic goods provision in kind can be an effective instrument for poverty reduction even in very low-income countries, by delivering such items as milk to schoolchildren. To do so with a non-targeted programme would require a progressive tax system. This would be more likely in a middle-income country.

In all countries, the poor suffer from poor health and inadequate education in comparison with the non-poor. Expenditures on education and health have the practical advantage that programmes that would help the poor are easily identified, though the specifics would vary by country. However, providing these services to the poor may, in some countries, be as politically difficult as more obviously controversial measures such as asset redistribution. The same point applies to infrastructure programmes directed to poverty reduction. To the extent that these would reduce public investment in projects favoured by the non-poor, especially the wealthy, they may be no easier to implement than measures that appear superficially to be more radical.

## New agenda

Poverty reduction has always been a priority of development policy, albeit sometimes only at the rhetorical level. The end of the 1990s saw an increased emphasis on bringing the benefits of growth to the poor. However, growth policies alone are a rather blunt instrument for poverty reduction, since the consensus of empirical work suggests that it is distribution-neutral at best. Along with an emphasis on poverty reduction, a shift occurred in the policy literature towards a more favourable view of policies to redistribution income and assets. An integration of distributional concerns and a priority on poverty reduction could be the basis for a new policy agenda to foster both growth and equity.

This new agenda would be based on three analytical generalizations:

- that greater distributional equality provides a favourable “initial condition” for rapid and sustainable growth
- that redistribution of current income and assets, or redistribution of an economy’s growth increment, is the most effective form of poverty reduction for most countries
- that the mechanisms to achieve the redistributions are as feasible as other policies for most countries.

The last of these points perhaps deserves greater elaboration. As we have shown, implementing an agenda of redistribution is often a major challenge and can pose problems, but these should not be exaggerated. In many countries, they may prove no more intractable than the problems associated with the implementation of other economic policies. An effective orthodox monetary policy is difficult to implement if a country is too small or underdeveloped to have a bond market. For example, the absence of a bond market leaves the monetary authorities unable to “sterilize” foreign exchange flows. Similarly, replacing tariffs by a value added tax would be a daunting task in a country

whose commerce was primarily through small traders. Lack of public sector capacity would limit the ability to execute a range of so-called supply side policies: privatization, “transparency” mechanisms and decentralization of central government service delivery.

The multilateral agencies have recognized these constraints on adjustment programmes, and have typically made the decision that constrained implementation is preferable to non-implementation.

The same argument can be made for a redistributive growth strategy: to achieve poverty reduction, it might be preferable to implement redistributive growth imperfectly, rather than to implement the status quo imperfectly!

## Notes

<sup>1</sup> This article is a highly abbreviated and re-worked version of a longer text: Dagdevieren, H.; van der Hoeven, R.; Weeks, J. 2004. “Redistribution Does Matter: Growth and Redistribution for Poverty Reduction”, in Shorrocks, T. and van der Hoeven, R. (eds.): *Growth, Inequality and Poverty – Prospects for Pro-poor Economic Development*. Oxford, Oxford University Press.

<sup>2</sup> IMF and World Bank. 1999. *Poverty Reduction Strategy Papers: Operational Issues*, Washington, DC, World Bank.

<sup>3</sup> Cornia, G. A. 1999. *Liberalization, Globalization and Income Distribution*, WIDER Working Paper Series, No. 157, March; and van der Hoeven, R. 2002. “Poverty and Structural Adjustment. Some Remarks on the Trade-off between Equity and Growth”, in P. Mosley and A. Booth (eds.): *New Poverty Strategies, What have they achieved, What have we learned?* London, Macmillan.

<sup>4</sup> Kuznets, S. 1955. “Economic Growth and Income Inequality”, in *American Economic Review*, No. 45, pp. 1-28.

<sup>5</sup> Lewis, W. A. 1954. *Economic Development with Unlimited Supplies of Labour*, Manchester School of Economics and Social Studies, No. 22, pp. 139-181.

<sup>6</sup> See for a discussion: Aghion, P.; Caroli, E.; Garcia-Penalosa, C. 1999. “Inequality and Economic Growth: The Perspective of the New Growth Theories”, in *Journal of Economic Literature*, Vol. XXXVII, December, pp. 1615-1660.

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- <sup>13</sup> Cramer, Chris. 2000. "Inequality, Development and Economic Correctness", in *The Cambridge Journal of Economics*.
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# Union rights – a competition factor?

*If union rights are strengthened, do they weaken a country's competitiveness and attractiveness to foreign investors? And does this put the fight against poverty at risk? Recent research suggests that strong union rights and democracy produce more benefits than disadvantages for the world's poorer economies.*

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A key aspect of the debate on trade union rights and poverty addresses the effects of these rights on developing countries' comparative advantage, particularly as regards international trade competitiveness and attracting foreign direct investment (FDI). That is, concerns about trade union rights and poverty are commonly viewed in the context of globalization, particularly the globalization of markets for goods and capital.

From the viewpoint of many developing countries, these global markets offer the potential of contributing to economic growth – defined as a rise in average incomes per person. It should be emphasized that the extent of poverty in a country is basically determined by two things: the average income per person and how that income is distributed. Therefore, for any given scenario of income distribution, higher average income per person in a country means less poverty in that country. Looking at this over time, more rapid economic growth means more rapid poverty reduction. The commonly expressed concern regarding trade union rights is that strengthening such rights will weaken developing countries' comparative advantage regarding their export competitiveness and in attracting FDI, thus hindering their economic growth and poverty reduction.<sup>1</sup>

There are two main reasons for this concern. The first is the widely held view that developing countries' comparative advantage lies in their having low labour costs. This is based on the idea that a country's comparative advantage is determined by its relative proportions of land, labour and capital (the Heckscher-Ohlin principle) and that developing countries tend to have high relative proportions of labour relative to capital. Therefore, developing countries are argued to have a comparative advantage in the production of such labour-intensive goods as clothing, footwear, leather goods, toys and furniture.

Second, it is argued that stronger trade union rights will tend to lead to higher labour costs for the employment of union members and, depending on the character of industrial relations and spillover effects, of non-union members as well.

Supporting this view are statistical studies which have found that stronger trade union rights across countries are associated with higher wages, even after accounting for other determinants of wages, labour productivity being the most important of these. That is, even though stronger trade union rights may tend to increase labour productivity, the evidence suggests that they tend to increase wages somewhat more. This means that there is a

shift in a country's aggregate income from profits to wages. Putting these two factors together, therefore, leads to the concern that stronger trade union rights might weaken countries' comparative advantage as regards international trade and FDI.

It should be said from the outset that this is a rational enough view, which perhaps explains its persistence. The problem, however, is that it is fundamentally incomplete. It focuses solely on the possible negative effects of stronger trade union rights through higher labour costs and neglects possible important positive effects.

For instance, trade union rights essentially represent democracy for workers, and there is a strong relationship between stronger trade union rights and stronger democracy in the country as a whole. And democracies tend to perform quite well economically, particularly as regards economic stability. Summarizing his research on these issues, Harvard economist Dani Rodrik writes: "1. Democracies yield long-run growth rates that are more predictable. 2. Democracies produce greater stability in economic performance. 3. Democracies handle adverse shocks much better." (1997). These positive economic aspects of democracy hold even though workers in more democratic countries tend to receive higher wages relative to their productivity. Let us next explore these issues in greater detail as regards first, FDI and second, trade competitiveness.

## Foreign direct investment

Regarding FDI, countries with stronger trade union rights tend to have better country credit risk ratings, and these ratings are used by international investors to determine investment locations. Suggestive in this regard is a recent survey of several hundred "managers of transnational corporations and international experts around the world", who assigned scores ranging from 0 (not important) to 5 (very important) to thirteen factors determining the country in which they will undertake FDI. These factors are ranked in order of

importance, most to least, as follows, with the score given in brackets:

1. Growth of market (4.2)
2. Size of market (4.1)
3. Profit perspectives (4.0)
4. Political and social stability (3.3)
5. Quality of labour (3.0)
6. Legal and regulatory environment (3.0)
7. Quality of infrastructure (2.9)
8. Manufacturing and services environment (2.9)
9. Cost of labour (2.4)
10. Access to high technologies (2.3)
11. Fear of protectionism (2.2)
12. Access to financial resources (2.0)
13. Access to raw materials (2.0).

Note that the two highest-ranked factors are "growth of market" and "size of market," both of which represent market potential. This indicates that the most important reason for FDI is to sell the goods in the countries in which they are produced. This leads to an important distinction between types of FDI.

Some FDI is for the production of goods that are then shipped to other countries. Such FDI attempts to take advantage of lower labour costs, with export processing zones being the classic example. But much FDI represents rather an alternative to exporting to a country and is intended to gain access to markets. For such FDI, there is a beneficial side to having higher wages, since this increases the market potential for the goods produced. For example, if an automobile manufacturer sets up a factory in a country in order to sell cars there, higher overall wage levels increase the number of workers who can buy these cars (or the number of cars they can buy). In this sense, stronger trade union rights and higher wages create a positive incentive for investing in a country.

Note also in the survey that "political and social stability" ranks fourth and "cost of labour" is well down the list, ranked ninth. These survey results suggest that if stronger trade union rights are associated with higher labour costs – a negative for FDI – but also with greater stability – a positive for FDI – the positive effects

may well offset the negative. Therefore, stronger trade union rights do not necessarily have a negative effect on attracting FDI. This depends on the relative strength of the positive and negative factors.

Statistical analyses of these issues show, in fact, that stronger trade union rights do not have a negative effect on FDI, suggesting that the positive effects offset the negative effects of stronger trade union rights. This result holds even if we only look at developing countries. These countries are of particular relevance, given that their comparative advantage in attracting FDI is argued to depend on their low labour costs and that a higher share of FDI in these countries attempts to take advantage of low labour costs. One can, of course, point to cases where foreign investments are not made or are withdrawn because of the strength of trade unions. In general, however, the empirical evidence suggests that these cases are not generally representative.

It is worth emphasizing that these statistical analyses do not simply look at whether countries with stronger trade union rights receive more or less FDI. This would provide an incomplete and inaccurate picture of the relationship between trade union rights and FDI. For there are many factors determining FDI, as the above-noted survey suggests, and these must also be accounted for.

If there were no such other factors, then all FDI would simply go to the country with the worst trade union rights and lowest labour costs, and that of course is not what happens. To take an illustrative example, it is commonly noted that a handful of East Asian developing countries receive a large share of the FDI going to developing countries and that a number of these countries have weak trade union rights. However, these countries also have enormous market potential, as indicated both by their rapid economic growth and by the large numbers of people living there. People in these countries also tend to have relatively high levels of education, providing a skilled workforce. (Note that "quality of labour" ranks fifth in the above

survey.) Therefore, much FDI into these countries results from these and other factors that are not directly related to trade union rights.

As regards FDI, there are two bottom lines, one conceptual and the other empirical. First, one should not have a clear expectation that stronger trade union rights would lead to either more or less FDI. This depends critically on the extent to which positive effects of stronger trade union rights (particularly through enhancing economic and social stability) offset negative effects (particularly through higher labour costs relative to labour productivity), which in turn depends on the type of FDI. The debate on these issues tends to focus on the negative effects at the expense of the positive effects. The second bottom line is that empirical studies, and there are several, show that stronger trade union rights do not in general negatively affect FDI.

### Trade competitiveness

More prominent than the debate on FDI has been the debate on trade union rights and international trade. The perception that countries with greater trade competitiveness tend to have weaker trade union rights may result from the greater visibility of goods from these countries. Most obvious are the competitive successes of a number of East Asian countries having comparatively weak trade union rights.

However, in order to know whether there is a general association between weaker trade union rights and greater trade competitiveness, one must also include in one's purview countries with weaker trade union rights whose goods are less visible because they are not well integrated into international markets. That is, one must evaluate a representative sample of countries, especially given that there exist marked regional patterns of strength of trade union rights and trade competitiveness. This suggests the potential value of cross-country statistical studies of the determinants of trade

competitiveness, evaluating as full a sample of countries as possible.

One recent study of the effects of trade union rights and democracy on international trade is characterized by having 162 countries in the sample, using four definitions of labour-intensive manufacturing industries and using a wide range of indicators of trade union rights. Starting with total trade, this study finds a clear result that stronger trade union rights are associated with higher total manufacturing exports and that stronger democracy is associated with higher total exports and total manufacturing exports. These results are consistent with the view that stronger trade union rights and democracy enhance export competitiveness, not hinder it.

These results might seem surprising, given the highly visible export successes of a number of countries where trade union rights and democracy are relatively weak. Certain East Asian countries spring to mind. The value of cross-country analysis, though, is that it tells us whether the experience of these countries is representative in this regard. Results of this study for total trade and total manufacturing trade suggest, rather, that the East Asian experience is anomalous in the broader global context. For one must also be mindful of the less visible export failures of a great many countries having weak trade union rights and democracies and indeed that such countries are among the most weakly integrated into global markets.

While such cross-country analysis is useful in determining representative patterns, it is of less help in understanding why these patterns occur. The result showing a positive correlation between stronger trade union rights and democracy and stronger export performance begs explanation. This is particularly so in the light of the findings of prior studies that stronger trade union rights and democracy are associated with higher wages, even after accounting for labour productivity and other wage determinants. For one would expect that higher wages would have a negative impact on exports, all else being equal, particularly for exports of labour-intensive goods.

Consistent with this expectation, the study does not find such a consistent positive correlation for labour-intensive goods with respect to trade union rights, though it does with respect to democracy. The study finds, in fact, a very strong relationship between stronger democracy and higher labour-intensive exports. This is consistent with the view that democracy is beneficial for the export performance of labour-intensive manufactures.

The study finds that there is essentially no relationship between trade union rights and labour-intensive exports. The less positive relationship for labour-intensive manufacturing exports than for total manufacturing exports is consistent with the expectation that labour-intensive industries are particularly sensitive to higher wages resulting from stronger trade union rights. The idea that the comparative advantage of developing countries depends on low labour costs might suggest that stronger trade union rights are of particular concern for developing countries' export competitiveness. However, the study does not find solid evidence that stronger trade union rights have an adverse impact on the exports of labour-intensive manufactures, but rather that there is essentially no relationship.

It is worth emphasizing, too, that the exceptional export performance of the developing East Asian countries holds right across the range of manufacturing industries. In other words, for both labour-intensive and capital-intensive industries and for those in between. Thus, if poorer developing countries seek to emulate this pattern of diversified success, what matters is the relationship between total manufacturing exports and trade union rights.

Taken together, the results for total manufacturing trade and labour-intensive manufacturing trade suggest that the positive effects of stronger trade union rights and democracy offset the negative. There is, in fact, stronger evidence that trade union rights contribute to export competitiveness than that they hinder it, and such export competitiveness may in

turn lead to economic growth and poverty reduction. The positive effects of stronger trade union rights may be related to the greater economic and social stability enjoyed by countries with stronger trade union rights and democracy, with such stability in turn facilitating export competitiveness. This is, however, a hypothesis that requires further exploration, which could be usefully performed through such qualitative approaches as country case studies.

It should be noted, too, that economic and social stability are desirable in and of themselves and are particularly important for the poor, whose welfare is particularly vulnerable in the face of such instability. This suggests a quite direct benefit for the poor from stronger democracy and trade union rights.

## Note

<sup>1</sup> Though it is beyond the scope of this article, there is an important debate about the extent to which FDI contributes to economic growth and therefore poverty reduction. It may often be the case, for instance, that FDI follows, rather than leads to, economic growth.

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# Profiting from the poor: Privatization and poverty reduction

*These days, “reform” often means selling off the public sector. Even water is a candidate for privatization. How does all this affect the poor?*

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Citing the difficulty of making money out of the poor, a number of global utilities companies announced in the first half of 2003 their intention to withdraw from, or drastically scale down, their “investments” in water and power services. So much for the notion that privatization has anything to do with reducing poverty: the poor are simply another (and not very good) target group from which to make profits.

However, there are already a couple of words in that opening paragraph which need unpacking. First, “investments” by multinational enterprises (MNEs): do they exist? Public Services International (PSI) is the global union federation for public sector trade unions in 149 countries. We try to monitor what is happening to public services globally. Our main tool for doing this is the Public Services International Research Unit (PSIRU) at Greenwich University in the UK. PSIRU maintains several databases on water, waste, energy and health services for us. Much of the data and many of the reports on particular sectors, countries or MNEs appear on the PSIRU website – [www.psiru.org](http://www.psiru.org) – or on the PSI website – [www.world-psi.org](http://www.world-psi.org) – although some data are retained internally for the exclusive use of PSI affiliates.

What PSIRU has found over the years is that, although MNEs and the international financial institutions (IFIs) – such as the World Bank and the International Monetary Fund (IMF) – claim that involving private companies in public services brings in “new” money, the fact is that the

MNEs rarely bring in their own money. Typically, they are either using an IFI loan (which governments can get at the same or lower rates) or they are borrowing from the market (where governments can certainly get lower rates). If any of these deals go sour, then either the IFIs or northern governments, which often guarantee these deals through what are known as export credit guarantee agencies, will recoup the “loss” from the project country. This often results in the people of the project country paying increased debt at higher rates of interest. The MNE “investment” is often a hoodwink.

But the more difficult term in that first paragraph is “privatization”. People usually think that privatization means selling off a public asset to private interests – but that may not be its most damaging form. Privatization includes a number of other forms:

- Abolishing or curtailing public services
  - “private provision will fill the gap”
- Squeezing the resources of publicly-funded bodies to induce them to seek private funding
- Increasing the charges to users of public goods – “user pays”
- Promoting joint public/private (often foreign) production ventures
- Transferring public policy responsibilities to the private sector
- Encouraging private finance to build and operate public works

- Introducing private sector management techniques into the public sector: creating a private sector “culture”
- Facilitating private sector competition with the public sector by a policy of liberalization and deregulation
- Contracting out public services to private agents
- Selling subsidiaries belonging to nationalized or public industries/companies
- Recapitalizing public companies through private sector investment
- The partial or complete sale of public companies to the private sector.

This is much wider than asset sales, and some of the other forms are much more insidious in the way that they transform the state or put public services out of the reach of the poor. For example, the first item on the list – and the “user pays” policies that underlie it – assumes that the poor have the resources to buy in the market.

However, caution is needed here: in some cases, the poor are already paying more than the rich. In many countries, public water services reach only the urban middle classes – the poor often pay twenty times as much to private “bucket” vendors operating from water trucks. For these people, a new water reticulation system may make water cheaper for the poor, even if they have to pay for it. In fact, we have to be careful not to give the impression that public services cost nothing. We may decide to deliver them in a way such that poor people do not pay (much) at the point of delivery, but these things surely cost and must be paid for somewhere.

Some of the other measures on the list treat public services as commodities and users as customers. This can have the effect of making these services available to the highest bidder; society is atomized into competing individuals, each chasing “my rights” to the detriment of any notion of the rights of the community/collective.

## Pressed to privatize

In terms of traditional asset sales, the IFIs and/or northern donor countries have played an active role in “encouraging” poorer countries to sell public enterprises. In some cases, such sales may well be appropriate if there is a strong competitive market and there is no question of endangering national sovereignty, especially in strategic sectors. But too often, these are purely ideological pressures and the IFIs especially have used their power to force such privatization onto client governments as a condition of a project/programme loan.

How much do the IFIs really exert such pressure? Every year, the Global Unions Group produces a Statement by Global Unions to the Annual Meetings of the IMF and World Bank. These frequently criticize elements of IFI policies and programmes. In the 2003 Statement – available on [www.global-unions.org](http://www.global-unions.org) – this specific issue is discussed. The Statement (paragraphs 3-5) cites a number of IFI sources as maintaining that such pressure is a thing of the past. The Bank’s Vice-President for private sector development is quoted as saying that “countries who thought that the Bank’s advice was to ‘privatize everything that moves’ had misinterpreted the Bank’s advice”. As for the IMF, the Global Unions’ Statement goes on to say that “it increasingly insists that privatization is outside of the institution’s core areas of expertise and is therefore being phased out as a lending condition”.

The Statement then makes the point that, at country level, these promises/asurances are constantly voided. The 2003 Statement quotes the Bank as noting that in India, it is abandoning its past emphasis on strengthening public utilities “in favour of promoting private sector participation in the urban water and sanitation sector, as well as in education”. Further examples are given from Senegal and Burkina Faso, even though the latter’s cotton industry (a target of this policy) is one of the most competitive in the world. For the IMF, the Statement provides examples from Cap

Verde, Pakistan and the United Kingdom. The only country where the IMF questions rapid privatization is Peru, where the push for intensified privatization led to extensive social and political upheavals.

PSI's own experience on asset sales is similar. For a number of years, we have engaged a part of the Bank which, with the Bank's sister organization, the International Finance Corporation (IFC), has advised governments on the reform of public enterprises. "Reform" in this context has meant privatization. With the International Transport Workers Federation (ITF), the International Confederation of Free Trade Unions (ICFTU) and the Trade Union Advisory Committee to the OECD (TUAC), PSI has worked on a programme to get the Bank to involve workers and their unions at the very beginning of discussions about enterprise reform, so that options other than privatization can be given fair weight.

The Bank-IFC have moved very slightly on this. There is now active encouragement for governments to involve unions as early as possible, but this is still only after the basic "privatize it" decision has been taken. They have produced a toolkit for governments on how to handle the labour issues in privatization. This is due for release before the end of 2003. However, the final draft can get no further than saying that the Bank does have advice elsewhere, recommending that governments be open to non-sale options and that unions be involved in that discussion. The toolkit still assumes that unions will be involved after the basic decision has been taken and that the only labour issue is how to handle severance. As Larry Brown, Chair of the PSI Public Sector Working Group, said at an ILO meeting a couple of years ago: "It's as though we are accused in our absence, tried in our absence, found guilty in our absence and are then brought in as a grand democratic gesture to be given a voice in whether we should be hung, drawn or quartered."

Confusingly, in the light of some of the above, an informal meeting between the Bank staffer from this unit and PSI and

ICFTU in June 2003 discussed the future of the unit. It seems that it has been split into two sections. One will focus on how to enable an environment for the development of a viable private sector (which many countries need help with). The other will focus on how to improve the governance of public enterprises. Not, we were told, that the Bank is now convinced of their necessity but rather as a result of the fact noted at the beginning of this article: the private sector is withdrawing from the business of serving the poor and the Bank is going to have to live with the reality of enterprises staying in public hands. Not a ringing endorsement of public ownership.

However, the Bank is not just interested in public enterprises. Every year it publishes a World Development Report (WDR), each on a different theme. The WDR released in late September 2003 is called *Making Services Work for the Poor*. PSI, Education International (EI) and the ICFTU had been particularly active in trying to influence the direction of this WDR because its focus was on health, education and water/sanitation services. We also worked with the International Council of Nurses (ICN) on critiques of the draft report. When the report was released, PSI, EI and the ICN released a communiqué.

We welcomed the focus on public services and on the need to make these services accessible to the world's poor and to develop them so that they contribute both to the well-being of the poor and to their empowerment. "The WDR is full of useful analyses and often shows a good understanding of the barriers and problems in making services work for the poor", according to Hans Engelberts, PSI General Secretary, "but our three organizations are concerned that the report is deeply flawed in several ways that undermine that good intention."

As an example, he claimed that the Bank had missed an opportunity to win worker support for improved services for the poor. The WDR focus was on the negative rather than on looking at how to make workers partners in this essential task and on how to build on their demonstrated motivation

to work for what is often very poor pay and under very bad working conditions.

"Previous WDRs have carried weight because of the quality of the research and the analysis of development issues", acknowledged Fred van Leeuwen, EI General Secretary. "For the 2004 report, however, the Bank writing team has produced neither new ideas nor fresh, illuminative research."

ICN Chief Executive Officer Judith Oulton expressed her concern: "We all accept that there are deficiencies in the health services but the stress on negative examples in the WDR neglects the obvious – that there are vastly more cases where nurses and other health workers produce wonderful outcomes by working together with people. It must be remembered that the current state of public services in many poor countries is largely a result of reforms driven by the World Bank."

### **Client power – if you have the money**

Nurses, teachers and utility workers in developing countries are themselves often among the poor. Their nominal wages are frequently below the poverty line and often get paid months late.

The WDR seeks to empower the poor through what it calls "client power". Unions support such empowerment, but we have to remember that the poor can only use client power if they have the money to be clients.

This idea leads the Bank into promoting policies that force the poor into markets where they have little experience. Even if it is true that the WDR offers loans, vouchers and other supports to enable poor people to participate, it is all posited on a market-type approach in which current market actors have more experience than do the poor. The WDR makes it as simple as buying a sandwich (the basic example that it promotes), but empowering the poor to access, use, develop and direct services is not the same as saying "easy on the mustard".

In fact, market-type solutions (which can include public sector agencies operating on commercial lines) dominate the Bank's analysis. Experiments and innovations that feature such mechanisms dominate the report. Underpinning many of these is the concept of a contract culture. The report refers repeatedly to the contract culture of 1990s New Zealand as a model example. The Bank seems not to be aware that the Government which introduced these reforms was tossed out of power over four years ago and that the present Government has reversed many of those "reforms".

### **GATS concerns**

So far, we have focused on the IFIs. However, the World Trade Organization (WTO) works closely with them in cementing into the world trade arena the rules that underpin and reinforce the IFI liberalization policies. A key part of this is the WTO's General Agreement on Trade in Services (GATS). Space does not permit us to go into GATS in detail here, but both the PSI website (see above) and the EI website – [www.ei-ie.org](http://www.ei-ie.org) – contain material looking at potential GATS impacts on health and education. Since those papers were written, water has emerged as a threatened sector, as the European Union is pressuring 102 countries to open their water services to liberalized free trade.

Essentially, our GATS concerns regarding the developing world and the poor are these:

- GATS excludes no services in principle (although it purports to allow governments to refuse to liberalize undefined public services under GATS commitments) and therefore all public services could become the target of IFIs or donor governments pressuring for their privatization/deregulation in the first place and then of further pressure to make public service commitments under GATS.
- Similarly, GATS does not stop governments from regulating in the area of

- public services, but there are conditions attached to their use of regulatory powers and no-one can be sure what these conditions mean, unless they are tested in a WTO dispute – by which time it may be too late for the government to change its approach.
- However, the most serious concern is that, once a government has made a public services GATS commitment, it is, basically, irreversible. This means that, pressured to make privatization/deregulation decisions by the IFIs and then to commit these services under GATS, developing countries may be prevented in future from reviewing these services and bringing them back under public ownership and provision.
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# Social dialogue for poverty reduction – ILO points the way

*The fight against poverty is at the heart of the ILO's Decent Work Agenda. So the ILO has been actively assisting unions, employers and labour ministries to play a full part in drafting and implementing Poverty Reduction Strategy Papers.*

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Social dialogue and tripartism are not only a component of the Decent Work Agenda, they are also a process for achieving decent work. This principle was recently reinforced by the International Labour Conference, in June 2002, in its Resolution concerning Tripartism and Social Dialogue.

It recognized the initial role that social dialogue and tripartism have in promoting and strengthening fundamental principles and rights at work, promoting job creation and expanding social protection. The relevance of social dialogue is more and more recognized, as the international community searches for appropriate responses to the severe challenges of globalization. In this context, a growing number of developing countries are recognizing the need to foster dialogue, partnership and participatory approaches to decision-making. Social dialogue is thus becoming a prerequisite for good governance and democratic development. This calls for a broadening of the scope of social dialogue and tripartism, with a view to addressing priority issues such as poverty reduction strategies and attaining the Millennium Development Goals.

In this context, one key area for the ILO has been to promote the acceptance and practice of social dialogue in the preparation and implementation of PRSPs.<sup>1</sup>

In particular, attention was paid to selected countries such as Cambodia, Ethiopia, Sri Lanka, Tanzania and Vietnam. In differing degrees, the participatory process in these countries added value to the formulation and implementation phase.

With the assistance of the ILO, the workers' and employers' organizations, as well as labour ministries, started to play a more active role in the preparation and implementation of PRSPs.

## Social dialogue and poverty reduction

Over the last decade, it became clear to institutions involved in debt relief and concessional lending that strategies for reducing poverty, although correct from the financial point of view, were too heavy to be borne by the people, who had not been kept sufficiently informed by their governments. In too many cases, the financial measures adopted by governments ended up in breach of the commitments to the lending institutions. The majority of the population was then thrust into poverty. It was recognized that any attempt to emerge from poverty requires the commitment of the entire society, including workers, employers and their organizations.

However, in most of the developing countries, the formal economic sector accounts for no more than 10-15 per cent of the whole economic system, and one of the big issues in the policy development debate is how to promote decent work in the informal economy, where workers and self-employed persons are not adequately represented. It is probably in this specific domain that workers' organizations could play a major role in formulating policy assistance through income-generating activities.

Economic growth is a means of reducing income poverty. A key objective of the poverty reduction strategy is to promote accelerated and equitable growth. So PRSPs are meant to provide a link between growth and poverty reduction. Poverty reduction is a result of growth, but the growth must be pro-poor and must be shared out among the various sectors of society.

In this regard, social dialogue and tripartism play a key role in getting social partners to participate in the PRSP.<sup>2</sup>

The main goal of promoting social dialogue in countries preparing the PRSP, and/or implementing it, was to promote consensus-building and democratic involvement among the main stakeholders in the world of work, notably the most representative workers' and employers' organizations.

Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress. Social dialogue is therefore both a means and an end in the quest for poverty reduction. It is also an essential component of the participatory process inherent in the drafting of inclusive PRSPs.

This is best illustrated by the experiences of some selected countries.

## Cambodia

Cambodia has an agrarian economy, with more than three-quarters of the workforce engaged in agriculture. The vast majority of agricultural workers are subsistence rice farmers, many of whom supplement their income with hunting, fishing or part-time employment. About 39.5 per cent of the population falls below the poverty line, which is defined as the minimum income required to provide 2,100 calories per day and basic items such as clothing and shelter.

Industrial workers only accounted for 7.5 per cent of the 5.89 million workforce in 2000. Of these, an estimated 200,000 Cambodians (50 per cent of the industrial work force) work in the rapidly expanding garment industry.

Only one per cent of Cambodia's labour force is estimated to be organized, or roughly 13 per cent of its total industrial workforce. Unionization of the workforce is not significant outside the industrial sector and within the sector it is highly concentrated in the garment industry, where roughly 25 per cent of all workers belong to unions. Organizing in other sectors - construction, tourism and education - is improving.

The Royal Government of Cambodia's Poverty Reduction Strategy process was launched in early May 2000, based mainly on an internal government economic multi-year plan called SEDPII .

The process for the Full PRSP was due to be launched during a National PRSP Workshop on 25-26 April 2001. Problems arose concerning the relations between the two different strategic plans and the multi-year budget instruments. As a result, the PRSP was postponed to the following year. The National Poverty Reduction Strategy (NPRS) was to focus on reducing poverty and promoting growth and setting priorities consistent with macroeconomic and fiscal constraints as well as implementation capacity. It was to be drawn up within an open and participatory process. It was subsequently agreed that the Full PRSP should be completed towards the end of 2002.

In early April 2002, the first PRSP National Workshop focused on the process of consultation, but the unions did not participate. An umbrella NGO, the “NGO Forum of Cambodia”, attended. A second workshop was held in May 2002, but the unions still did not take part.

The ILO launched a capacity-building programme in 2002, with a view to helping the Cambodian tripartite constituents to fully participate in the PRSP process.

The main output of ILO involvement in the PRSP process was a detailed and comprehensive report entitled *Generating Decent Work for Poverty Reduction in Cambodia: the Voice of Workers, Employers and the Government*. This gave the social partners and the Ministry of Labour the opportunity to highlight issues of major concern for the workers, notably employment policies, which were then included in the final PRSP document.

After a series of technical activities, the social partners were officially included in the PRSP participatory process and the NPRS paper was officially launched in March 2003.

The Cambodia example demonstrates that the social partners, if seriously taken into account, make a major contribution to the preparation of poverty reduction strategies. In doing so, they highlight issues related to employment policy and the incorporation of the Decent Work Agenda into the PRSP.<sup>3</sup>

## Ethiopia

Another country in which the ILO was involved in the tripartite constituents' capacity-building for participation in poverty reduction strategies was Ethiopia.

The Ethiopian PRSP (Sustainable Development and Poverty Reduction Programme – SDPRP) was finalized and delivered to the World Bank on 15 August 2002. It received the support of the Board of the IDA (International Development Association) on 19 September 2002 and of the IMF Board on 23 September 2002. It is still at an early stage of implementa-

tion. It is a long document, and its strategy centres on:

- agricultural development-led industrialization (ADLI)
- reform of the judicial system and the civil service
- governance, decentralization and empowerment
- capacity-building.

There are eight key sectoral themes: agriculture, food security, education, health services, HIV/AIDS, roads, water and sanitation, and gender and development.

A National Technical Committee and a separate Steering Committee are responsible for the SDPRP (coordinated by the Ministry of Finance and Economic Development) and four “thematic groups” have been established to guide its implementation and to prepare a policy matrix for the planned Poverty Reduction Support Credit (PRSC).

These groups are:

- private sector and economic growth
- improving public service delivery
- institutional reform, including decentralization and civil service reform
- human development.

Although the Government claims that employment issues somehow underlie the SDPRP in Ethiopia, there is no actual mention of employment strategies, let alone any reference to the Decent Work Agenda.

A progress report on the PRSP was due in July 2003 and was prepared by the PRSP Secretariat in the Ministry of Finance and Economic Development. It was reviewed by the World Bank in November 2003.

Most OECD members have fully endorsed the PRSP approach and have agreed to base their respective aid programmes in low-income countries on the results of the PRSP process. In Ethiopia, good coordination has been developed among development organizations. Moreover, a PRSC is being formulated, with the participation of

the World Bank, the EC and a number of donor countries, and is intended as direct budgetary support.

As far as the participation of the tripartite constituents is concerned, the Ministry of Labour and Social Affairs participates in the National Technical Committee and Steering Committee and has prepared a policy matrix (containing both labour administration issues and issues concerned with social welfare for vulnerable groups) for submission to the Ministry of Finance as its contribution.

Neither the Confederation of Ethiopian Trade Unions (CETU), nor the Ethiopian Employers' Federation (EEF) had been particularly involved in the process of putting together the PRSP, and their views had not been adequately taken on board.

Based on the different meetings with the constituents, the Minister of Labour, EEF and CETU, it was felt that the Labour Advisory Board has a major role to play in the PRSP process. In particular, shortcomings of the current PRSP strategy were analysed as follows:

- Private sector development, job creation and productivity had not been accorded sufficient emphasis in the PRSP.
- Employment protection and workers' protection during the process of privatization were not addressed in the strategy.

So the ILO faced a big challenge in Ethiopia. The PRSP was a new concept for the social partners and it was not evident to them how they could best participate in the process. From the outset, it was clear that empowering the social partners, giving them a voice and influence in the PRSP process in Ethiopia, was inextricably bound up with more general capacity-building. This was as true of the trade unions as of the employers' federation, which has been in existence for six years and has very limited human and financial resources. Therefore, the ILO embarked on a broad-based capacity-building exercise for the social partners, acknowledging

the importance of the PRSP, and seeking to achieve the following objectives:

- to empower the social partners to influence the drafting and implementation of poverty reduction strategies through social dialogue
- to incorporate employment and other aspects of decent work into PRSPs
- to influence development organizations and governments involved in designing and implementing poverty reduction strategies to embrace the fundamental principles and rights at work, employment policies and social protection, and to listen to the social partners.

In parallel, the ILO has sensitized the donor community, especially via the Coordination Group (DAG-Core Group) on the ongoing activities and the Decent Work Agenda, thus creating a conducive environment for further support in the future.

As a follow-up, it was decided and reaffirmed at a tripartite meeting in February 2003, that a programme of activities would be put in place to build the capacity of the social partners, centred on strengthening the institutional framework for successful tripartism – together with specific activities based on strengthening the analytical and research capacity of the social partners in specific areas. The Plan of Action culminated in the national tripartite meeting on Social Dialogue and SDPRP which took place on 1-2 October 2003. A tripartite agreement was reached among the constituents, and a future action plan has been agreed between the ILO and the Ethiopian constituents. This concentrates on strengthening capacity-building by the social partners and the Ministry of Labour in the area of poverty reduction strategies, especially the implementation and monitoring phases.

## Tanzania

Tanzania is one of the poorest countries in the world. Per capita income is about US\$250 per year. Tanzania's economy is primarily agricultural. Agriculture (coffee, cotton, tea, cashew nuts, sisal, maize, rice, wheat, tobacco) accounts for 50 per cent of GDP and provides 85 per cent of exports.

Employment in the private formal sector has grown rapidly (though agriculture still has over 80 per cent of the labour force) and public sector reform has led to a decline in growth of government employment. While the incidence of poverty has declined since the mid-1980s, this has yet to be reflected in a number of important fields: the level of education of the labour force is extremely low (less than 5 per cent of the labour force is educated above the primary level). Access to secondary education remains below 5 per cent.<sup>4</sup>

In this difficult context, the unions suffer from basic difficulties, including scant respect for union rights. Since 1998, the trade unions have been denouncing the fact that several labour law provisions are in violation of union rights. Among others, a major criticism concerns the provision forbidding public sector employees to organize.

At the time of preparing the first PRSP in October 2000, not all economic sectors had drawn up sector development strategies. It was understood that in the course of implementation, further work would be needed to prepare outstanding sector strategies. It is in this context that, during 2000/2001, the government prepared sector development strategies for basic education, agriculture and rural development and reviewed the strategies of the other priority sectors with a view to identifying action plans for pursuing the PRSP objectives. They were:

- Sustaining macroeconomic stability, promoting rural sector development and export growth, promotion of private sector development.
- Targeting income poverty: reducing the percentage of the population below

the poverty line from 48 per cent in 2000 to 42 per cent in 2003, reducing the proportion of the rural population below basic poverty from 57 per cent to 29 per cent in 2010 aligned, reducing the proportion of "food poor" from 27 per cent to 14 per cent in 2010.

The PRSP Progress Report of August 2001 signalled several improvements, including a continued consolidation of the macroeconomic situation through prudent monetary and fiscal policies. This enhanced budgetary support for education, health, and other priority areas. The report placed the emphasis on:

- carrying out a new Household Budget Survey (HBS) and an Integrated Labour Force Survey (ILFS), as part of a broader ongoing effort to improve understanding of the status of poverty in Tanzania
- elaborating development strategies for the education and agricultural sectors; amplification of strategies for other sectors and cross-cutting areas (HIV/AIDS, governance, environment, gender and employment)
- tracking the income and social indicators of poverty, and adopting measures, in the context of the Tanzania Social Action Fund (TASAF), to alleviate rural income poverty and to provide relief to vulnerable groups.

Tanzania is something of a success story for the participatory process in drawing up a PRSP. Through its consultations with stakeholders, the Tanzanian Government has sought to gain an improved understanding of what were the causes of income and non-income poverty.<sup>5</sup> Zonal workshops (May 2000) were organized by an inter-ministerial technical committee<sup>6</sup> in order to identify the views of grassroots stakeholders and the poor. Employers' and trade unions' views could have been incorporated through participation in the workshops, but a systematic effort to involve the social partners was not made at this stage. However, each district was

represented by four villagers (sampled randomly), one district councillor, one town councillor, and one district executive director, whilst for each zonal workshop, five NGOs were present (with one representative).<sup>7</sup>

Participants, reporting back to the inter-ministerial technical committee,<sup>8</sup> not only identified education as a priority area for poverty reduction, but also expressed concerns over existing constraints on poverty reduction such as poor governance, cultural factors, illiteracy, poor infrastructure, weak marketing and distribution systems for agricultural produce, and a lack of implements, inputs and extension services. Members of Parliament (2000) and regional administrative secretaries (August 2000) were consulted on the findings, before the final PRSP draft was approved by Cabinet (September 2000).

In its Progress Report 2000/01 (released on 14 August 2001) the Government, however, stressed that in deciding on the use of indicators and the responsibilities for collecting, using, storing and disseminating disaggregated poverty data in future PRSP progress reviews, it would consult many other non-state stakeholders such as research and higher education institutions, civil society groups and the donor community. This gave an opportunity for the Association of Tanzanian Employers (ATE) and the Trade Union Congress of Tanzania (TUCTA) to become fully engaged in monitoring and evaluating the PRSP.<sup>9</sup>

However, there are some constraints which have affected the PRSP participatory process. The government's aim of trying to make the PRSP process a participatory one has not yet been fully translated into reality. According to findings from separate workshops<sup>10</sup> organized by the ILO for TUCTA and ATE in October 2001, it emerged that both organizations were confronted with institutional as well as information-sharing deficiencies, which inhibited their full involvement in shaping the PRSP.

Both TUCTA and ATE stressed, in the first instance, that they could not

participate in the consultative process because they were not officially invited. This deprived their organizations of the opportunity to be fully engaged at the PRSP agenda formulation stage.<sup>11</sup> They also contended that only through the ILO-sponsored workshops did their awareness about the PRSP increase or even develop. Moreover, the two organizations agreed that, because of the primarily consultative (and irregular) nature of the National Labour Advisory Board and the National Employment Council's tripartite meetings, a meaningful outcome-oriented social dialogue over PRSP policy priorities could not be developed in either body. On the other hand, the social partners recognized, in a critical self-appraisal, that their involvement in the PRSP depended on enhancing their own research and analytical capacity to assess socio-economic policy issues pertaining to the national PRSP.

In this context, the ILO project on promoting social dialogue in the PRSP process in Tanzania provided an opportunity to the tripartite constituents and to relevant NGOs to interact on the various issues dealt with in the PRSP. In particular, a tripartite agreement on a decent work strategy for poverty reduction in Tanzania was reached in December 2001 with the assistance of the ILO project activities. This agreement now represents the wider framework within which the social partners and the Government will interact in the years to come. Their aim is to take an active role in the future preparation and implementation of the PRSP. In order to operationalize the Decent Work Agenda's four main objectives within the PRSP process, Tanzania's national institutions need to be reformed and become more responsive to the socio-economic interests of the social partners. Only then can country ownership gain more substance. Among other things, the National Labour Advisory Board's functions would have to be transformed from advisory ones into policy-proposing ones. Within a reformed National Labour Advisory Board, consultation and negotiation between the ILO's tripartite constituents could gain more

prominence and become more outcome-oriented – thus culminating in the adoption of agreed policy proposals on the PRSP. Consequently, the social partners would be empowered to revalidate or propose a reorientation of PRSP policy priorities.

In addition, the role of the National Employment Council could be transformed in order to allow effective tripartite consultations on how to manage the PRSP's related macroeconomic and structural reforms and review of the implications of the underlying Poverty Reduction and Growth Facility (PRGF) and the Programmatic Structural Adjustment Credit (PSAC-I) components of the PRSP. In the light of the increasing importance of foreign direct investment in Tanzania, there is also a need to investigate how multinational corporations might be incorporated into this policy network. This in turn may also allow them to take part in the PRSP and discuss matters pertaining to corporate social responsibility and employment creation with the ILO tripartite constituents in Tanzania.

Such a renewal of tripartism and social dialogue would enable unions and employers to participate in the poverty reduction strategy process. Such an initiative could help to widen the range of discussions to include issues such as the lessening of dependence on aid, reducing informal sector employment via the expansion of employment creation in the formal sector and supporting self-employment initiatives within the informal sector. Additionally, given agriculture's importance for employment generation in Tanzania, one would also have to think about the possibility of setting up a tripartite or multipartite committee within the National Employment Council, which deals with this sector, specifically in order to propose ways of adjusting the PRSP. If there is sufficient interest, the inclusion of relevant NGOs into such a policy network/committee could also be considered.

The results of consultations between the Tanzanian Government and international

development partners (TAS: Tanzania Assistance Strategy) have a bearing on the PRSP, and could usefully be discussed in both social dialogue bodies by the tripartite constituents in order to ensure that trade unions and employers' organizations are fully aware of the implications that these consultations may have for their own actions and proposed policy realignments within the PRSP process.<sup>12</sup>

## Social dialogue works

It is interesting to note that all parties in the countries covered by the ILO assistance for the promotion of social dialogue in the PRSP process have accepted that the current level of poverty is unacceptable, and they are committed to working together in partnership to address this challenge and to identify potential solutions.

In particular, emphasis should be placed in the coming years on the following means of action:

- integrating the key objectives of poverty reduction and decent work
- strengthening ownership and participation
- ensuring a balanced approach to economic and social development
- incorporating the value added by the experience, expertise and involvement of the key economic and social actors.

To ensure that social dialogue is effective and improves the scope and vigour of the policy- and decision-making processes around poverty reduction, it must take place on a regular and reliable basis. Social dialogue cannot function properly if it is perceived to be at the whim of one of the social partners. While it is clear that government must govern and parliament must adopt legislation, the social partners are ready to participate in, and contribute to, the policies and decisions around poverty reduction and decent work.

## Notes

- <sup>1</sup> The underlying principles of the PRSP (it is a “paper” within a process) are the first steps in making development strategies truly responsive to the needs of the poor. The principles include:
- a) Country-driven with governments leading the process.
  - b) Broad-based participation between governments, other actors in civil society, the private sector (workers’ and employers’ organizations) and the donor community in the adoption and monitoring of the resulting strategy.
  - c) Results-oriented identifying and prioritizing of desired outcomes and planning of the path taken towards them. PRSPs are meant to provide a link between growth and poverty reduction. In this context, poverty reduction would result from high growth and a growth that is also pro-poor and widely shared.
  - d) A comprehensive view of poverty, taking into account its multidimensional nature, covering incomes, human capabilities (e.g. education and health) and empowerment in terms of command over resources and authority to make decisions and governance (fighting corruption, ensuring responsiveness to the needs of the poor and promoting accountability). According to A. Sen (*Development as Freedom*, 1999), poverty has five dimensions – economic, social, political, transparency and protective security. Poverty reduction is thus a process through which the capabilities and functioning of people in these five dimensions are improved. This broad concept of poverty has been adopted in major recent development reports such as the World Bank’s *World Development Report 2000* and UNDP’s *Human Development Report 2000*.
  - e) The successful design of PRSPs was linked to support from the donor community that was expected to take the form of debt relief; poverty reduction support credits and direct transfer of resources to communities and local government.
- <sup>2</sup> Social dialogue is defined by the ILO to include all types of negotiation, consultation or simply exchange of information between or among representatives of governments, workers and employers, on issues of common interest relating to economic and social policy. It can exist as a tripartite process, with the government as an official party to the dialogue, or it may consist of bipartite relations only between labour and management (or trade unions and employers’ organizations) with or without direct government involvement. Consultation can be informal or institutionalized, and is often a combination of

the two. It can take place at the national, regional or enterprise level. It can be inter-professional, sectoral or a combination of all of these.

<sup>3</sup> For more details on Cambodia, see: G. Buckley, *Social Dialogue and Poverty Reduction Strategy Paper (PRSP) Process in Cambodia: an assessment*, Paper No. 1, July 2003, IFP/Dialogue, ILO, Geneva.

<sup>4</sup> See [www.worldbank.org/afr/tz2.htm](http://www.worldbank.org/afr/tz2.htm)

<sup>5</sup> Sustaining macroeconomic stability, promoting rural sector development and export growth, promoting private sector development. Targeting income poverty: reducing the percentage of the population below the poverty line from 48 per cent in 2000 to 42 per cent in 2003, reducing the proportion of the rural population below the basic poverty line from 57 per cent to 29 per cent in 2010 aligned, reducing the proportion of food poor from 27 per cent to 14 per cent in 2010 (Tanzania PRSP 2000). Non-income poverty is being tackled through the promotion of education, health and social well-being and campaigns to reduce social vulnerability and environmental damage.

<sup>6</sup> See United Republic of Tanzania Poverty Reduction Strategy Paper (PRSP) published in October 2000, and Progress Report 2000/01, published in August 2001, for details ([www.worldbank.org/tz/prs.htm](http://www.worldbank.org/tz/prs.htm)).

<sup>7</sup> Names of NGOs are not indicated in the PRSP or in the Progress Report 2000/01.

<sup>8</sup> The interministerial technical committee consisted of officials from the Vice President’s Office, Prime Minister’s Office, Planning Commission, Ministries of Finance, Education, Health, Public Works, Local Government, Labour, Sports and Youth Employment, Agriculture, Water, Energy and Minerals, and Community Development and the Bank of Tanzania. The technical committee prepared the interim and final PRSP.

<sup>9</sup> See United Republic of Tanzania, op. cit., pp. 1-54.

<sup>10</sup> Workshops on Capacity Building for Effective Engagement in the PRSP and Social Dialogue, organized by the ILO for the Tanzanian trade unions (TUCTA) and the employers’ organization (ATE) in October 2001.

<sup>11</sup> The Government, via the Ministry of Finance, contends that it advertised the PRSP developments in advance in the national/local newspapers.

<sup>12</sup> For more details of the Tanzanian example, see G. Casale and S. Pursey (eds.): *Towards a Decent Work Strategy for Poverty Reduction in Tanzania*. Working Paper No. 8, IFP/Dialogue, ILO, Geneva, 2002.

# Minimum wage – does it cut poverty?

*Setting a minimum wage looks like a good way of raising living standards. But some critics argue that it actually creates more poverty. What is the truth of the matter?*

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Can a minimum wage policy reduce poverty? At first sight, the answer is clearly “yes” – the protection of workers and their families represents the main objective of the minimum wage policy. As the Minimum Wage Fixing Recommendation (No. 135) puts it: “Minimum wage fixing should constitute one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families” (Article 1).

Yet the role of minimum wage fixing in reducing poverty in developing countries has been questioned. Sharp criticisms and warnings have emerged within the framework of the Poverty Reduction Strategy Papers (PRSP), which coordinate all development policy. It has been argued that government spending should be focused on poor people, including workers in the informal economy, and that in the context of developing countries, a minimum wage does not protect the poorest workers in the informal economy, but covers only the formal and better-off workers.

Some critics go so far as to say that the minimum wage could in certain cases *create poverty*. They argue that, because it increases the cost of production, the minimum wage forces employers in the formal economy who comply with the regulation to reduce the number of workers employed. As a result of the increase in the minimum wage, it is claimed, formal workers lose their jobs, and end up looking for an informal job with lower pay.

## Are minimum wage levels below or above poverty line?

Before entering further into this debate, let us recall a few facts. First of all, a very striking feature of the minimum wage in developing countries is that figures close to the level of extreme poverty (US\$1 a day or US\$30 a month) are not uncommon. As a matter of fact, the minimum wage represents \$34 in Benin, \$34 in suburban areas in the Chinese province of Guangdong and \$28 in Ghana (Table 1).

These figures may be said to be based on the simple conversion of the minimum wage in local currency into dollars using the official exchange rate. Thus these dollar figures, although perhaps useful for external investors, tell us little if anything about the amount of goods and services minimum wage earners can afford. The World Bank provides what is known as the Purchasing Power Parity factor which transforms local currency into dollars of the same purchasing power (see Table 1). For example, the value of \$1 in Benin is comparable to \$2.76 dollars in the United States.

If the differences in the price of consumer goods are taken into account, the picture changes. For example, a worker paid the minimum wage in Benin (\$34 a month) lives as well (or as badly) as someone with \$94 in the United States. Nonetheless, this figure involves a very low level of consumption which seems unable, at

**Table 1. Level and purchasing power of the minimum wage in selected countries**

Country	Minimum wage(s) in \$ per month	Purchasing power <sup>a</sup> in \$ per month
Benin (2000)	34	94
China (Guangdong) (2003)	34-61.8 <sup>b</sup>	140-255
Ghana (2003)	28	204
Niger (2002)	40	145
Senegal (2002)	76	209
Togo (2002)	20-33 <sup>b</sup>	106-166
Bangladesh (1994) EPZ	12 <sup>c</sup>	?
Philippines (2002)	39-102 <sup>b</sup>	214-556
Cambodia (2003)	30-45 <sup>b</sup>	162-243

Notes: <sup>a</sup> To buy the same basket of goods and services, you would need the minimum wage in Benin (\$34 using the official exchange rate) and you would need \$94 in the United States. <sup>b</sup> China (Guangdong): suburban and urban rates. Togo: unskilled and professional workers. Philippines: AMRM region and capital region. Cambodia: apprentices and regular workers. <sup>c</sup> Bangladesh: workers in EPZs (export processing zones) are paid in dollars. As the rate of exchange between the Bangladeshi taka and the US dollar is not available, information on the living standards of workers paid in dollars is lacking.

Sources: ILO database on minimum wages (forthcoming), on minimum wage. World Bank on Purchasing Power Parity Conversion Factor.

first sight, to lift a family out of poverty, even if we use the conventional threshold of extreme poverty: \$30 a month.

Therefore, one conclusion that may be drawn is that in some cases, the minimum wage seems too low to protect workers from poverty. Furthermore, we would expect that people who are not employed (the disabled, the elderly, sick people, the unemployed) are more affected by extreme poverty, because they do not receive any income from work. On the other hand, we might expect that workers, in particular minimum wage earners with a full-time job, are less likely to be living in extreme poverty. Hence, the second conclusion may be that the minimum wage cannot have a direct impact on people outside waged employment, but only on workers and their families.

In some other cases, such as the Philippines, the earnings of minimum wage workers are estimated to range between \$214 and \$556, a wage that is clearly above the *extreme* poverty line.

**There is evidence that the minimum wage can play an important role in reducing poverty**

***Implementing the PRSP: cases where the minimum wage policy is directly beneficial to the poor.*** Trade unionists in some countries have advocated a minimum wage policy and have managed to get it integrated into the PRSP process. In a few cases, it was argued that a minimum wage directly contributed to the reduction of poverty. In Cambodia, for example, where the textile sector is the only industry with a minimum wage, remittances sent by women workers to the countryside were shown to benefit the poor. More generally, wage levels and other aspects of working conditions might have a determining influence on the reduction of poverty. For instance, it is widely believed that economic development is promoted by better health and education, especially better access to health and education in remote areas. However, both nurses and teachers are reluctant to go to remote areas. This leads to a high turnover rate and a low quality of

service. Higher levels of pay could provide an incentive to move to remote areas and deliver basic services of high quality.

**Cases where the minimum wage has an indirect effect on poverty.** For some middle income countries in Latin America such as Argentina, Brazil, Mexico and Uruguay, the minimum wage was relatively low in the 1990s and represented between 20 and 25 per cent of the average wage. In these countries, almost all workers in the formal economy receive wages higher than the minimum wage, while many workers in the informal economy were receiving exactly the minimum wage and many had their wages increased each time the minimum wage was adjusted. That the minimum wage could have an impact on informal wages means that considerations of what is a “fair wage” are not absent from the determination of wages in the informal economy: the determination of informal wages goes beyond the traditional notions of supply and demand. It also means that increases in the minimum wage could have a positive impact on the extent and the level of poverty in the informal economy, provided it remains at a fairly low level.

**Cross-country comparison.** Other studies based on cross-country comparison indicate that a higher minimum wage is associated with a lower level of poverty. However, this result should be interpreted with caution: “This result *per se* does not imply that setting a higher minimum wage would reduce poverty; it is merely the sign of a correlation between the two variables. For instance, the correlation could indicate that countries with a high minimum wage are also more committed to the reduction of poverty and have developed social policies targeting the poor” (Saget, 2001). Therefore, a virtuous circle exists between the minimum wage and other tools used to combat poverty.

### To fight poverty, the minimum wage should be used with caution

At least three conditions have to be met in order for the minimum wage to have a positive effect on the standards of living of workers and their families:

- Most workers are entitled to receive at least the minimum wage in exchange for their work. No workers or very few workers lose their jobs because of the minimum wage. Or in a case where job losses are entailed, workers can find another job: the economy is growing and some sectors are creating jobs.
- Employers comply with the minimum wage. Compliance with the regulations implies both that employers are organized and have been consulted during the minimum wage fixing process and that there is a well-functioning mechanism to enforce the regulation, such as a labour inspectorate.
- There is no increase in prices following the rise in the minimum wage.

The problem in setting the minimum wage is that it can reduce poverty only if it is high, and if it is high, it is unlikely that any of these three conditions will be met. To summarize: “On the one hand, a high level of minimum wage is an effective way of protecting low-paid workers from poverty but it might cover few such workers because of job losses, or non-compliance following the introduction of the high minimum wage. On the other hand, a low minimum wage might cover more workers but offer a weak protection against poverty” (Saget, 2002).

If the minimum wage is set at a level which is too high with respect to the capacity of firms to pay wages, then enterprises will fire workers or cease complying with the regulations. Workers who have lost their jobs become vulnerable to poverty in the absence of employment opportunities. It is thus all the more important to recall that some studies have concluded that the minimum wage has no strong negative impact on the level of employment, providing that a few principles are respected

(increases are in line with economic conditions, social partners are consulted). Other studies have shown that even if there is no loss of employment following the rise in the minimum wage, the employment of sub-groups of workers such as very low-skilled, low-productivity workers might be at risk. This is because the employment level of some groups of workers might increase following the rise in the minimum wage (in particular, the employment of previously inactive women) while the employment of other sub-groups might decrease. Finally, some firms might be at risk too: small firms might encounter great difficulties adjusting to the new rate, while big firms may not.

From the above discussion, we can conclude that there is probably very little relation, if any, between the minimum wage and extreme poverty: the minimum wage might have an impact on the poor, but not on the very poor.

Hence it is not enough to use the minimum wage policy as the main tool for poverty reduction in developing countries. There are reasons why wages and incomes from work in general are low in these countries. Wages are low because productivity, which is the value of goods produced by one worker in one hour, is low. Productivity is low because health and education are low. Wages are also low because markets cannot develop: shortcomings include poor infrastructure and capital, lack of access to markets and lack of credit and inputs. For these reasons, investing in health and education and developing infrastructure appear as the priorities set in most PRSPs, and this will hopefully lead to better standards of living.

### A more efficient minimum wage policy so as to reduce poverty

The minimum wage policy is mainly characterized by six features: the objectives which are being pursued, the fixing method (who decides on the minimum wage policy and whether social partners and other bodies are consulted), the coverage of the minimum wage (who is entitled

to receive at least the minimum wage as pay), the criteria used to introduce/adjust the value of the minimum wage, the level of the minimum wage and the mechanisms in place to ensure compliance.

If the objective of minimum wage fixing is to reduce poverty, how should the policy be designed? It should minimize negative effects on prices and employment and benefit low-paid workers.

The fixing method should involve consultation of employers, trade unions and representatives from the informal economy. Involving the informal economy in the determination of the minimum wage might also address the non-income aspect of poverty, which is the lack of a say and of representation.

### Coverage and level of the minimum wage

The influence of the minimum wage on informal wages in some cases, as discussed above, suggests it would be possible to imagine a kind of reference wage for the informal economy. This reference wage would be determined in accordance with the general level of informal wages, i.e. no worker should receive less than 50 per cent of the median informal wage (the median is the wage level higher than that of 50 per cent of workers and lower than that of the other 50 per cent).

### Criteria

The level of wages in the informal economy should represent an important criterion, upon which increases in the minimum wage depend.

Compliance with the level of the minimum wage can only be weakly enforced in the informal economy, but it might be possible to design a campaign to promote a minimum wage level relevant to that part of the economy.

## Some impact on poverty – but it varies

Three main conclusions may be drawn:

Firstly, the minimum wage might have an impact on informal wages in some middle-income developing countries with low levels of minimum wages. The minimum wage could thus have an impact on the living standards of poor people, to the extent that they are concentrated in the informal economy. In these countries, the minimum wage really acts as a floor for unskilled workers.

Yet unions are often reluctant to promote such a strategy and accept low levels of minimum wages which are almost irrelevant for the formal economy. In fact, many unions favour a situation where the minimum wage covers a sizeable percentage of formal workers: in this case, the minimum wage is too high to exert any influence on the earnings of the poorest workers. There is a simple explanation for the unions' position. In general, collective bargaining is weak in developing countries, so that formal wages are strongly determined by the minimum wage rather than by collective bargaining. In other words, the minimum wage fixing machinery is a substitute for collective bargaining and fails to achieve its objective of protecting the weakest workers. Unions fear that, in the absence of a minimum wage which is "high enough", formal wages would be left without protection. But if the min-

imum wage is "high enough", the impact on poverty might be minimal.

Hence, the strengthening of collective bargaining around wage issues is a prerequisite for the minimum wage to play a stronger role in the fight against poverty.

Secondly, on a small number of occasions, it appears that the minimum wage has contributed to poverty reduction in poorer countries too, depending on the type of workers who receive it.

Thirdly, there is hardly any evidence to show that the minimum wage can be a general and valuable tool in fighting extreme poverty, but it could have an impact on non-extreme poverty.

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