

Employment Policy Department Knowledge-Sharing Workshop

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Proceedings Report

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Introduction

The Employment Policy Department's 2011 annual retreat took place between the 20th and 23rd of September at the ILO premises in Geneva. Opened to ILO staff outside the Department, its goal was to share knowledge on progress made in five key work areas of the department: pro-employment macroeconomic frameworks, youth employment, sectoral strategies for employment creation, national employment policy formulation and research frontiers on the informal economy. A total of approximately 60 participants, representing the ILO (HQ and field) and external experts were successful in conducting vibrant discussions in all five thematic areas. These and the knowledge generated during the retreat are summarized in this report.

Key lessons emerge for improving the Employment Policy Department's technical advisory services on employment, for translating research findings into policy advice and for improving collaboration between headquarters and field colleagues. Ideas and suggestions were generated both for future research and tool development and for the finalisation of this biennium's global products: (1) the handbook on employment targeting (2) the national employment policy guide (3) the guide for employment impact assessment of infrastructure investments and (4) the resource guide on the informal economy.

Theme I: Pro-employment macroeconomic frameworks in developing countries

José Manuel Salazar-Xirinachs (Executive Director, Employment Sector, ILO) suggested that the workshop participants reflect on two major questions: (1) to what extent our knowledge, as incorporated in global products, would help us better support national policymakers in the context of the world suffering from massive decent job deficits; and (2) to what extent have we made progress on the implementation of the conclusions of the recurrent discussion on employment (99th session of the ILC, 2010), where one of the conclusions was to enhance ILO's work on pro-employment macroeconomic policy framework? He also stressed that policy coherence requires having a dialogue on mutually self-reinforcing policies. In particular, a sectoral strategy approach is key to make employment policy work more effectively and anchor it to a broader growth strategy.

Azita Berar Awad (Director, EMP/POLICY, ILO) introduced the themes of the workshop by reflecting on how to take the Departments' global products forward. The global products range from findings of policy research on macroeconomic policy, sectoral strategies and informality to methodologies for assessing employment impact of investment and projecting employment targets. These products are organized to become tools, manuals, and guides to

take the employment policy work forward. Ms. Berar Awad also introduced Theme I of the workshop by providing the global context. During the crisis of 2008-10, there has been a lot of thinking on the origins of the crisis. The coordinated action by the G20 served to rehabilitate the use of macroeconomic policy instruments to save and create jobs and to stimulate aggregate demand. This provided a good juncture to re-establish the role of macroeconomic policy not only in crisis response but also to address the structural issues that were affecting the labour markets in developing and emerging economies. Ms. Berar emphasized the need to go beyond a critique of the Washington Consensus, and that the current workshop was intended to come up with constructive proposals on the ingredients of alternative macroeconomic policy frameworks.

I. Macroeconomic policy for full and productive employment: A synthesis of the country case studies

Iyanatul Islam (Chief, EMP/CEPOL, ILO) provided a background for the country case studies to be discussed in the workshop. The research emerged from the conclusion of the recurrent discussion on employment (99th session of the ILC, 2010), where the Committee resolved to work on developing a pro-employment macroeconomic policy framework. It was hence decided to develop a research programme based on country-level work in developing countries. Authors were requested to review and to provide some new evidence on the extent to which the macroeconomic policy framework either helped or hindered growth of productive employment. Eleven country case studies were conducted: Argentina, Bangladesh, Egypt, El Salvador, Jordan, Malawi, Nigeria, Peru, Sri Lanka, Turkey, and Uganda. Four case studies (Bangladesh, Egypt, Malawi and Uganda) have already been discussed in national workshops and the remaining seven cases are to be shared and discussed during the retreat.

Professor Terry McKinley (School of Oriental and African Studies, London) reviewed six of the country case studies. He noted that it may be important to reflect on what macroeconomic policies can and cannot do. Macroeconomic policies may not be adequate in themselves to achieve the combined goals of stability, growth, structural transformation, employment and poverty reduction. They need to be combined with structural policies, which can differentially allocate resources across the economy, and access-enhancing policies, such as labour market policies and poverty reduction programmes, to ensure people's access to economic opportunities. Secondly, he noted that the four sets of macroeconomic policies (monetary, fiscal, exchange rate and capital account management policies) need to be consistent with one another, as they do not operate in isolation. And the inter-relationship among them changes in relation to changes in concrete conditions, including economic booms, stagnation, inflation, and deflation. Finally, he emphasized that

setting invariant rules, such as targeting 4% inflation or pegging a currency, can introduce counterproductive rigidities into policymaking.

Overall, he noted that the country case studies were more incisive in dealing with fiscal and monetary policies than with exchange rate and capital-account management. And only few studies had a coherent view of the practical inter-relationships among the four – for example, which policies played a leading role and which played a more supportive/subordinate role. In general, he noted some weaknesses in concretely providing the development context, particularly with regard to employment and incomes. Finally, there was some confusion on how macroeconomic policies were linked to the strategic objectives (i.e. changing the development context): for example, are growth and employment or employment and poverty reductions differentiable objectives?

Terry McKinley suggested two alternative macroeconomic policy frameworks for formulating ‘pro-employment’ macroeconomic policies. The first framework focuses on maintaining a stable and competitive real exchange rate (SCRER), as highlighted in the Argentina and Turkey studies. In this framework, exchange rate management is the leading ‘organizing’ policy, with monetary policy playing a subordinate role. In this regard, further clarity is needed on the implications of SCRER for capital-account management and fiscal policies, particularly with regard to public investment. The second alternative framework is ‘organized’ by Public Investment-Focused Fiscal Policies (PIFFP), where monetary policies are subordinate to fiscal policies, where the fiscal policies aim to expand aggregate supply, in addition to stimulating aggregate demand. In this framework, exchange rate management will still be important in promoting international competitiveness and capital account management would also be necessary. Finally, he underlined the importance of implementing macroeconomic policies that can support employment-generating structural transformation, as most of the country studies noted the disappointing employment outcomes even in episodes of high economic growth.

Key points by Prof. McKinley:

- Macroeconomic policies can create a supporting environment for employment generating structural transformation, but they are not enough by themselves. There is a need for a set of structural policies as well as access-enhancing policies.
- Macroeconomic policy instruments need to be used in a coordinated manner and according to the situation to be addressed. The practical inter-relationships among them need to be scrutinized in more details.
- Two possible alternative pro-employment macroeconomic policy frameworks: stable and competitive real exchange rate (SCRER) and Public Investment-Focused Fiscal Policies (PIFFP).
- Empirical studies show high growth does not necessarily lead to satisfactory employment outcomes, hence the need for macro policies that support employment-generating structural transformation.

Prakash Loungani (Research Department, IMF) noted that the IMF is currently trying to absorb some of the lessons from the last two decades of macroeconomic policy-making. Traditionally, IMF has focused on monetary and exchange rate policies, accompanied by market-based reforms. The underlying assumption was that if they are done correctly, economic growth would follow. The experience of the last two decades shows that such macroeconomic policy model does not really work, at least with regard to sustainable growth. This has led to a shift in thinking, at least at the research level, towards ‘socially inclusive growth’, which will be reflected in some of the key IMF products, such as the World and the Regional Economic Outlook. He also noted that macroeconomic policies are not enough by themselves to generate socially inclusive growth, and that they need to be accompanied by a set of supporting structural policies, including access to trade and finance particularly for the SMEs, job creation by raising the employment-elasticity of output and inducing structural transformation, good governance particularly in resource-dependent economies, and smarter social protection through combination of minimum wages, social protection floor, and elimination of inequitable subsidies. He suggested that in order to get a socially inclusive growth process, the Central Banks need to keep focusing on inflation, as against broadening the focus of the Central Bank objectives. At the same time, the IMF could be more flexible in advising on the inflation target that the Central Bank chooses depending on the country context – for example, whether it should be a single digit target. One of the major challenges is on how to deal with supply shocks in the inflation targeting framework. This should be accompanied by some form of capital control as part of the exchange rate management tool kit. With regard to fiscal policy, maintenance of prudence is needed, with a view to creating the necessary fiscal space, along with a renewed emphasis on public investment.

Key points by IMF representative:

- IMF is revising its theoretical approach to macroeconomic policymaking towards ‘socially inclusive growth’, but it would take some time before they start to be reflected in the country-level policy advisory work.
- In order to do so, the macroeconomic policy framework needs to be combined with a set of structural policies, including access to trade and finance, job creation (raising the employment elasticity of output), good governance, and smarter social protection that would combine minimum wages, social protection floor, and elimination of inequitable (and socially inefficient) subsidies.
- IMF also recognizes the need for capital controls to deal with supply shocks in the inflation targeting framework.

II. Macroeconomic policy for full and productive employment: An analysis of the Argentinian experience

Mario Damill (CEDES, Buenos Aires) noted that Argentina has historically been a laboratory of macroeconomic policy. Argentina was one of the earliest countries to join the international financialization process by completely opening up the economy to international financial flows in the mid-1970s. In the last three decades, Argentina experienced numerous episodes of crises: 1981-82, two hyperinflations in 1989-90, and 2001-02 crisis. During the episodes of opening capital flows in the mid-1970s and the 1990s, the exchange rate was fixed to act as a nominal anchor to fight inflationary pressures. In the 1990s, this was accompanied by several market-friendly policies, involving privatization, opening up of capital accounts, opening up of trade account, and using the exchange rate as a nominal anchor. The opening of capital account ended in crisis, because the fixation of exchange rate led to strong appreciation of the real exchange rate, deficit in current account, strong capital inflows to sustain stability, accumulation of debt, over-indebtedness, and crisis.

He showed that the appreciation of the exchange rate has a real effect on growth and employment, where real wages in the manufacturing sector, measured in constant dollars, steadily declined throughout the 1990s. In the first half of the 1990s, the economy was growing fast at around 9% per annum, but the full-time employment as share of population started to decline during this period. Large productivity gains were accompanied by significant loss of employment in the tradable sectors.

The trend reversed itself in the 2000s, following the 2001-02 crisis. One ‘positive’ aspect of the crisis was the recovery of macroeconomic policy instruments in the area of monetary

and exchange rate policies. In 2003, a new macroeconomic policy framework was defined, in which a stable and competitive real exchange rate (SCRER) played a key role in generating surpluses in the current account and fiscal accounts. The economy started to grow again at 9% a year for a fairly long period, creating much more employment than was expected (elasticity was much higher in the 1990s). At the same time, the kind of jobs that were created was better jobs, characterized by full-time employment and growth in real income from main occupation.

While the SCRER framework clearly worked to generate job-rich growth, with better quality employment, it is not without problems. Since around 2006, it has generated inflationary pressures. The macroeconomic policy thus far has not effectively dealt with the inflationary pressures, with official measures underestimating the extent of inflation, and this has led to an appreciation of the exchange rate once again. Unofficial measures of inflation indicate that inflation is indeed rising fast, but this is an issue that is politically difficult to tackle.

Sudip Basu (UNCTAD) discussed the Argentinian case study by commenting on the view expressed by M. Mussa (former chief economist of the IMF), that the crisis of 2001-02 in Argentina was not due to the policy prescriptions of the IMF. While he noted that the case study was very comprehensive and thorough, he suggested few additional factors that could be further considered. One could be the understanding of the regional perspective since other countries' policies could affect the exchange rate. In this regard, he gave an example of Brazil, where policymakers are trying to address misalignment of the exchange rate. Secondly, he suggested that it may be important to factor in the policy cycles (or the political economy) to understand why some macroeconomic policy frameworks are adopted or not adopted. Finally, he suggested that it would be useful to draw on the global lessons learned.

Key points on Argentina:

- Macroeconomic policy should be about preventing a crisis.
- Maintaining a stable and competitive real exchange rate (SCRER) for an extended period of time can play a key role in inducing structural transformation of the economy (and employment). The Argentinian experience shows that it can generate full-time (as against part-time) employment, accompanied by growth in real wages (in the manufacturing sector).
- The exchange rate policy affects the real sectors, through reallocation of resources across tradable and non-tradable sectors (and employment therein). The problem starts with the pressures for appreciation of the real exchange rate.
- SCRER framework is not without its problems. Since 2006, Argentina has faced a rising inflationary pressure according to the unofficial estimates, which is translating into the appreciation of the real exchange rate. Hence, macroeconomic policy framework needs to adjust with the changing circumstances.

III. Macroeconomic policy for full and productive employment: El Salvador country study”

Gerson Martínez (Consultant, ILO-DWT for Central America) presented his study’s findings on growth, recent developments in the labour market, and key macroeconomic policy instruments. First, growth has been volatile in the last three decades. The two decades preceding the end of the armed conflict were marked by important changes in the structure of domestic production and high rate of state intervention in the economy. The reforms as part of the structural adjustment programmes in the early 1990s had the main goals of controlling inflation, reducing fiscal deficit and current account deficits, which resulted in positive real interest rate. The goals of economic growth and stabilization were achieved in the first half of the 1990s, followed by a long phase of sustained growth between 1996 and 2008. Faster growth between 2005 and 2008 (at 3.6% per annum) and its consequent improvements in fiscal and debt situations as a proportion of GDP allowed the country to have some room for access to credit and to implement countercyclical measures in the context of the 2009 crisis.

Economic growth and progress achieved has thus far not been deep enough to reduce in a sustained manner the structural deficiencies of the labour market. The labour market still faces a main challenge of reducing underemployment and informality and to increase labour productivity and wages. In the last three decades, employment has shifted away from agriculture, from 37.5% in 1980 to 20.9% in 2009, towards trade and services sector

(reaching 58.4% of total employment by 2009). The average output per worker has kept a close relationship with economic cycles since the beginning of the 1990s. 'Vulnerable' employment (own-account and contributing family workers) represented above a third of total employment in recent years (36.9% between 1993 and 2009). In 2009, 50% of urban employment is classified informal, and 38.1% of informal sector workers were in poverty as against 17.5% poverty rate for workers in the formal sectors. In 2008, only 34.7% of employees had an employment contract and less than a third (30.7%) of employed had contributed to social security. Young employed people (15-24 years of age) tended to be more precarious, with only 23.5% of workers had a work contract in 2008 and only 24.5% had social security. Moreover, in 2009, young urban underemployment rate rose to 48% of the total urban labour force. Since around 2002, annual inflation surpassed the growth rate of nominal wages, indicating a prolonged decline in real wages, which was temporarily reversed in 2009 due to deflation (-0.2%) and 4.3% growth in nominal average wages.

Macroeconomic policy since 2001 has been marked by decision to dollarize the currency in order to eliminate exchange rate risk. It has led to stability of several macroeconomic aggregates, such as lower inflation and lower interest rates, but at the same time, it has eliminated a space for manoeuvre in exchange rate policy and monetary policy. While dollarization aimed to improve the competitiveness of the external sector, trade gaps have not been eliminated thus far. While decline in interest rates were expected to induce greater domestic investment, it did not happen and it represents a barrier to employment generation. The inability to absorb external shocks meant that adjustments occur through real variables (production and employment). In such context, fiscal policy is the main policy tool available to promote development and to act counter cyclically in times of crisis. In this regard, expanding the tax base represents a significant challenge (currently at 12.4%), particularly given that the current system is highly regressive. Over the past two decades, the share of public investment in GDP has been shrinking, and it lags behind other countries in the region. With regard to capital account, there have been little restrictions on capital flows since 1990, but foreign investments tend to concentrate in the tertiary sector, which is disconnected from other productive sectors, entailing little gross capital formation, technology transfer, and other measures that would improve the national productivity.

Finally, worker remittances have become a cornerstone of macroeconomic stability since the early 1990s, which acted to maintain high levels of current consumption in the country. Strategies need to be implemented to facilitate the use of these resources to finance productive employment generation. To conclude, the main reasons why economic reforms after the civil war were less effective in growth and employment generation was the confusion between tools and goals.

Mario Berrios (EMP/ENTERPRISE, ILO) provided extensive comments covering official dollarization, savings and investment conditions, role of the financial sector, fiscal policy and weakness of the revenue, and sustainability of financing the current account deficits through remittances. He noted that macroeconomic stability has been attained, but at a low equilibrium level. Real growth rate has been very low. Compared to the regional average of 1.4% per annum between 1990 and 2007, per capita GDP growth was only 0.8% per annum in El Salvador. The official dollarization policy in 2001 led to domestic economic cycle that is aligned with the US (anchor) economy, and monetary policy of the US gets directly transmitted to El Salvador via commercial banks. Official peg to the USD has increased vulnerability to external price shocks (oil, food, and commodity prices), contributed to lower competitiveness through real exchange rate appreciation. There needs to be greater flexibility in market adjustment and prices, to respond to external price shocks. With workers and other resources (natural capital) remaining relatively immobile, official dollarization and trade liberalization may not be optimal. At the same time, both savings and investments tended to decline: from 16% (1991-98) to 12% (1999-2008) for savings and from 10% (1991-98) to 2% (1999-2008). Since savings constituted an important source of domestic investment, a decline in savings was accompanied by a decline in investment. Under a dollarized regime, a proper functioning of the financial markets is essential. The two key problems in this regard has been the high concentration of credit in few private (foreign) banks, with attendant lack of competition, and financial market segmentation, where the SMEs lack access to credit despite high liquidity. In the dollarized regime, fiscal policy is the only instrument to conduct macroeconomic policy. In this regard, declining revenue constrains the space for conducting public investment. Taxing the large informal sector is not the way forward. Rather, the policy emphasis should be on the renewal of growth, which can realistically address the revenue needs. A combination of proper tax revenue strategy and renewing growth conditions should be at the centre of employment policy goals. He also questioned whether remittances could be a pillar of macroeconomic stability and a source of domestic resource mobilization, since it is not necessarily a stable macroeconomic variable and it would not be realistic to force a shift of remittances into productive investment.

Key points on El Salvador:

- Official dollarization of the currency has implied lack of independence in exchange rate and monetary policies. Fiscal policy is the main policy tool available to promote development and to act counter-cyclically in times of crisis.
- Expanding the tax base and better administering taxes, as well as emphasizing economic growth as a key instrument for increasing tax revenues (discussant's main point), may be key to create an environment where job expansion can take place.

IV. Implications of recent macroeconomic policies on the labour market in Peru

Maria Lucia Guerra Bradford (EMP/POLICY, ILO) noted that the Peruvian experience (2002-2009) presents a story of many successes but also challenges. In the past decade, Peru presented an exemplary economic growth, which grew at an average of 6% per year since 2002. This growth has been fairly broad-based, involving growth in both consumption and investment. In this regard, the paper addressed two key questions: (1) how did macroeconomic policies contribute to the relatively good economic and social performance; and (2) how could macroeconomic policies contribute to addressing the twin challenge of making growth more sustainable and more employment intensive, while improving the quality of jobs created?

Improvement in the terms of trade was accompanied by growth in exports. Yet Peruvian export is still concentrated in a few products and this concentration has increased mainly in export of crude materials excluding fuel. What Peru has managed to achieve was diversification in terms of trade partners (e.g. China), but its export base is not diversified. How can it achieve diversification in this respect? Economic growth was accompanied by significant growth, but unemployment remains fairly stagnant and high. This may have been partially driven by rising labour force participation rates, as supply of (potential) workers increase as people see growing economic opportunities and wish to take part. But growth has not been enough, as the sectors that are growing and their employment composition are not matching. Agricultural sector still employs around one-third of workers, but the sector is subject to low and volatile growth. Mining growth has been driven by a price boom and employs a very small share of the workers. Moreover, the sectors that are growing are not the most productive ones. Rural poverty still remains high, while urban poverty declined faster. Poor employed population is concentrated in agriculture.

In order to create a supporting environment for sustainable growth and structural transformation, on the fiscal front, there has been some achievement. Fiscal consolidation through broadened tax base and strengthened tax administration has led to increased tax collection despite a decline in tax rate. The composition of public spending also shifted away from current spending towards investment. This has allowed the government to implement a stimulus plan and a targeted social spending since 2006. Peru has adopted inflation targeting framework since 2002 (target of 2%). The development of financial sector was accompanied by increase in loans to the private sector. But is there a room for less constraining inflation target? In terms of external openness and exchange rate flexibility, deep liberalization took place in the 1990s with adoption of open trade regime, open capital account and flexible exchange rate. Economic boom and structural reforms led to capital inflows, which put a pressure on the exchange rate to appreciate. Could the exchange rate

be limiting diversification? These questions remain as further challenges that can be addressed by the policymakers in the coming years, as strong capital inflow is expected to continue. Furthermore, there is a need to boost creation of productive employment through investment in human capital (education and skills to match needs of productive and growing sectors) and to promote investment in productive sectors.

Roxana Maurizio (Universidad Nacional de General Sarmiento and CONICET, Argentina) pointed out areas to develop further and offered some suggestions. She first noted that more detailed analysis on the inequality of both labour and family incomes would be highly relevant in Peru, and this is not fully undertaken in the paper. In this regard, issues such as wage gaps associated with education and informality would be informative. Secondly, while dominance of capital-intensive exports limited the capacity for greater employment generation, it needs to be integrated with the creation of jobs in the non-tradable sector and manufacturing activities. Exports can positively contribute to the macroeconomic situation and the external sector in generating better conditions for economic growth that, in turn, may lead to generation of employment in other sectors. The Peruvian experience in the 1990s, like Argentina, points out that the link between GDP growth and job generation is not unique but it depends on the configuration of the macroeconomic regime. The concentration of exports in few primary goods may be revealing the inability of the economy to improve the systemic productivity and competitiveness. Thirdly, the formalization process was most notable among domestic services, and it would be interesting to know whether any factors/measures were associated to cope with high informality amongst these workers. On informality, she suggested that it may be more revealing to separate informal employment in the informal sector versus informal employment in the formal sector. Such distinction may help provide more concrete policy directions, as to the need for productive policies versus the need for more carefully designed labour laws and their enforcement. Fourth, with regard to reduction in poverty, it would be interesting to have a more comprehensive estimate of the specific role of different factors that contributed to its decline, including the kind of jobs created, the wage dynamics, and the evolution of non-labour incomes. Furthermore, she pointed out that from the experiences of Argentina and Peru, it is possible to highlight the important role that unemployment rate plays in preventing the faster recovery of real wages. In this regard, it may be necessary to take into account not just the dynamic of unemployment but also the 'stocks' of unemployment itself. It would be interesting to estimate the wage curves, to understand if the relationship between wages and unemployment are the same during periods of economic expansion and contraction. Finally, given the importance of (mostly informal) self-employment in many Latin American countries, greater thoughts and actions are needed in advancing a more integrated protection system for both wage and non-wage earners.

Key points on Peru:

- Between 2002 and 2009, Peru experienced fast economic growth (6% per year), led mainly by the private sector, which improved the macroeconomic policymaking environment considerably in terms of fiscal space (greater effort at mobilizing revenues without an increase in tax rates) and price stability. The growth episode and the attendant macroeconomic policymaking situation benefited employment both directly and indirectly.
- Yet, there are structural challenges with regard to mismatch in the composition of employment and fast-growing sectors. Furthermore, strong capital inflows put an appreciation pressure on the currency, which may limit further diversification of exports and the economy. Peru is a poorly diversified economy that relies heavily on a capital intensive export sector.
- There is a need for greater investment to create productive employment, which includes investment in human capital.
- One similar issue that was highlighted in the Argentinian case study is the relationship between wages and unemployment, particularly across different episodes of economic growth (contraction versus boom).
- The link between GDP growth and job generation is not unique but it depends on the configuration of the macroeconomic regime. Peru, like Argentina, in the 1990s experienced very high GDP growth rates accompanied by a reduction in employment rates.

Plenary discussion on the Latin American country studies:

Mario Damill argued that the 2001-02 crisis in Argentina did not have a fiscal origin. Its origin was found in the financial and external sectors, since fiscal policy was completely endogenous. However, lessons have been learned from the many crises Latin Americas faced in the last three decades including managed floating which was useful to prevent crisis and more balanced fiscal situation.

James Heintz (PERI) stressed the importance of the existence of institutional mechanisms that bridge macroeconomic policies and employment outcomes. For example, monetary easing will make liquidity available to banks, but if there are not the appropriate mechanisms to distribute credit, the policy will not have an impact on employment.

Erinc Yeldan (Bilkent University) asked for the specific tools or policy instruments used for maintaining SCREER in Argentina- was it some financial taxes or capital controls? Mario Damill answered that preservation of SCREER is certainly a problem, but it can be done for an extended period of time, which may be sufficient to induce a structural transformation of

the economy. In answer to E. Yeldan, he noted that introduction of capital controls managed to stabilize the exchange rate, and it led to a halt in the capital flight. With the hidden inflation and appreciation of the real exchange rate, capital flight has started again since around 2007, but despite this, the Argentinian economy is still on its feet with a strong trade surplus. Hence, this time, capital flight is not creating liquidity problem; and some lessons have been learned from the past episodes of crisis.

Azita Berar Awad commented that while growth in mining sector would not have direct employment generating impact, it would be important to understand the set of appropriate policies which would transmit the fruit of this growth to productive employment generation. In reply to Azita Berar Awad, Maria Lucia Guerra Bradford gave an example of Norway as one example of redistributing growth that is generated from one main natural resource.

V. Macroeconomic policy for full and productive employment: Sri Lanka country study

Dushni Weerakoon and Nisha Arunatilake (Institute of Policy Studies of Sri Lanka) presented the case study on Sri Lanka by providing an overview of the labour market where the unemployment rate remained high, especially among women, youth and the highly educated. Despite the effect of the slow growth of labour force, the decline in unemployment could also be explained by emigration. The gross annual outflow of workers has increased substantially over time. Furthermore, the quality of employment became problematic with high informality and working poor. Policies are needed to promote opportunities in formal productive employment and to improve employability.

From the macroeconomic perspective, the authors pointed out that there has been resilient growth despite instability. The economy has been underperforming and facing high fiscal costs, such as high deficits, monetization of the deficit and high inflation, due to conflict. Thus, Sri Lanka has enjoyed little policy space in times of crises. In addition, the persistent twin deficit (fiscal and current account deficits) has been a deterrent to long term investment. Instability has led Sri Lanka to approach the IMF periodically, most recently in early 2009. Currently, a post-conflict phase of rapid growth is anticipated. Since 2006, two clear objectives have underlined the economic policy framework: to ensure balanced growth and to support lagging sectors of production. The policy priorities to achieve objectives have focused on high investment to improve infrastructure aiming at connecting urban and rural areas, and developing conflict-affected regions.

The authors stressed that the sustainability of growth would depend on macroeconomic policies, in particular, fiscal policy which was facing a structural weakness.

Key points on Sri Lanka:

- Reforms to raise tax revenues are underway contributing to the containment of current spending and the progressive reduction of the fiscal deficit. Higher capital investment is expected to boost growth. However, the lack of fiscal support to improve labour productivity is a cause for concern. Public investment has been geared primarily towards heavy infrastructure and spending on education and health as a share of GDP has declined sharply. The question is whether higher growth can be sustained without investment to improve labour productivity.
- Foreign borrowing caused other distortions. It has led to exchange rate appreciation and hurt competitiveness of exports. The situation was worsened by the fact that current account is in deficit.
- Tighter fiscal policy has allowed monetary policy stimulus. Interest rates were brought down as inflation subsided, but risks to price stability remained. Fiscal consolidation is a must; however, the above context needed to be borne in mind. The deficit should be lowered to manageable levels and the country's debt overhang must be reduced. There is also a need to steer away from costly and risky foreign borrowing. Fiscal consolidation would allow domestic resources for investment in areas such as education and health.
- Social safety net programs for the vulnerable should be provided.

Piyasiri Wickramasekara (Consultant), as discussant, welcomed this first detailed analysis which was able to highlight the limited options for Sri Lanka in terms of pro-employment macroeconomic frameworks. Among the risks is the falling revenue ratio. In Sri Lanka, market oriented reforms have been combined with much government intervention. However, the study did not mention the 10 year development program launched in 2010, which set high goals for development in the coming years. The discussant acknowledged that linking macroeconomic policies to employment was not an easy task and suggested furthering the discussion on how macroeconomic policies have created an enabling environment for investment of the remittances from migrants. The ILO should develop a framework linking macroeconomic policies to employment creation.

VI. Macroeconomic policy for full and productive employment: the case of Nigeria

Ugochukwu Agu (Consultant) presented the case study of Nigeria which is a populous country with the advantage of surplus labour. Its labour market is characterized by having both formal and informal employment, with the bulk of its labour force engaged in

agriculture particularly at the subsistence level. Since 2001, Nigeria has enjoyed a long period of sustained expansion of the non-oil economy, with growth occurring across all sectors of the economy and accelerating. However, the economic growth did not respond to reduce unemployment, particularly for youth, and generate decent employment. There was even the trend of growing employment crisis. The consensus in society was that the high youth unemployment rate, twice as high as the national unemployment rate, resulted in social and political instability. The estimated number of people living in extreme poverty in Nigeria has increased. Poverty rates were very high and the country was far from meeting the MDG goals.

Key points on Nigeria:

- There has been a mismatch between macroeconomic policies and development targets. The Central Bank of Nigeria (CBN) has focused on price stability, meaning that it has consistently increased interest rates. Consistent manipulation of the monetary policy rate by the monetary policy committee to force inflation to single digit has created adverse effects on activities of the private sector and the economy through reduced liquidity. Restrictive monetary policy has impacted the liquidity provided by commercial banks and along this loans to SMEs have fallen.
- In terms of fiscal policy, balancing the difference between current expenditure and revenue remains a prerequisite in ensuring the sustainability of fiscal reforms towards jobs creation in the country. Nonetheless, fiscal policy has neglected capital spending: investment has declined and not much has been done to stimulate manufacturing.
- The author also presented the results of the VAR analysis and impulse response functions estimating the impact of shocks on the interest rates, credit growth, money supply, real exchange rate, and output on several macroeconomic variables in Nigeria. The author concluded that his findings confirm that a monetary policy contraction chokes the economies of developing countries with a long lasting effect and added that unless constraints to growth are systematically removed in those industries that are particularly employment intensive and stand a chance of being globally competitive, it is unlikely that high unemployment trends will be reversed.

Mohammed Gassama (EMP/CEPOL, ILO) brought forth the fact that unemployment, and especially youth unemployment, was like a “looming war” and commended the author for bringing out the youth unemployment issue in the future. The discussant added a recent World Bank study that mentioned four binding constraints to growth in the case of Nigeria, access to finance, skills gap, physical infrastructure, and energy. The discussant also

suggested that the development of the non-oil sector was of critical importance, and that there is a concerted effort to diversify the economy.

James Heintz suggested that the unemployment rate can be a valuable indicator but by itself it does not say much. Demographically, Nigeria could be facing a window of opportunity (or liability), depending on how the country addressed the issues it faces. Demographics are also important for VAR analysis.

Other participants suggested it would be useful to include employment in the VAR exercise. In Nigeria, it would be more adequate to show the problems with the chosen target for inflation, rather than criticizing the decline in inflation per se. There has to be investment in infrastructure, otherwise, regardless of how much human capital is developed, infrastructure will be a bottleneck.

VII. Macroeconomics of growth and employment under post-2001 Turkey

Erinc Yeldan (Bilkent University) commenced presenting the study by highlighting three issues in the Turkish context: 1) jobless employment intensity of growth, 2) Informalization and 3) the wage cycle and flexibilization.

Key points on Turkey:

- Turkey has seen a reduction of the employment elasticity of growth throughout the past decades. Furthermore, in the manufacturing sectors, many subsectors that have shown increases in productivity have shown a contraction in employment. Half of manufacturing had negative employment growth during a period of productivity growth. In other words, productivity growth and capital accumulation did not lead to greater employment growth.
- Economic growth has relied on speculation-driven capital inflows with foreign debt accumulation. Since 2001, there has been a rise in unemployment, regardless of which indicator is taken into account. Both rates of open unemployment and open unemployment plus discouraged workers have risen. Current account deficits are one of the leading sources of unemployment during the current period (from 2001 on). However, Turkey has not historically been a current account deficit country, and current account deficits have usually signalled the onset of a crisis. In 1989 capital account liberalization was completed, allowing for an abundance of foreign exchange. The inflow of USD led to a very strong appreciation of the Turkish lira (the exchange rate has appreciated 60% in recent years.)

- Employment gains were marred by informalization. After the collapse of the labour market after the 2008 crisis, gains in employment occurred mostly in agriculture and the informal economy.
- During the era of inflation targeting there has been relative stability of real wages. Those who were on fixed incomes were the mostly affected by inflation. Inflation erodes financial capital directly, that is why controlling inflation is so high on the agenda nowadays.

The author also pointed out that it is doubtful that microeconomic reforms alone will take care of labour market issues. These reforms should be accompanied by macroeconomic reforms. However, the author pointed out that it is important to bear in mind that under the given macroeconomic environment, such actions that aim at introducing more flexibility will likely deepen the dualistic structure of the Turkish labour markets, creating more pressures towards informalization, and leading to an increased loss of social welfare.

Hakan Ercan (Middle East Technical University), the discussant, raised a key question: Is agricultural employment actually rising? Or is it just the share because other sectors are falling? He suggested that the rise in agricultural employment can be explained by the move of people back to the countryside after the crisis. Through household surveys, these people report to be at their family plots, and this goes recorded as “employed” in agriculture. The discussant also stressed that there is always a correlation between Turkish growth and current account deficits. As things are going well, capital flows in, leading to more consumption, more imports, and thus, current account deficits. In addition, the discussant pointed out that Turkey is a net importer of energy and that this is a fact that will not go away.

VIII. Macroeconomic policies and employment in Jordan: Tackling the paradox of jobless growth

Sahar Taghdisi-Rad (SOAS, University of London) presented the case of Jordan which was a story of economic growth that has resulted in employment growth but not for Jordanian nationals. Jordan depends heavily on aid and remittances from workers who migrated to the Gulf countries. Structural reform was implemented following IMF packages after the oil shock in 1980. The 1990s marked the beginning of an era of macroeconomic liberalisation with the aim of macro stabilisation. However, high levels of unemployment and poverty persist. The author suggested that the paradox of Jordanian growth is due to: 1) the nature of the growth strategy and 2) the nature of the labour market.

Key points on Jordan:

- Despite strong foreign direct investment (FDI) growth -mainly due to QIZs- and GDP growth, expansion of economic growth per se is not sufficient for reducing unemployment and the space for policymaking is very limited.
- Post liberalisation, there has been much more job destruction for Jordanians than job creation. Fiscal consolidation led to a reduction in size of public sector employment and lending, with an inadequate private sector. In addition, after privatization, there was a proliferation of micro firms (with less than 4 workers) and small firms (5-19 workers). Moreover, investment and trade strategies have focused on basic manufacturing and capital intensive industries in the QIZs with poor working conditions.
- There is a clear mismatch between supply and demand and high levels of voluntary unemployment. In addition, there are high inactivity rates and high levels of working poor, and, finally, Jordanians have high reservation wages due to the expectation of better jobs. Besides, twenty percent of Jordan's labour market corresponds to non-Jordanians, who are mainly employed in the QIZs and in agriculture, construction, and basic manufacturing. The key question is where should productive employment promotion be focused on?
- Emigration has had a significant impact on both the Jordanian labour market and the macroeconomic developments. The main channel of impact on the economy has been through remittances, estimated at 20 percent of GDP. In fact, perhaps the fiscal, monetary and exchange rate policies have had a smaller impact on the labour market than the labour market has had on the economy through remittances. As unearned income, remittances can reduce the incentive to work of recipients. Also, remittances can lead to overvaluation of exchange rate and reduce competitiveness.
- Jordanian labour market is also characterized by a sizeable informal economy that employs 25 percent of labour.
- In terms of macroeconomic developments, the government is highly dependent on the regional prices of oil and aid. Furthermore, it has faced significant indebtedness in the past (200 percent of GDP in 1989), which it has managed to reduce substantially. Since the 2000s, there has been a change in the public debt structure as the government has sought to move from external to internal debt. The decline in public sector employment caused by widespread privatization was the main cause for job losses. Since there was no private sector alternative to absorb job losses in the public sector, the fiscal consolidation led to a greater reduction in wages, reducing levels of effective demand in the economy and thus causing a further decline in economic activity and employment.
- The financial crisis combined with Jordan's dependence on external revenues brought to the forefront the need to develop the domestic demand base. Jordan needs to stimulating savings and demand to contribute to generate employment.

Policy recommendations to address Jordan's growth paradox:

- Promote domestic investment and reducing dependence on external sources of revenue to increase stability and reduce real exchange rate appreciation.
- Stimulate savings through the revision of banking, interest rate and investment policies to strengthen links between savings and productive investment opportunities.
- Maintain government expenditure to ensure that fiscal austerity measures do not affect SMEs, social welfare and domestic demand, particularly given the limited role of the private sector.

Zafiris Tzannatos (DWT/RO Beirut, ILO), as discussant, highlighted Jordan's impressive achievement in terms of debt reduction, from 200 percent down to 60 percent in recent decades. It seems to have done the right things, yet has not been successful. If a country does not have a minimum wage, it created employment, however, this policy supports non-decent employment creation. Graduate unemployment, especially among women, is very high. Jordan is a net exporter of highly educated Jordanians; this means it is an exporter of skills. To reduce the mismatch means to reduce the level of skills of Jordanians! The discussant said that a statement like that requires caution.

The discussant asked where did average wage and flexibility come into the analysis. He also suggested it would be important to look at investment in more detail. It is evident that investment in Jordan has been very high, but where are they investing in?

Another point brought forth by the discussant was that youth employment and unemployment patterns may be best analysed through a different age group as the age group 15-24 mostly refers to school drop outs. It is the 30+ that are highly educated and unemployed. He also suggested that the concept of brain drain in the case of Jordan may be worth rethinking as "some say brain drain is better than brain in the drain".

The discussant highlighted the importance of the relationship between productivity and wages, given that in a surplus labour economy, can increase employment without ever increasing wages. He highlighted the "fetishism" with manufacturing, pointing out that manufacturing often shows high growth with negative productivity changes (which is to be expected) but where are the wages in this story?

Plenary discussion on Jordan and Turkey

Participants jokingly referred to a possible new acronym SURER to refer to Stable uncompetitive real exchange rates, highlighting a common trend among the country case studies presented during the day. For example, in the 2000s, Latin America reduced its indebtedness with a high real exchange rate, allowing it to accumulate foreign assets.

A key question was raised regarding how much stability countries can seek and how much can they really achieve. How much stability is really desirable?

IX. Panel discussion: “Employment targeting and macroeconomic policy” and elements for a pro-employment macroeconomic framework

José Manuel Salazar -Xirinachs chaired the panel. The objective was to reflect on the three potential levels of employment targets, from macro, sectoral, to specific vulnerable groups. The chairman noted that in Latin America and Africa, the combination of macroeconomic and sectoral policies had led to productivity-reducing structural change. There is a need to understand more about policies or targeting framework that would result in productivity-increasing structural transformation. Finally, he raised the issue of how to link macroeconomic policies and sectoral strategies with the labour market, in terms of both behaviour and structure.

Critique and proposal by Prof. McKinley:

- A critique: is it a priority to change the overall mandate of the Central Bank towards employment? He clarified some practical problems that such adjustment of the Central Bank policy focus could generate. They include: the target itself (is it overall employment, is it full employment?), which suggests a need for a composite measure of employment that would be meaningful to target. But even if that problem is solved, there are issues of data, which cannot be collected immediately, on a regular basis in some countries, and they would need to be collected as frequently as the price data. And targeting employment can also generate unnecessary rigidities in the policymaking procedure, and the need may arise to deal with the trade-off between inflation and employment. Finally, institutional focus on the Central Bank to target employment may be counterproductive, since the Central Bank would be least familiar with employment issues and most adverse to dealing with them. The Central Bank responds mainly to the financial institutions, and following the 2007/08 crisis, the Central Banks are preoccupied with another mandate of regulating finance.
- A proposal for an alternative framework for employment-targeting: a need to focus on fiscal policy, especially public investment, for inducing structural change in the economy and employment. Since ILO has a history of focusing on the microeconomics of public investment, particularly on labour-intensive public infrastructure, it could be scaled up to focus on the macroeconomics of public investment. The main institutional counterpart then would be the Ministry of Finance (and not the Central Bank).

Prakash Loungani shared his thoughts on the preliminary ideas that are currently being discussed in the IMF towards a new macroeconomic framework. The key shift comes from the re-orientation of the goals of macroeconomic policy towards socially inclusive growth. Redefining the goal as such forces the IMF to rethink some of the macroeconomic policy recommendations that it gives to the governments and to find ways to better complement the structural policies (access to trade and finance, job creation, governance, and social protection). Inclusive growth is defined by examining consumption growth of the poorest quintile or its relationship to the top quintile. For demonstration, he showed some comparative examples of Ghana and Tanzania, Brazil and China. With regard to the institutions and policies needed for inclusive growth, he showed that greater protection (EPL) leads to better outcome, once the goal is defined in this way. With regard to fiscal policy and inclusiveness, it shows that higher expenditure on health and education leads to greater inclusiveness. How would macroeconomic policy framework have to change? As with T. McKinley, he insisted on greater role for fiscal policy.

Key points by IMF representative:

- In the forthcoming years, monetary policy is going to be overburdened. It will have to manage asset booms and supply shocks (food and commodity prices, etc.) and figure out how to better interact with financial institutions.
- Hence, fiscal policy is a more promising tool for attaining employment goals, not only through rehabilitation of automatic stabilizers but also through public investment.
- To realize the employment goals, a set of structural policies would be needed. On job creation, he emphasized that more research is needed on employment elasticity of output, as well as its determinants in and across countries.

Moazam Mahmood (Director, EMP/ELM, ILO) emphasised the need to strengthen the link between growth and employment, as well as the link with consumption. The labour market, which is supposed to be doing most of the work in creating jobs, is meeting less and less of that target, with the burden falling on transfer programmes. While transfers can and should continue, a stronger link between growth and employment is needed to enable its continuation. The reason why less and less jobs are created in the market is related to the K/L ratio, which accounts for output growth in the long-run. He showed and explained that if GDP growth is decomposed into productivity and employment growth, the reasons why GDP growth is contributing to greater productivity growth can be found in the K/L ratio. Such relationship implies that as the developing countries strive for higher GDP growth, it becomes job poor. Much of the growth in the developing countries is predicated on commodity prices, the sectors which tend to have limited employment opportunities. He

argues for a more balanced macroeconomic policy that strikes the balance between wage share in national income and productivity, such that some of the fruits of productivity gains are shared with the workers, and to strike a balance between export and domestic market.

Key point by Moazam Mahmood:

- The macroeconomic policy framework should aim to strike a balance between productivity gains and wage share in national income – i.e. it should be redistributive; as well as a balance between export and consumption market.

James Heintz noted that the recent financial crisis, which had translated into an employment crisis, made it clear that the recent employment crisis is a macroeconomic problem, not a labour market policy problem. This opened up a political space to ask the question as to whether macroeconomic policies can be used to support employment generation.

Because of the asymmetric nature of the relationship between episodes of economic growth/downturn and employment growth/downturn, getting the macroeconomic policy wrong would certainly imply negative employment impact, but getting it right would not necessarily solve the structural labour market problems. Hence, there is a need to go beyond the traditional macroeconomic policy framework, and to examine more closely the institutional reforms and the complementary policies that would be necessary.

Since not all macroeconomic forces are under national control, there needs to be a clearer demarcation between global trends and the responsibilities of the macroeconomic policies at the national level. For example, liquidity is regulated in a few key markets, and it requires cooperation across countries to manage it.

With regard to socially inclusive growth, he noted two broad approaches. One is to maximize growth and then redistribute. The other is to see social inclusion as an important component of the growth agenda. In advocating the second approach, he emphasized the need to understand whether the improvements in the bottom quintile affect growth as an important research agenda, rather than whether growth affects the bottom quintile more strongly. He highlighted the relationship between gender, equity and growth, which is a macroeconomic issue that needs to be taken into account.

Key points by James Heintz:

- Need to go beyond the traditional macroeconomic policy framework, and to examine more closely the institutional reforms and the complementary policies that would be necessary.
- social inclusion is an important component of the growth agenda:
 - need to understand whether the improvements in the bottom quintile of the income distribution affect growth
 - the relationship between gender, equity and growth is also relevant in this regard

Yan Islam presented a framework for understanding key macroeconomic policy areas, which is drawn not only from the country case studies but also from three thematic products, including assessment of inflation targeting, revisiting public debt and employment relationship, and the review of IMF's Article IV consultations across a wide range of countries. The main issue is to connect macroeconomic policy to the development process. To do so, the macroeconomic policy managers, including the Ministry of Finance, the Central Bank, and the Planning Agencies, have to play a dual role: as guardian of stability and as active agents of development. It means that the goals and targets have to be set in the short- and medium-run, while addressing the issues surrounding longer-term structural transformation.

Key points by Yan Islam:

- In the short- and medium-run, the primary goal of macroeconomic policy is to reduce volatility. The central goal is to prevent crisis. Countries that manage to reduce incidence of downturns tend to do better.
- For the long-term development concerns, the issue is about connecting macroeconomic policies to structural transformation. In this regard, real exchange rate and interest rates are key prices that drive structural transformation (between tradable and non-tradable sectors). And in mobilizing resources towards structural change, there is a big funding gap between the attainment of Millennium Development Goals, the Social Protection Floor (SPF), and actual resources available. Establishing a SPF is a fiscal policy issue, which should be financed out of domestic resources. In this regard, enhancing domestic tax-GDP ratio is key, where the minimum ratio should be around 15% of the GDP for low income countries.

Plenary discussion on pro-employment macro-economic framework

Erinc Yeldan remarked that one of the explanations of poor job creation in the past is due to capital-intensive technology path. In this regard, there seems to be two issues in international macroeconomics: a prolonged appreciation of the exchange rate and continued reliance on current account deficits. Current account deficits stem from two factors: one is the Dutch-disease impact of the capital flows in the context of an open capital market and the other is domestic saving-investment gap. And the sources of saving-investment gap are no longer of public sector origin, but rather, due to a faster decline in private savings. In the Turkish experience, the rise in private consumption has resulted in current account deficits. Hence, there may be a need to think more about the tools to induce greater private savings: what would be the appropriate design of tax and income policies? Policy elements for an alternative to inflation targeting framework would include capital account management, financial tax, and financial stability (a term that needs to be more clearly defined and understood).

Sudip Basu noted the need to discuss 'policy inclusiveness' when talking about inclusiveness. These policies would include capability development policies and trade and industrial policies.

Sher Verick also echoed some scepticism with regard to the feasibility of the Central Bank to target employment, as fuzziness related to employment gets translated into a fuzzy target. He noted that the key issue around productivity and growth is that it matters when productivity gains are not translated into higher earnings. Better understanding is needed on the relationship between productivity increase, growth, employment, and earnings.

Zafiris Tzannatos pointed out a few key missing ingredients in the discussion thus far. One is wages, at the aggregate level, and how it translates into consumption. The other is the demographics, which explains a large part of the employment outcomes. He also questioned about what it means to keep a competitive exchange rate in a globalized world.

Azita Berar Awad clarified the issues surrounding employment-targeting. It is not meant to replace inflation targeting but many countries do have employment targets in the sense of quantified objectives to be reached. So, what would be the proactive macroeconomic policies that would support the economy towards achieving these targets? She noted that in the founding document of the Bretton Woods Institutions, employment is considered as a target, but this has been lost through the subsequent decades.

Mario Damill noted that one role of macroeconomic policy is to prevent a crisis. It must be monitoring some variables and react to changes in other variables, including labour market

and social indicators. The second role of macroeconomic policy is to create room for other policies, but what kind of outcome follows depends very much on what has been done with the room created. With regard to maintaining a competitive real exchange rate in a globalised world, if it was considered as important for development, an international discussion should take place to enable some countries to maintain such competitive exchange rate for a period of time.

José Manuel Salazar-Xirinachs closed the panel discussion by noting that since politicians usually set employment targets prior to elections; it would be pragmatic and useful to help the government plan towards such targets so that it would not be just a political campaign. Secondly, it would be possible to progress towards a new policy framework based on employment-targeting. Finally, employment-targeting may be a way of empowering or changing the dynamics of policymaking, where there is a division between economic and social cabinet. It may enable empowerment of the social ministries to soften the economic side. He noted the need for involvement of many different institutions to realize employment targeting as a policy framework.

Theme II: Youth employment

Research and global products leading to the ILC 2012 discussion on the youth employment crisis

Azita Berar Awad explained that the GB has identified youth employment for discussion at the next ILC (2012). The 2005 ILC conclusions on youth employment are still relevant, but the current crisis situation, which resulted in a 4-5% increase in the youth unemployment rate in OECD countries and a peak in the Arab states, calls for a re-examination of policy responses. Other important issues, including the increase in precarious work within educated groups and the quality of jobs for newly employed youth also require renewed attention. In that content, the main objectives of theme II's discussion were to build the momentum that would lead to the ILC discussion next year and reprioritise youth employment on the Department's agenda.

Global products on youth employment

Gianni Rosas (Youth Employment Programme, ILO) stressed that youth employment is a cross sectoral issue that extends beyond the employment sector. He introduced the methodology of Youth Employment Programme's (YEP) work: the Youth Employment Intervention Model. This model identifies the main issues of youth employment policies and tries to integrate them into the policy cycle. It has five steps: (1) Data collection and analysis, (2) Review of policies and institutional frameworks, (3) Problem identification, policy options and priorities, (4) Development of policies, strategies and programmes, (5) Implementation of policies, strategies and programmes. One of the main challenges is the availability of data on youth employment.

The operation of YEP focuses on knowledge sharing, advocacy, and resource mobilisation that goes in line with knowledge, products and tools development, as well as policy advice and technical assistance to 47 countries, among which 24 are target countries for 2010/11. The idea of developing global products is to transform knowledge into tools and thus enhance policy advice and technical assistance.

Regarding work at regional level, regional reports have been published for Latin America and other regional reports will be produced shortly. Other important work would be conducting experts meetings, developing the global policies database on youth employment and create a study that linkages between youth employment and child labour. The upcoming work would also include youth employment in rural areas, in partnership with the International

Fund for Agricultural Development (IFAD), to review several employment programmes. All the work is carried out through communities of practice including a regional workshop on knowledge management and a virtual platform for discussing skills development and employability.

The YEP launched a programme on the school-to-work transition in 28 countries. Apart from school-to-work transition surveys, discussion on findings concerning youth employment will be organised in national workshops together with social partners and concerned ministries. These findings will benchmark the policy institutional framework, the main challenges at country level, and good practices feeding the database.

Lastly, the YEP also started developing a global repository of projects and programmes with the YEN (Youth Employment Network), the World Bank, and the Inter-American Development Bank. Review of the effectiveness, cost-effectiveness, and other information are published online. Furthermore, five hundred more programmes are expected to be available online by the end of this year.

Susana Puerto Gonzalez (Evaluation specialist, Officer-in-Charge of the Youth Employment Network) introduced the website (www.youth-employment-inventory.org) where impact evaluations of youth employment projects could be found.

Plenary discussion on youth employment

Key questions from plenary discussion:

- What works and what does not in the interventions
- Availability of data
- Types of policies supporting youth employment
- Gender issues regarding youth employment
- Interventions for youth employment in rural areas
- Measures taken by G20 on youth employment

Key points by Gianni Rosas:

- The YEP will carry out more assessments of youth employment programmes and projects, for example, of programmes that provide training to increase youth's employability in the labour market.
- Even though there were not many evaluations on wage subsidies, they would take the lessons learnt will be taken into account for programming.
- Regarding the question of data availability, gender and other relevant issues, global products developed in 2010/11 and those already planned for 2012/13 will address these areas of work. They include Global Employment Trends for Youth, review of national development frameworks and employment policy with regard to the mainstreaming of youth employment, review of contractual arrangements in Europe and Latin America, review of interventions for young workers in hazardous occupations, review of rural development programmes in 5 countries, SWTS modules, youth module for LFS, database with policies from 50 countries, pilot course on Impact assessment of YE interventions, modules for impact assessment, 9 country studies, policy briefs and global report on youth employment and migration, virtual space, two interregional workshops and a global event on Global knowledge-sharing facility, thematic discussions on Communities of practice and 500 youth employment programmes reviewed.

Theme III: Guide for development of national employment policy

I. Guide for formulating and implementing national employment policy

Claire Harasty (EMP/CEPOL, ILO) presented the guide for the formulation of national employment policies. It is a tool for policy makers, social partners, experts and ILO staff. The idea of developing the guide was a response to the numerous requests from governments on advice for the formulation of NEP, especially the process and examples of successful employment policies. The main purpose was to have a common understanding among national and international stakeholders on the issue. She further explained the main objective was to provide a step-by-step guidance on the policy process and gather all the knowledge available on the subject, such as country examples, good practices and practical tools to set policy priorities. One important feature of the guide is the glossary in order to provide a common meaning of employment policy and other concepts related to this topic. The main target audiences would be policy makers, social partners, experts, ILO technical specialists and other international agencies.

The guide is divided into five chapters which can be read independently. The five chapters are:

- Chapter 1. Challenges of inclusive and sustainable policy making for full and productive employment
- Chapter 2: Overview of the employment policy process
- Chapter 3: Building knowledge: the situation analysis (issue identification phase)
- Chapter 4: From situation analysis to strategic planning: the policy formulation phase
- Chapter 5: From strategic to operational planning and implementation tools

The first two chapters briefly, but comprehensively, present the framework and the policy development cycle. The other three are more practical step-by-step “mini-guides” that explain in details the three of the seven steps of the policy cycle. Each chapter brings up the main questions of the users of the guide might have while addressing the specific phase, describing the actors involved and their roles in each step of the process and underlining the relevant entry points. Each chapter contains boxes with country examples and good practices as well as references and links to further reading, reference documents, national plans and so on.

Chapter one, as an introductory chapter, provides the rationale for national employment policies by stressing the increasing complexity of the employment reality, the new momentum for employment policies and the definition and scope of national employment policies. This chapter also included the ILO’s approach to national employment policies, from

the main ILO employment policy frameworks to the approaches at institutional and policy level.

Chapter two focuses on the national employment policy formulation process. The objective is to set out the prerequisites for a successful policy formulation process and provide a step-by-step guide. The presenter stressed the importance of undertaking an inclusive and accountable process which relies in a great part on social dialogue. This chapter outlines the seven steps of the policy process which are: 1) preparation phase 2) issue identification phase 3) formulation phase 4) validation, adoption and communication phase 5) programming and budgeting phase 6) implementation phase and 7) evaluation phase.

Chapter 3 concerns the employment situation analysis that is the issue identification phase. This chapter guides the actors involved in the policy formulation to produce research-based evidence. This knowledge building phase, where employment analysis is conducted by experts and researchers, will inform policy choices needed to be made. The research work in this phase ranges from data analysis to modelling and scenario-building exercises, as well as policy, institutional, legal and expenditure reviews. Furthermore, knowledge is built through broad-based consultations and social dialogue that allow stakeholders to express their views and challenges. Social partners can provide advice based on direct experience and involvement with members of organizations and communities. Due to their grassroots experience, they become aware of the trends or emerging issues before the government. Strengthening their participation in employment policy development processes and mechanisms can help in the process of issue identification.

Chapter 4 provides the guidance to policy makers and social partners on how to prioritize and generate policy options on the basis of the research-based evidence. The last chapter, chapter 5, introduces the process from strategic planning to operational planning and implementation tools and the guidance on how to operationalise the national employment policies. The presenter finished her presentation with the next steps needed for the successful publication of the guide.

II. Panel Discussion on the Guide in light of practical country and regional demands and experience

Key points from panelists:

- Dramane Haidara (DWT/Dakar, ILO) provided some suggestions on furthering the clarification on the roles of the public employment services and the ministry within the institutional set-up. It was also suggested to restructure the steps to keep three to four steps maximum. The guide should mention the importance to have target groups precisely mentioned in the NEP. Lastly, he highlighted to give importance to the part of the financing of NEP since most of the time; it is what hinders the whole NEP process to go further.
- Sukti Dasgupta (DWT, Bangkok) welcomed the development of the guide as it was based on ILO's experience and would be very helpful for governments to develop employment policies. A suggestion from her was to translate the guide into different languages and add a list of statistical indicators with definition in an annex. Besides, the guide would even become more comprehensive if there were more examples from different regions. Furthermore, she suggested adding two more thematic areas in chapter three of the guide: industrial relations and social protection and giving more importance to inter-ministerial committee in chapter two.
- Mauricio Dierckxsens (DWT, San José) added a point that the role of interministerial committee needs to be emphasised more in chapter two. There is also the necessity to have national consensus in order to avoid multiple NEPs and separate more the policy from the programming.
- Olga Koualeva (DWT Moscow) commented that the guide needs to be recognizable by countries in the sub-region, more examples from OECD and EU countries and even a success story from a developed country for the whole process. She recognised the importance of social dialogue and suggested including success stories of collaboration between Ministry of Finance and Ministry of Labour. With regard to thematic analysis in chapter three, providing longer description and adding more substance can enrich this chapter.

- Dorothea Schmidt (DWT Cairo, ILO) was delighted to read the guide since the North African countries understood the importance of developing employment policies but she stressed that undertaking the development of employment policies is a long process and costly. It is better to simplify the guide and make it easier to understand, especially the jargon used. A short time line, for instance five pages, can be provided with boxes to tick to make it easier for users to keep track of the process. She suggested developing a guide on the implementation process as a follow-up action to complement the guide. Another suggestion was to add a chapter on labour market information system and a success story on the result of the process where a policy had an impact on employment. Furthermore, more improvement can be done on the monitoring and evaluation chapter and it is important to make a NEP more gender friendly. Finally, she suggested testing the guide internally and externally in the beginning.

Plenary discussion on the guide for the formulation of national employment policies

Sukti Dasgupta continued the plenary discussion and summarized the main issues as follows:

- Regarding the policy cycle approach, Olga Koualeva (DWT Moscow, ILO) thought there should be clear definition of selected policy documents and tools for strengthening analytical capacity. She insisted that employment policy is also part of economic policy instead of only a part of social policy. In this case, it is necessary to examine further the links with Ministry of Finance and other ministries.
- Sukti Dasgupta pointed out there are three types of knowledge: 1) knowledge that already exists 2) knowledge that is created and 3) knowledge that is generated during the process. The key question concerning knowledge building is who will carry out the research? Industrial relations need to be added as theme as well as social protection and their links with employment are also important.
- **Mauricio Dierckxsens (DWT, San José)** added a pointed on financing of the NEP process that policy makers may consider earmarked funds, for instance one percent of the GDP, which is better than wage bill tax that may cause issues of informal sector.
- **Andrés Marinakis (DWT Santiago, ILO)** thought it is not necessary to test the guide. Instead, a review should be carried out after three to four years. The first chapter shows that this global crisis is a good opportunity for emphasizing the importance of employment policy.
- **Michael Mwasikakata (DWT Pretoria, ILO)** suggested studying the political economy in the preparation phase in terms of who controls what. Besides, it is also important to keep in mind the national process regarding the requirement for adoption of employment policy.

- It is a very good manual for different actors involved in the NEP process, including ILO officials and experts coordinating with the ILO.
- The guide is successful in stressing the need to work closely with the ministry of finance apart from only the ministry in charge of the NEP to ensure funding in terms of implementation.

Next steps for the guide for the formulation of national employment policies:

- Technical validation during the workshop
- Finalisation based on feedback received by mid-October 2011
- Publishing of the English version before the end of 2011
- Translation into French and Spanish by the end of 2011 and other languages if needed
- Use in capacity-building activities in November 2011
- Disseminate through the field offices by the end of 2011 and early 2012

III. Brief presentation on the ILO Global Information and Knowledge Management Gateway

Michael Henriques (CABINET, ILO) delivered a brief presentation on the upcoming ILO gateway that will allow a systematic approach to gather and share knowledge. The gateway will be established to collect and aggregate timely and detailed information by country across the four strategic objectives of the ILO, as a basis for high-quality and evidence-based comparative analysis. He further explained the three major taskforces for developing the gateway:

- Provide the content about global research and analysis
- Collection of country level information
- Build the gateway

The gateway will provide access to three basic types of information: laws and standards, statistics and policies. It will enable searches by theme across countries, thus providing information for comparative analysis. It is planned to have the gateway available and operational to cover between 50 and 80 countries by the first half of 2012.

IV. Brief presentation on the Global Knowledge Base on Employment Policy

Eléonore d'Achon (EMP/CEPOL, ILO) provided an overview of the Global Knowledge Base on Employment Policy (GKBEP). The development of the GKBEP is the result of an extensive collaboration with ITCOM. She explained the main objectives of the GKBEP, including:

- A contribution to the office wide knowledge management system with a specific contribution to the third pillar on “Country policy inventories”
- To have an institutional memory which ensures continuing knowledge building and management of knowledge on employment policy
- To facilitate timely and thematic analysis across countries and regions
- To facilitate exchange of information and good practices between headquarters and field offices

The two main functions of the GKBEP include:

- Analysis of National development plans (NDP) and national employment policies
- Electronic documents management system (EDMS): an electronic virtual library on employment policies

Regarding the information on NEPS, the GKBEP collects:

- general information, such as title and date, status, timeframe, ILO support,
- Goal, strategic objectives and employment targets
- Formulation process
- Content of the NEP, based on the GEA key policy areas
- Articulation with the National Development Plan
- Implementation of the National Employment Policy
- Monitoring and evaluation process

The information provided on NDPs shares the same idea as for NEPs, for instance:

- General information, such as title and timeframe
- The integration of employment content into the NDPs
- The participation of tripartite partners in the formulation and implementation processes

Hala El-Gohary (ITCOM, ILO) continued the presentation by stressing the structure of the GKBEP was compatible with the future requirements of the office with regard to the implementation of the ILO gateway.

The two main back-office processes for producing comparative country reports were:

- Collection of relevant documents and upload them to the electronic virtual library
- Review the information provided by employment specialists in terms of factual information about the policy documents as explained above

The next steps of the GKBEP would focus on collection of information, finalizing the prototype and building the GKBEP website and providing training to users on how to use the electronic virtual library.

Key points by Michael Henriques and Eléonore d'Achon:

- This system is meant as a major knowledge-sharing tool for the employment specialists at HQ and in the field.
- Each specialist should start using the electronic library as a common drive to save his/her files on the counties where NEPs are being developed and implemented. This will be key to the sustainability and hence success of the GKBEP.

V. Brief presentation on the new Employment Policy Course in Turin

Mariàngels Fortuny (EMP/CEPOL, ILO) briefly presented the capacity building course on employment policy that will take place in Turin in November as pilot. After that, the course will take place every year in September. This capacity building course is composed of ten modules that are related to technical knowledge on employment policy:

- Module 1: Introduction of policy making process, policy coherence, employment policy process, planning cycle and different employment policy development stages
- Module 2: Pro-employment macroeconomic frameworks
- Module 3: Sectoral strategies for enhancing employment content
- Module 4: Informal economy
- Module 5: Public employment programme and its design
- Module 6: Active labour market policies and institutions and employment services
- Module 7: Gender equality
- Module 8: Youth employment
- Module 9: Labour market information system
- Module 10: Employment policy development and International Labour Standards

The design of modules will be revised every year and there will be exercises in each module. This year will have around 20-30 participants in the course. The language of the course will be English only this year.

Plenary discussion

After this session of presentations, questions were raised concerning the sustainability of the online knowledge platforms and the confidentiality and availability of information from the knowledge platforms.

Eléonore D'Achon agreed that the maintenance and updating of the GKBEP was a main issue and explained that there would be two levels of audiences of the GKBEP: ILO staff and public. Therefore, not all the information would be made public and some information would be reserved only to internal staff. For the ILO gateway, **Michael Henriques** confirmed that the ILO gateway will be a public tool, but some documents will not be made public.

Theme IV: Enhancing the employment content of sectoral strategies

I. Introduction

In Africa, the work of infrastructure affects most of the population and there is a huge opportunity to create jobs. The stakeholders in infrastructure provision need to consider across sector capacity building for service delivery and manufacturing policy in order to maximize the local participation. There is a need to link public investment in infrastructure with national regular budget and funding. Local fundraising could lead to a more sustainable development by using local resources, for instance, skills and entrepreneurs. Furthermore, multi-sectoral approaches could also play a role. The main issue is the private sector capacity to produce the assets and create jobs in the context of local development.

In this area, there are many development partners, such as the World Bank, to apply local approach to address employment, especially for wage and income. The next step is to make this sector supportive to socially inclusive growth and take advantage of the tool to make sustainable employment more acceptable.

II. Assessing the employment potential of sectors: a discussion of country experiences and methods

Frédéric Lapeyre (EMP/CEPOL, ILO) emphasized that the ILO receives increasing requests from member states to use sectoral policy to prioritize sectors for job creation. Policy makers are interested to know how many jobs have been created in particular sectors, ex-post and the particular skills needed in priority sectors, ex-ante.

James Heintz presented the tool and data for analyzing the Madagascar case. The evaluation of employment outcomes in developing countries is a main challenge since there often is no comparable sectoral level employment data. However, the input-output model can provide a starting point to evaluate the impact of macroeconomic policy on employment. The input-output tables represent an accounting framework to describe production and flows of goods and services between sectors of the economy and they can be linked to macroeconomic aggregates, for instance, consumer demand, exports, investment, government purchases and so on. The model is also useful to calculate output and employment multipliers to prioritize areas with employment generation potential, evaluate policy scenarios with regard to employment and understand linkages between sectors and industrial structure. In order to use this methodology, a set of input-output tables and data on employment by sectors are necessary. However, while applying this methodology to a developing country context,

some common characteristics need to be considered, such as widespread informality and self-employment, and there is a need to understand the structure of employment. The constraints of analyzing the case of Madagascar included the lack of sufficient data and there were high levels of agricultural employment and self-employment. To conclude the presentation, he explained the limits of the input-output model, including the static characteristic of the model, the emphasis on the demand side and the implicit incorporation of simple assumptions about technology and prices. Nevertheless, the model could still be used to identify policy priorities, particularly in the context of employment-targeting.

Frédéric Lapeyre presented the case of Gabon. The central question was the choice of the type of growth and priority sectors. Sectoral targeting should go in line with labour-intensity and employment targeting. Regarding the growth of labour intensity, it should be coherent with the national development strategies and focus on the targeting process with the ministries concerned. He listed the major factors of sectoral distribution to the overall growth and job creation, for instance, backward and forward linkages, compositional effect, trade issues, wage employment and fiscal space. The input and output analysis allowed policy makers to prioritize and design the different types of policies. During the prioritization process, some criteria needed to be taken into account, such as the weight of the industry in total employment, technological change, productivity and the quality of jobs in the sector. The case studies capitalized the sectoral approach and experience by helping with identifying the key constraints of main sectors, the role of financial system, the appropriate trade and investment policies and the competitiveness of sectors. In 2008, the government of Gabon carried out the assessment for poverty reduction strategy. Their main focus was to investigate important sectors and assess the sectoral policies in order to plan for the Poverty Reduction Strategy II. Since the economic structure of Gabon was not diversified, the largest contributing sector in the primary sector, the oil sector, was weakly integrated with the rest of other sectors. He highlighted ILO inputs for the Ministry of Labour to plan the priority sectors in the Poverty Reduction Strategy II.

Eléonore D'Achon delivered a presentation on the textile industry in Morocco, an important growth sector and highly labour intensive. The objective is to show an example that avoids situation where there is a sound and technically solid research but leading to only limited impact at national level. The main challenges of this sector were the international barrier and competition in the global market. The ILO approach was to build a common vision between key actors of the industry and gather them at the same table of discussion. The ILO's intervention was in a difficult context as the employer organization (association Marocaine des industries du textile et de l'habillement) had already developed a strategy in cooperation with public authorities to upgrade the sector to maintain its share on the global market. The social dimension was ignored in the strategy that focused on the conventional determinants of competitiveness such as the investments climate and production costs.

Besides, Trade unions and workers, key actors for an effective implementation of the strategy, were completely excluded. In order to secure the social dialogue, a tripartite committee was established. The ILO supported a diagnosis study to analyze the economic and social picture of the textile and clothing industry and a national tripartite action plan was developed as consolidation of a shared vision. Regarding implementation, the social partners decided the priority areas for immediate actions with support of the ILO. The major achievements from the process are: keep the conflicting industrial relation as minimum, culture of dialogue developed, a sustainable bi-partite industrial committee, creation of a group of international buyers, development of a national social compliance Code (Fibre Citoyenne) and implementation of new labour code.

Lessons learnt from the Moroccan experience:

- Substance and process are equally important. There is no trade-off between quality of research and process. This story tells that research supported by the ILO has to be delivered in a timely manner and secure the condition to enable effective implementation.
- Even though the process is slower pace but ownership is built which enables the conditions for a sustainable process.
- This case proved the value added of sectoral approach : from the concept to the reality of decent work
- Collaborative approach within the ILO is important, including field offices, HQ, SECTOR, Employment Policy Department, DIALOGUE, ACTRAV, ACT/EMP, TRAVAIL and so on.

The discussant, **Fiona Tregenna (University of Johannesburg)**, emphasized the importance of conceptualizing and measuring employment-intensity at sectoral level as it could be helpful for the projection or monitoring of the policies at sectoral level. The employment elasticity of growth and the forecasting model were effective ways to measure the employment intensity at sectoral level. She also discussed the conceptual issues, such as the pattern of growth at sectoral level, the demand disaggregation, the tradeoff between employment intensity and productivity, the structural change at country level, the implication of fiscal policy on employment and the decent work intensity. She continued stressing the importance of sectoral dimension because structural transformation growth happened across sectors and there were sectoral differences in job quality. Furthermore, the sectoral characteristic of employment pattern, for instance for youth and women could be relevant for policy in targeting sectors. She further illustrated by using manufacturing sector as an example. According to the Kaldorian and Structuralist approaches, manufacturing might not be the most labour-intensive sector but this sector had high linkages to raise employment multiplier. The manufacturing sector in South Africa had a relatively high job

creation multiplier among other sectors and this sector was a mixture of substances of all sectors. However, she agreed that there was a trade off in the process of industrialization regarding the sectoral growth and productivity. Therefore, she suggested the research issues should focus on the employment growth at sectoral level, the pattern of sectoral growth and employment, the international pattern regarding financial crisis, the types of sectoral level approach needed and the integration of the transformation into sectoral targeting.

The main questions raised by participants included the linkage of productivity and labour-intensity, the possibility for sub-Saharan countries to be competitive in the textile sector in the coming decade while facing the competitions of China and India, the issues about the international competitiveness of wage and income for sub-Saharan countries, the other alternative strategy with regard to processing raw material and diversification, the linkage between social inclusive growth and structural transformation growth, the forecast of skill profile at sectoral level, different analytical approaches on sectoral policies with policy narrative and the feasible process of transformation.

James Heintz explained the relation between industrialization and employment creation and pointed out the concern was industrialization led to inequality at global level. He used the example of service sector, especially financial service to explain the impact of financialization in terms of employment. The economic bubbles in the US and Japan reversed the employment situation as they placed financialization as the main driver for economic growth. Fiona Tregenna reminded the need to go from sectoral to sub-sectoral level and industrial policy needed to be combined with other tools. It was important to consider the implication of the cases of Korea and India. Then, Frédéric Lapeyre focused on explaining how to improve the process of localization of the economy and link it to the modern sector and stressed the need to provide skills and vocational training. Sukti Dasgupta reminded that in most of the cases, the constituents did not have the capacity to apply all the above tools and this could affect the implementation of strategies at the field level.

Key issues and on-going work on identifying the employment potential of sectors:

- Technique driven approach methodology needs to be combined with policy narrative.
- From sectoral to sub-sectoral level approach.
- The capacity of constituents to apply the sectoral level strategies' tools of the ILO.
- Ensure the effective implementation of the recommendations and continuous consultation with tripartite partners.
- The importance of an integrated programme to show the value added of decent work, and how it can be concretely integrated in national policies.

- The sectoral approach regarding how to integrate employment at the centre of economic and sectoral policies should be more concrete and less conceptual.
- It is necessary to taking a sector as the point of interface that helps establishing clear priorities, appropriate sequencing of support and activities and avoid shopping list.

III. Enhancing the employment content of sectoral strategies: potential of the infrastructure sector

Marc Van Imschoot (EMP/INVEST, ILO) delivered a presentation on the connection between employment creation and environmental protection work in Yemen and Nepal. Mr. E. Rubayiza told the Haitian story of employment creation through water management in the Gonaives region. Following the hurricanes in 2004 and 2008, the ILO provided technical assistance to the Government of Haiti to reconstruct the region and create employment while preventing new damages. A project, co-funded by UNDP and WFP, was formulated to create local employment opportunities through the protection of land from erosion. Associations were established to handle the recruitment process and the execution of the project. Half of the workers were women in the project and the reforestation led to long term green jobs. The problem in Yemen was the lack of water supply in the urban areas on one hand and the need to irrigate for agricultural activities. In the rural areas, the project enhanced agricultural activities through the construction of reservoirs and wells using labour intensive techniques. In Nepal, the challenge was landsliding, especially during the monsoon which affected adversely human activities. The above examples showed how climate change could affect employment and human activities. The cost of all the public employment programmes mentioned was very little in proportion to the number of jobs created.

IV. Tools and methodologies for assessing the employment potential of infrastructure investments

Christoph Ernst (EMP/INVEST, ILO) listed the different available employment impact assessment tools and presented the development of the Dynamic Social Accounting Matrix (DySAM) and its utilisation in ILO work in Indonesia, China and Mozambique.

The presentations were followed by discussion on the ranking of different models, the experience of applying the tools, the livelihood situation of workers after the projects, the sustainability of interventions regarding employment creation, the effect on wage in the local labour market, the cost-effectiveness of the projects and the wage setting mechanism in the model.

Christoph Ernst observed that the income effect was important. Policy decision making process needed to take the ranking of different models into account. The DySAM model was constructed based on the past and other studies that had been carried out in order to prioritize the future. With regard to the cost-effectiveness and the dynamic side of development perspective, there was multiplier effect by using local resources. The model was able to compare different scenarios in terms of wage setting mechanism.

Marc Van Imschoot assured the sustainability of the interventions. In Nepal, small projects could help to improve the quality of land and the extensive services. Instead of guaranteeing the employment opportunities every year, people could work on their own lands resulting in increasing the productivity of the land, providing employment to the community and increasing labour productivity as well. In terms of cost-effectiveness, price was much lower and cost effective by using local resources, for instance, the case of building school in Madagascar.

Terje Tessem (Chief, EMP/INVEST, ILO) closed the discussion by summarizing that it was important to combine productivity and infrastructure construction in Africa, use public investment to create direct and indirect employment, increase the incomes and capacity of local community to increase domestic demand and take advantage of social protection investment regarding social inclusive growth. As the recommendation of the DG was to make investment leading to economic growth at domestic level, there was a need to understand better the sectors which could create more employment. More importantly, social partners and governments should be able to participate at the planning level. All the tools discussed should not be reserved only for academics or the ILO but they should be used by the partners. The next step for the team of EMP/INVEST is further development of the economic models and combine them together and finalise a guide on employment impact assessments.

Key tools and products for assessing employment potential of infrastructure investments:

- Employment Impact Assessment guide (EIA)
- Input-output tables
- Dynamic Social Accounting Matrix (DySAM)

V. Employment targeting at the sectoral level and implications for employment policy: panel discussion

Roxana Maurizio, using the Argentinean case, showed that there is a need for more sophisticated models and tools to analyze the employment generation capacity of specific productive sectors, greater attention to informality and formalization during the business

cycle and further analysis of the potential negative relation between unemployment and wage.

David Kucera (INTEGRATION, ILO) focused his intervention on the difficult balance to find between promoting policies that increase the employment intensity of growth and policies that increase the labour productivity. Sectors with high employment intensity are often sectors with low productivity and hence low earnings, which does not go in the direction of decent work. The change within sectors, for instance the reduction of the number of hours worked in Korea following productivity increases resulted in increasing the number of decent jobs. He suggested focusing both on sectors that support structural transformation towards higher value-added, higher productivity as well as on the labour absorbing sectors, instead of only on the latter.

Sukti Dasgupta furthered the discussion by explaining why targeting sector in employment policy was important. The quantity and quality of employment influenced the choice of sectors. When jobless growth was undesirable, growth without productivity was also unwelcome. She illustrated the choice of sectors with the case of Cambodia. In Cambodia, the garment sector happened to be the right time and the US government also played a great role in terms of exports. This sector was severely affected by the financial crisis since it was very export-oriented rather than FDI. Therefore, the choice of sectors could be based on the product line of the sector, the labour demand aggregates and the employment elasticity. In Asia, productivity had been growing tremendously but wage was not growing, for example, in Thailand. If employment, industrial and investment policies were meant to promote social justice, it might be more appropriate to focus on employment with economic growth.

Dorothea Schmidt supplemented the discussion by pointing out that sectoral level strategies were very fashionable in the North African region. Member states in the region had a great expectation on sectoral policies to create employment instead of decent employment. Member states' choices of sectors were based on their own criteria even though it might not be economically reasonable. The choice of textile sector in Egypt was based on the convenient analysis on the sector and the quality of employment was neglected. Natural consensus was rather common during the decision process of choosing sectors. The recommendation to the ILO was to help member states to identify sectors instead of assigning specific sectors to them. The integrated and coherent approaches should be applied within the house in the field.

Yan Islam concluded that the selection of sector was a default choice. The understanding of real exchange rate was important. Government should be able to have control on real exchange rate. Policy advice to governments from ILO should be based on real experience.

Theme V: Expanding research frontiers on the informal economy

I. Introduction – Key issues for policy research: Where are we, what next?

Azita Berar Awad highlighted that there was a need for a whole research workshop in itself to cover such a broad topic as the informal economy. She elaborated that the panellists would use their research work to provide information on where we should be putting our focus. This included the following areas:

- The linkages between growth, employment and informality;
- The drivers of informality; and
- Public policies that can help us transition to informality.

She provided an overview as to where the research is leading in informal economy. The rise of informality is presented as having two elements behind it: the patterns of growth and the policy mix. A four country zoom highlights very different sets of relationships in growth, informality, poverty, patterns of job creation and inequality across countries.

In India, growth is high; however, informality represents 92% of total employment (including agriculture). Informality is growing in both formal and informal sectors. It is evident that 38% of employment in the formal sector was informal in nature (1999-00), which rose to 47% (2004-05). Poverty levels are stagnant with 27.5% of population living below poverty lines. The Gini Coefficient has been stable though it may be increasing in the recent post globalization period.

Brazil represents a good case, where both growth and formal job creation has increased, with the rate of formal job creation at about 5.3% annually, compared to a lower rate of informal job creation at 1.7%. Poverty and inequality are also on the decline.

Argentina experienced an episode of high growth, after the 2002 crisis, at 8.5% of annual average between 2003 and 2008. 3 million formal jobs created between 2002 and 2008 and unregistered salaried employment decreased from approximately 49.1 per cent to 33.7 per cent between 2003 and 2010. After the global economic crisis, growth has recovered at 9.2 % in 2010. However, formal jobs suffered a reduction during the first two quarters of 2009, accompanying the crisis. But overall from the 1990s to the 2000s, there has been a decline in unregistered jobs generate from 9 out of 10 to 8 out of 10. Since 2003, there has been a favorable performance of the labor market through a dynamic process of job creation, the partial recovery in real wages and a gradual improvement in their distribution made possible the percentage of individuals in poor households to decrease 27 percentage points –from 49.8% to 23.3%- between the second semester of 2003 and the first half of 2010. This improvement in social conditions was also associated to the reactivation of minimum wages

as well as the increase in the coverage of pensions and their real benefits. Between 2004 and 2009, the Gini coefficient decreased to 0.456. This reduction of level of inequality is explained basically by three factors: creation of registered employment; reduction of labour precariousness; expansion of the social protection system.

The definition of 'informal employment' in Indonesia combines employment status and occupation. The share of informal employment remained high at around 63% of total employment on average between 2001 and 2009. During this period, the GDP (per capita) growth averaged 5.1% per annum. The growth rate picked up in the 2000s to reach a peak of 6% by 2007 and 2008, before decelerating to 5% in 2009. In terms of poverty, the economic growth was accompanied by a fairly steady decline in poverty rate, from 18.4% in 2001 to 14.2% in 2009. In terms of patterns of job creation, there was a contraction in formal employment, from 35.0 million in 2001 to 32.8 million in 2003, while informal employment increased, from 55.8 million in 2001 to 60.0 million in 2003. Since then, formal employment continued to increase by roughly 1.2 million per annum, while informal employment increased by 0.8 million per annum. Between 2001 and 2009, on average, roughly 8 out of 10 jobs had been informal. Inequality is fairly low in Indonesia, with Gini coefficient standing at 0.34 on average between 2002 and 2009. However, inequality tended to increase during this period, from 0.33 in 2002 to 0.37 by 2009. It is clear that countries have diverse realities when it comes to informal employment and the idea is to understand why these patterns and relationships are so different.

As of the 2002 discussion at the International Labour Conference, it became clear that the tripartite consensus was that the goal is for the transition to formality. Moreover, the concept of informal sector was enlarged to talk about the informal economy (due to new forms of contractual arrangements). So the thoughts enlarged to encompass two areas of informal employment in both formal and informal sectors and informal enterprises.

It is clear that an integrated strategy is required to put into place transition to formality, especially with such a diverse reality of informality. The ILO's integrated strategy for formalization includes, assuming that the pattern of growth impacts informality, a focus on growth strategies and quality employment generation. The second policy area that is high on the agenda is the regulatory environment, including enforcement of ILS & core rights, to serve as a rights based approach. The third policy area important to formalization is organization, representation and social dialogue in order to empower associations and workers. Moreover, since the informal economy is where you find the most vulnerable groups, equality of gender, ethnicity, race, cast, disability, and age is important to consider. Entrepreneurship, skills, finance, management, and access to markets serve as an important policy platform. Extension of social protection, social security, and social transfers is a clear goal and, finally, strategies for local, rural and urban development is required.

II. Growth, employment and informality : Some Critical thinking on formal-informal linkages

The first presenter, **James Heintz**, spoke of formal informal linkages. He indicated that looking at mainstream explanations of informality; there were two broad schools of thought:

- The Voluntarist School, with proponents such as William Mahoney at the World Bank, where individuals are free to choose between informal and formal employment. No barriers exist between informal and formal employment. The choice is therefore based on the costs to informal and formal employment. Costs are represented by institutions, taxes and regulations, whereas the benefits are simply the opposite, where you avoid the costs.
- The Classical Dualist School, suggests that there are labour market rigidities i.e. labour market regulations or collective bargaining, which sets wages too high and causes the rationing of jobs in formal economy causing people to seek employment in informal economy.

The policy implications are different for these different schools of thought. Basically, there is no policy implication in the Voluntarist School of Thought as people are free to choose. In the Classical Dualist School, the policy implications are that if you remove the rigidities in the formal economy then you can encourage more formality.

His approach, however, involves a better conceptual relationship. It involves a mixture of exclusion from formal economy and unfavourable. He provided an example of exclusion where informal workers are not just excluded from social protection, but also from credit markets i.e. financial exclusion. This generates a type of exclusion distinct from the Classical Dualist School. An example of unfavourable inclusion is unequal power dynamics. Street traders get goods from suppliers that are often in the formal economy. This is unequal because street traders face a lot more competition and crowding, whereas the formal enterprises have more protection. An example of this is in South Africa where street traders, majority get their goods from large formal businesses. Within this context, making purposeful choices are not completely structural issues. The reasons for choosing informality are many, for example, educational constraints or credit markets constraints. Given that these aspects are not included in the standard theoretical frameworks out there; this is a great area for future research.

A second area covered by Heintz is the mobility between the formal and informal spheres. Unfortunately, there is not a lot of evidence to trace one person's movement across the spheres. However, there are a few studies including one that looks at mobility in Mexico¹.

¹ Levy, S. (2008). *Good Intentions, Bad Outcomes: Social Policy, Informality and Economic Growth in Mexico* (Washington: The Brookings Institution)

The data suggests that individuals do move between informal and formal employment. The nature of the dynamic in Mexico might prove the Voluntarist School approach. But, James Heintz thinks people are choosing between formal and informal employment in the context of maximizing under risks: simple livelihood strategy.

If formalization is based on integrating informal workers into the regulatory environment, there is a challenge to address the issues of exclusion; you are not just trying to avoid unfavourable inclusion. It is also important to note there is a lot of precariousness and risk in formal employment. A narrow process of informal employment does not address all areas. So formalization should be embedded in broader employment policy. How you formalize should depend on your status of employment, whether you are a wage worker, an enterprise, self employed etc. So we have to re-imagine the legal framework that goes along with formalization as the same legal framework does not fit with all.

Key points on the evolution of formal-informal linkages:

- Need to move beyond classical approaches focusing on the Voluntarist School, where individuals are free to choose between informal and formal employment and the choice is based on the costs to informal employment and the Classical Dualist School, where it only takes into account structural rigidities in the labour market and ignores other areas such as credit exclusion.
- The way forward is to understand that moving workers from the informal to formal economy simply by extending social protection is too narrow a strategy for formalization. Rather there needs to be a broader set of strategies.

Key products and ongoing work:

- There is a need for additional research to trace movement of people in and out of informality.
- Since choosing informality is not completely a structural issue of labour market rigidities, the reasons for choosing informality need to be explored, i.e. educational constraints or credit markets constraints. Given that these aspects are ignored in the standard theoretical frameworks out there; this is a great area for future research.

Beyond the regulatory debate:

David Kucera (INTEGRATION, ILO) highlighted that dealing with the informal economy means moving beyond the regulatory debate. He presented evidence from developed countries, including the paper *Informality: Exit and Exclusion* by the World Bank (2007). The paper found that a substantial body of literature sees the size of the informal sector to be significantly determined by regulatory distortions or corruption. However, considering the empirical results of several studies that address impacts of labour regulations, a wide array of evidence can be found.

In a study by Heckman and Pages (2004), seven country studies used micro datasets to estimate the effects of “job security costs” on formal employment in Argentina, Barbados, Brazil, Chile, Jamaica, Peru and Trinidad and Tobago. The study found statistically significant results only for Argentina and Peru, where lower job security costs associated with higher formal employment². But it remains to be seen what the implications of job security costs are for *informal* employment.

In a paper by J. Heckman and C. Pagés-Serra (2000), cross-country panel data analysis of OECD and LAC countries (1990-1999) was used to model share of self-employment, where the key explanatory variable was job security index. The results varied greatly between whether OLS was used (where there was a positive impact of job security on self employment) or whether fixed effects were used (where there was a strong negative impact)³. However, the study hid the fixed effects results, which were even not reported in the annexe.

A study by Bosch et al. (2007) used cross-industry panel data analysis (1983-2002) to model share of formal employment, formal job creation and destruction with the key explanatory variables being % of unionized workers and labour costs. They found that greater unionization is associated with higher shares of formal employment and the estimated positive and negative effects on formal job creation and destruction cancel each other over time⁴. However, they conclude that the increase in informal employment in Brazil in the 1990s resulted from “*increases in union power*” and “*rising labor costs*”, which does not match the statistical findings of the study.

In a J. Friedman *et al.* (2000) study, a cross-country analysis of 69 developed and developing countries to model “unofficial” activity as a share of GDP with tax rates and index of

² J. Heckman and C. Pagés (2004). Law and Employment: Lessons from Latin America and the Caribbean –

³ “The Cost of Job Security Regulation: Evidence from Latin American Labor Markets” – J. Heckman and C. Pagés-Serra (2000)

⁴ “The Determinants of Rising Informality in Brazil: Evidence from Gross Worker Flows” – M. Bosch, E. Goni and W. Maloney (2007)

corruption as key explanatory variables found higher taxes and less corruption are associated with less “unofficial” activity.⁵ Contrary to the World Bank view, stronger regulations may be associated with a smaller informal economy insofar as associated costs of labour market regulations are paid for from taxes.

Key points by David Kucera :

- Given what is at stake for workers in developing countries, those arguing that labour regulations exclude informal workers from formal employment ought to hold themselves to a high standard regarding the strength of empirical evidence. This standard has not been met.
- Some of the statistically strongest results show a positive association between shares of formal employment and the strength of labour regulations.
- Other studies could be cited to show a positive association between shares of formal employment and the strength of labour regulations and labour standards (e.g., R. Galli and D. Kucera (2004)).
- In short, recent empirical evidence does not support the view that weakening labour regulations is an effective policy to reduce informal employment.
- Re Freeman, micro-analysis is surely helpful, but micro results can be just as readily mis-represented as macro results

Key products and ongoing work:

- Researchers need to act as fair-minded judges rather than adversarial trial lawyers.
- Particularly important that policy-makers can trust literature surveys as well as authors’ conclusions of their own work, as policy-makers may not have time or expertise to scrutinize these studies.
- Acting as fair-minded judges facilitates moving beyond the regulatory debate to a discussion of optimal design and implementation of labour regulations in country- and time-specific contexts.

⁵ “Dodging the Grabbing Hand” – J. Friedman *et al.* (2000)

Findings of country case studies (Indonesia, Namibia, India, Turkey and Viet Nam):

Makiko Matsumoto (EMP/CEPOL, ILO) spoke about informality in Indonesia. In Indonesia, informality, measured by the BPS definition, has remained high since 2009. However, since the BPS definition varied in her study she chose to focus just on casual workers. She found above 98% can be considered to be informal employment throughout the 2000s and there is a trend of casualization of wage employment.

The main drivers of formality/informality were found to include supply side factors such as educational attainment and skills: level (The results show that in 2000s people are better educated but it hasn't resulted in decrease in casual employment. Therefore, maybe it is more of a skills mismatch or level of education attainment issue), population and labour force participation (possibly in times of crisis; otherwise, not much) and geographical location (effect seems to be fairly small). Demand side factors include public employment programmes (tracer needed on participants) and private (/public) enterprise growth (slow growth of regular jobs). Finally, matching/intermediation had a role with wages (stagnating or declining regular wages, especially in the non-agricultural sectors) and labour market institutions (outreach/enforcement issues) having an impact in driving informality.

The findings on formal-informal linkages depend on how we understand the process of informalization/casualization:

- Portes et al. type of interpretation: "informalization is here to stay";
- Layard, Nickell and Jackman type of interpretation: "job rationing mechanism in the 'formal/primary' sector, others ending up in 'informal/secondary sector', and those who don't want to work for the pay offered in the informal sector will go unemployed"; or
- IFI type of interpretation: "LM regulation limits generation of formal employment opportunities".

In Indonesia, much more empirical analysis is needed to establish the first two, but the last does not, for the moment, seem to be the most relevant. And there is descriptive evidence that the first two types of mechanism are in place.

Finally on the link between growth, employment, and informality, there has been a disconnection. Employment as such has never been an issue in Indonesia. Even during the East Asian crisis, employment remained steady. Growth rate has been steady, healthy, and 2007/8 crisis affected the economy only temporarily. Informality, as defined in SAKERNAS, has remained steady and high (at about 65% of total employment).

Key products and ongoing work on Indonesia:

- Have some clarity on: is it the supply side, matching or the demand side that is keeping the share of informal employment steadily high in Indonesia? At the moment, it doesn't really seem to be about the supply side concerns.
- Greater clarity on job rationing mechanism in regular wage employment. At the moment, it is not really the regulatory environment in the labour market that is driving it.
- Why have real wages stagnated so much, particularly in regular non-agricultural wage employment, with attendant wage income inequality?

Frederic Lapeyre highlighted the study on the informal economy in Namibia. In Namibia there is a momentum to tackle the issues of unemployment and the informal economy as there has been poor performance in terms of job creation in the last 5 to 10 years. It is a small country with significant natural resources in the form of diamonds, radium and fish rich coasts. Over the last 10 years, there has been a 5% growth rate. Despite this, Namibia lost 70,000 formal jobs and had to deal with 250,000 new entrants into the labour mkt. Hence there was a boom in unemployment. In 2004, the labour force survey found that unemployment increased from 20% in the late 90s to 30% at present (more than 54% with less strict definition). There has also been a large increase of the informal economy workers, comprising almost 50% of workers. There are some issues with the data available for Namibia. With a less strict definition, 54% are unemployed, however, if you look at sample of labour force survey 64% are living in rural areas. With a less strict definition, 66% of people in rural area are unemployed. However, it is not unemployment in rural areas it is underemployment. There are a lot of youth working in agriculture, whereas they want to move out of agricultural work in rural areas and to urban. However, there are no labour absorbing sectors. Therefore, a main issue is how to develop job opportunities for young people in rural employment, who want to move out of agriculture, and who declared themselves unemployed instead of underemployed in the labour force survey.

Labour regulations are too high in Namibia. Moreover, the Government uses this to deviate the debate from inequality to employment (Namibia has highest inequality, pattern of growth). Informality is linked to pattern of growth. Over the last 10 years, development policy was based on diamond exports and the right to fish in coast. So the main issue is how to promote new sectors in job creation. There is a need to create more formal employment through macro and sectoral policies. However, this is challenging as Namibia is next to South Africa and suffers competitive pressure. There is also the issue of exchange rate and monetary policy as linked Namibia is linked to the South African central bank.

Some ideas to decrease informality through formalization include facilitating access to credit, skills programme and active labour market policies. Generating decent work within the informal economy can be possible through a minimum social protection floor.

Key point on Namibia:

- Macro and sectoral policies towards opening up new sectors for job creation to move those out of agricultural underemployment into formal employment.

Key product and ongoing work on Namibia:

- There has been a research programme launched with Mali, Benin and DRC, conducting 4 surveys of 80 informal economy units to better understand how they secure their economic activity and income in the informal economy and how they link with providers or producing for the formal economy. The surveys also look at informal economy associations' work and what is the interaction between bottom practices to secure livelihood and policy measures.

Uma Rani Amara (INSTITUTE, ILO) highlighted that in India, 73% of non-agricultural employment is in the informal economy. From the 1990s to 2000s, informal sector workers have increased in India. Poverty and inequality have increased as well. Despite India averaging 7.7% growth in the 2000s, informality has increased. Most jobs created are in low productivity sectors in construction and manufacturing. In high productivity sectors, only 21% are in the informal economy. In agriculture, informality is at its highest at almost 100%. India has its own legal definition of informality, which determines which sections of manufacturing are in the informal economy and which are not (this explains why we see such high level of informality in India).

Over the last 2 decades, the liberalization process in India has seen a rise in financial limits. Moreover, global competition has led to informality. More flexible production led to mushrooming of unregistered workers. There are big issues with the lack of unemployment benefits and safety nets.

Key points on India:

- The Indian Government is trying to push for employment as the heart of policy rather than growth (but this is limited to words).
- There are schemes like NREGA, which work towards providing a level of security but do not generate good quality employment (mostly unskilled).
- There are clear linkages in manufacturing and consumer durable industries between formal and informal sectors. Other linkages exist within domestic workers and services i.e. street vendors. But many linkages are disguised, making it difficult to say what is the employee and employer relationship and who gives protection to these workers.

Key products and ongoing work on India:

- Informal enterprises have low levels of productivity and their capacity is low. These are areas which need to be addressed.
- Minimum wages are not really available for many workers. Minimum wages have to be extended to all workers. 50% of casual workers do not get any minimum wages. Larger issue here with regards to wage and prod that needs to be handled
- Education alone does not help. Even with high levels of education there is a rationing of jobs and difficult to enter formal sector. We need much more skills development programmes for workers. Vocational education for all needs to be introduced at lower levels so it is accessible to all, which it is currently not.
- Mobility exists within the informal economy i.e. movement from casual agriculture to casual manufacturing employment. We are completely missing this aspect in our policy programme.
- We should not undermine activities happening within the informal economy. There are a lot of innovations happening in skills networks etc. in the informal economy which we can use for the formal economy.
- Securing transition to formality requires social protection for workers in the informal economy. For street vendors, legal rights are required to proceed with their operations.
- Statistics need to move beyond regulatory debate, as workers in the informal economy are heterogeneous and cannot be put in one category. Are workers in the informal economy due to voluntarist reasons or classical dualist reasons or a combination? It is important to look at this at a sectoral level in order to inform policies.

Azita Berar Awad highlighted the importance of sectoral approaches and looking within the informal economy both in terms of various types of occupation and status but also the dynamics that growth patterns have brought about.

Umit Efendioglu (ILO Ankara) spoke of the drivers of informality in Turkey. She outlined 3 layers of drivers: economic, social and institutional. On the economic side, the macro policy and industrial policy have a lot to do with driving informality. She indicated that there is a lack of decent job creation. Moreover, wage share has gone down relative to profit share and productivity has shot up. Labour market issues include low labour force participation, especially for women and high unemployment and underemployment. SMEs are specialized in low value added exports, where the productivity issues are critical. It is difficult to understand why when employers decide to save one costs, why do they think first about saving on labour. They do have a choice between wage or non wage costs. There is a focus on increasing productivity and distributing the gains from that to workers. Social security and avoiding regulation and cost is another level. These have not just labour market costs but bureaucratic costs of setting up.

In Turkey, unemployment was at 10% before the global economic crisis, and up to 14% during the crisis, then quickly down again in 2011. Most employment gained during the crisis was in the informal sector. Therefore, we are not talking about job poor growth, but jobs being created in the informal economy. Currently, still 43% of informality rate (80% in agriculture and close to 30% in the non agricultural sector).

Key products and ongoing research on Turkey:

- The Turkish Government is launching reforms for flexibilization. The diagnosis is that more flexible labour regulation can address the issues.
- There was a study from the World Bank in 2010 on informality in Turkey, which the need to deregulate and flexibilize.

Sukti Dasgupta spoke on Viet Nam. What distinguishes Vietnam is that it was a centrally planned economy and represents a success story. The country has grown and reduced poverty phenomenally, moving from a low income to high income country. By 2020, the Government aims to become developed. However, the growth has come from the export sector and industry, following a classic Kuznets style development, moving from agriculture to industry. Industry is growing to claim 45% of total employment in Vietnam. Initially, the Informal economy was hidden, not recognized or talked about. The first ever labour force survey that included the informal economy was in 2007, and it was calculated to be 82%. In 2009, the next survey attached a module to look at informality in Ho Chi Minh and Hanoi specifically. The analysis based on the survey results found the drivers of formality was

existing legislation and they found larger informal sector firms were shying away from registering to avoid paying taxes. They also found the socio economic characteristics where the more educated did move to formality. If there were incentives to have access to markets, there was also an incentive to register.

Moreover, the party system in Vietnam, where the party decisions determines all, gives little role for the civil society with regard to informality. So issues related to informality raised in other countries are not raised in Vietnam. However, the Vietnam employment strategy 2011-2020 will be the first document to address informality.

Key points on Viet Nam:

- There is no clear definition of informality in Vietnam; therefore, the plan is to create an employment promotion law like in China.
- There is also a huge problem related to data. The 2009 survey data is still not released.

Key products and ongoing research on Viet Nam:

- Is it classical dualist situation? Are there voluntarist elements to it?
- What happening in the sectors? What is the heterogeneity?
- Government believes that, with development, the informal economy will disappear but this is unlikely.
- The ILO needs to understand the drivers of informal economy and the impact of minimum wages. Moreover, it is important to gauge the impact on the informal economy of the social protection floor.

III. Public policies and transition to formality: what works, for whom? (Informal wage employment, self employment, MSMEs, and sub-contracting)

Fabio Bertranou (CO Buenos Aires, ILO) answered two key questions: What are the policy measures and their mix that are making a difference in curbing informality in Argentina? What should be the priorities for future policy research?

Macroeconomic and fiscal context have played a major role in creating room for new regulations and labor market policies to curve informality and improve welfare of families in the informal economy. Tax revenues are increasing in Argentina, which can fund social

policies. Wage employment is increasing and non registered wage employment is decreasing in Argentina. Informal salaried employment now represents 4 out of 10 of new entrants to labour force. If the informality reduction is decomposed both a rate and structure effect are evident. The reduction in informality has been across all the sectors, however, some sectors such as the construction sector saw a decline in the rate of informality (from 79% to 63%) but share of sector (structure) has increased. With domestic workers, the rate of informality has declined and also the share in total employment so overall there is decline. Research on the decomposition of rate and structure effect of informal economy and its impact on informal and structural policies are ongoing.

Policy measures that are making a difference in curbing informality in Argentina include regulation of informal activities, inspection and incentives for registration in formal enterprises, regulation of special labor relations, actions to improve employability, social protection for workers and families in the informal economy and prevention of layoffs.

Key products and ongoing research on Argentina:

- Sector-specific strategies to curve informality: domestic services, agriculture, construction
- Self-employment dynamics: what does being “formal” mean for own-account workers?
- How social protection floor interventions for families in the informal economy impact their labor trajectories and opportunities for formalization?
- How does formalization impact poverty and income distribution?

Azita Berar Awad indicated that it is clear that the discussion is pointing to the need for integrated and multidimensional interventions and to look beyond regulatory debate.

Phillipe Marcadent (ED/PROTECT, ILO) spoke on social security policy. He said that often informal economy workers are deprived from social security as it is part of what defines informality. However, this can be misleading. This is because social security has many different models, of which many are not based on employment status, for example, NREGA and Bolsa Familia do not care about employment status. Health insurance in Africa is based on residency rather than employment. So employment is not a key dimension for eligibility of social security. Therefore, in terms of formalization, applying social security is not the same. It is necessary to de link social security with employment.

The example of Cape Verde was used to show a country that has managed to create an employment based contributory social security system. The country is performing relatively

well, with good social indicators compared to the region, an expectation to reach the MDG targets, and a middle income country as of 2008. The country is getting off dependence on overseas development aid. All these factors represent good timing for a social security system. Timing is important as you cannot achieve a good social security system when you are LIC without good institutions.

Cape Verde has no clear measurement of the informal economy. The first survey found more employment in the informal than formal economy, with formal employment representing around 30 to 40% of total employment. Social security coverage is used to measure employment and coverage has doubled in last 10 years.

Key points on Cape Verde:

- How did Cape Verde get social insurance coverage? Firstly, it is important to be group specific. Secondly, since social security is complex, it is the best to begin with the simplest group, for example, wage employees in the public sector or large enterprises. Moreover, the design of the social security needs to be adapted to the features of the target group characteristics, in this case informal economy workers. This is essential to determine the size of the benefits, the way you pay the contributions etc. The issue is that this information is missing in most countries. Therefore, there is a need for a strong effort towards getting information on group you want to cover. Moreover there is a need for strong compliance and enforcement of social security laws due to delays in payments etc. Finally, communication within groups in the informal economy, cooperatives, and municipalities is important.
- Social security floor is a human right. Progressively applying it though, may create an incentive for informalization (social floor). The floor perpetuates the situation where people avoid the realm of social insurance. Social security systems can both increase or decrease informality. Trust of institutions is a factor here. If you trust institutions, you are willing to pay contributions to get pension in 20 years time. Though, the social floor is human right, employment is labour right. Hence there is an inherent trade off between ensuring quickly a minimum tool and moving beyond the minimum.

Key areas for products and ongoing work on Cape Verde:

- We tend to reflect in public policy from the system itself but we do not know what is happening at the household level. We need to know how households use programmes to build livelihoods in order to move from assistance to inclusion.

Susan Hayter (DIALOGUE, ILO) presented results of a mapping exercise looking at collective bargaining, across different countries, and how informal employment is affected. The situation of trade union coverage and collective bargaining is key. In OECD countries, trade union density and coverage have both declined. Collective bargaining is higher than trade union density in OECD countries and has remained stable, except in those countries that have deregulated. In developing countries, due to a lack of data and exceptional practices, it is difficult to estimate trade union density and membership.

She mentioned the avenues, through which collective bargaining is impacting informal employment, such as expansion of trade union strategies to non-standard workers and representation of specialized interests. Trade unions represent these workers in a number of ways. Networks and alliances with civil society is important as success cases of moving from informal to formal have often involved networks and alliances between union and civil society.

Bargaining arrangements include inter sectoral bargaining, multi employer bargaining (which is an effective means to extend social security), single employer bargaining and bargaining with an agency. The issues the workers bargain for include employment security which includes, limiting externalization, regularizing contracts and negotiating continuity of contracts and wages and benefits, which includes improving the wages of temporary workers and equal pay.

Policy challenges on collective bargaining and informal work:

- Policies addressing and clarifying the employment relationship.
- Need to be looking at good practices in terms of policies that have addressed the collective bargaining.
- Effectiveness of attempts to regulate atypical and non-standard employment and intermediaries
- How to promote inclusive representation and bargaining (role of social partners, public policy)?
- Outcomes of different bargaining strategies

Louise Fox (World Bank) discussed public policies and transition to formality and gave perspectives from Africa. She first posed the question: transition to what in SSA? She highlighted that we are trying to achieve both macro (higher income; sustained growth; diversified, higher productivity economy) and micro (household: higher levels of monetary and non-monetary welfare; equity; lower risk of welfare loss; decent work) targets in economic development. What does formality have to do with these objectives? Is it a cause or an effect or neither?

We all agree that the objective is to create more formal employment. Regulation has twin goals with legal protection for less powerful worker against abuse by employer (EPL, minimum wage) and the role for social insurance: wage income is observable, and potentially insurable. More formal wage and salary employment means higher wages, lower vulnerability for worker (decent work) and usually higher productivity.

Currently the World Bank is doing research on household enterprises (HE). She poses the question is an informal firm unambiguously bad? She highlights various issues related to informal firms. For example, what if firm is registered and pays taxes but is small family run kiosk? Is it an informal firm? What if firm is large and bribes tax inspector to avoid taxes? Is it formal? Does the HE need any protection that state regulation can provide? Does the employment relationship within the family need regulation from the state? The point is firms do not formalize to get rich; they get rich and then formalize.

She points out that even with very high growth; wage and salary cannot absorb all new entrants. In Uganda, between 2003 and 2006, there was 12% growth per annum, where private non-agricultural wage and salary employment absorbed less than 20% of new entrants. Moreover, the new entrants were not prepared for wage and salary jobs as 50% had not completed primary education. The HE sector offers better options than agriculture; In Tanzania, Kenya (Nairobi) and Mozambique; mean earnings are higher than wage and salaried employment (but high variance). Moreover, increased income from other sectors brings demand for HE services. Until there is enough growth, most of the labour force will need to work for themselves or in HEs. Therefore, we cannot just focus on wage and salaried jobs.

In both low and middle income countries, policies and programs for employment and youth transition focus primarily on wage & skilled sector but even low skill and semi-skill wage sector jobs get filled easily, and earn higher incomes so these programs are actually regressive. Moreover, the non-wage sector is overlooked – both agriculture and non-agriculture, which in turn means that the less educated population is overlooked. We need programs to make HE sector more productive – not necessarily “formal”.

In Dar es Salaam, 800,000 households exist of which 75% have a HE. We need to give them a place to work and make a living. Therefore, land use planning should include where hawkers will be located etc. They are starting a pilot project to do this kind of zoning analysis.

Key recommendations by Louise Fox:

- Improve the investment climate
- We need a change in attitude. We need to stop chasing formality in terms of these firms and accept that there will be a lot of small HEs. The idea that all these small fruit sellers will each have a large market does not make sense. Instead we need to focus on increasing productivity in HEs.
- In Ghana, pension programmes are not in demand but health programmes are. Therefore, there is a need to redesign pension to make them attractive.
- Local government has vital role to create local development in terms of infrastructure and institutions.

Azita Berar Awad commented that when we talk about formalization on firm level, it is not about registration. When we are saying transition to formality it is access to infrastructure, and the finance sector. The point is having access to main stream resources. Registration is only one mean to do that.

Yan Islam brought up that the low number of people wanting to move out of household enterprises seems to signal low ambition.

Zafiris Tzannatos highlighted that he was pleased with the study findings. He notes that they are in line with the theory of the self managed firm. The self managed firm is alive and well in Sub Saharan Africa. On the practical level, to do with school to work transition and youth employment, he notes the reference made to graduate unemployment. In a dynamic sense, if parents invest hugely to send their children to university to avoid doing the kind of work they did; how does this fit in with HEs. The issue is not about skills. It is more that something that needs to be done for the relatively educated kids.

Naoko Otope mentioned that the provision of access to credit would require some sort of formalization (legal identity).

Louise Fox said the estimation that the majority did not want to move out of HEs does not signal a lack of ambitions. Not wanting to employ 10 people does not mean you do not want more income. We are not accepting people for what they are. In Tanzania, registration used to have a cost, now they have instituted free registration, however, you need legal identity. She did not stress training a lot due to the analysis indicating a not very high return on earnings. Ghana has the most developed apprentice sector; however, there is not a good return to training. This is because females get apprenticeships in sewing but then there are no jobs in sewing. So that is lost time. Louise highlights that banking in Africa is not providing the right product. She has never met an entrepreneur who does not want more credit. Micro

finance lending rates are high and it is important that credit is about having products that meets the needs of this sector i.e. financial training.

People who work in agriculture are the worst paid. That is true in Africa and South Asia. So is agricultural wage work going to take people out of poverty? Are commercial agriculture projects helping or hurting? We need to pay attention to the results. What is clear is that any mega project that does involve a lack of transparency that they have in Ethiopia and etc. is a problem.

The next World Development Report of the World Bank will be on jobs and work. In Africa, they will do a complementary report on youth employment. The Chief Economist for the Africa Region, Shanta Devarajan, is launching a wiki style website on these topics, which provides a platform for information sharing and collaboration.

IV. Presentation of Decent Work and the Informal Economy: a Policy Resource Guide, supporting the transition to formalization

Sriani Ameratunga Kring (EMP/POLICY, ILO) presented the informal economy policy resource guide consisting of 28 technical briefs across nine thematic policy areas. It draws on the rich experience of the work of governments, employers' and workers' organisations in promoting the transition to formality. The guide has been designed to assist policy makers and social partners in their work to develop effective strategies to encourage the move out of informality. But it will also be of use to labour market specialists, development practitioners, academia, media and NGOs.

She highlighted that the resource is more about capacity building rather than research. The reason behind the development of the resource was the 2002 ILC tripartite consensus which broadened the parameters of understanding informality – as an economy-wide phenomenon, covering diverse sectors and actors and includes informality in the formal economy. It *'...encompasses all economic activities by workers or economic units that are – in law or practice – not covered or sufficiently covered by formal arrangements'*. The ILC also provided a comprehensive framework and established the objective of moving out of informality. The structure of each policy brief is the key challenges section, emerging approaches, good practices and tools and resources.

Key points and ongoing work on the informal economy policy resource guide:

- The goal of the resource is to:
 - be a 'living' tool – intention is to update (web and CD versions) as policies evolve, and add new technical briefs according to demand
 - be translated into different languages
 - disseminated with capacity building at country level – input from the field specialists
- The material has been adapted into a training module as part of the Turin National Employment Policies training course

Key recommendations from plenary discussion:

- Translation of the policy resource guide into different languages
- Include more best practices and lesson learnt in the guide
- Strengthen the section on emerging policies through including more detailed examples as there is greater demand for details in the field
- Prepare concrete steps or check-lists for disseminating to constituents in the field
- Need to cover youth employment issues
- Add a section on national employment services in chapter 4 where regularity and labour inspection are concerned
- Concrete solutions on the way of targeting informal youth or other types of informal workers
- Include entrepreneurial skills in the skills section in the context of informality
- Shorten the documents or split into smaller parts with more details
- Create a web based platform for dissemination as the document size of the guide is too large to share through email
- Widen the vision and extend the discussion on social economy in the chapter concerning cooperatives

Sriani Ameratunga Kring thanked all the recommendations suggested by employment specialists. She pointed out that the policy resource guide was a tricky document to manage regarding the extensive coverage of informal economy. Therefore, the constituents were not expected to read the whole guide and each brief was meant to be stand-alone. Regarding the length of the guide, she needed to find a good balance between keeping diverse examples and the shortening of the guide. Since informality was very country specific, the recommendation on providing check-lists might not be able to avoid being prescriptive. She welcomed more concrete inputs and examples from field employment specialists.

V. The new ILO convention and recommendation concerning decent work for domestic workers

Manuela Tomei (Director, PROTRAV, ILO) started the presentation by explaining the rationale for having this new convention concerning decent work for domestic workers. This sector occupied a large and growing segment of the global workforce. There were 53.6 million workers worldwide, i.e. 3.6% of global wage employment and 7.5% of total female wage employment. The growing trend could be explained by the weakening of state provided services on child care that led to the increasing demand for domestic workers and they became vital for the functioning of households and labour markets. Furthermore, domestic workers were excluded from the coverage of international labour standard and national labour law and huge decent work deficits were commonly found.

She further explained the legal vulnerabilities of domestic workers around the world. The new international labour standards defined domestic workers as neither servant nor members of the family.

Key point on the new convention concerning domestic workers:

- Entitlement to fair terms of employment and decent working conditions on an equal footing with other categories of workers
- Specific measures tailored to the environment in which domestic work takes place, i.e. private households
- Promoting formalization of the employment relationship
- Recognizing decent work in local and global dimensions; identifying multiple actors and levels of governance
- Being prescriptive, though flexible

This new international labour standard also detailed the decent working conditions for domestic workers, such as remuneration, working time and social security, including maternity protection.

Next steps on the Convention:

- promoting widespread ratification of the Convention and implementation of the Convention and the Recommendation
- knowledge development and sharing of information and good practices;
- capacity-building for ILO constituents
- cooperation with relevant international organizations (code of practices)

She finished the presentation by mentioning that it was important to show the new conventions of international labour standards on domestic workers could be ratified. The ILO should also develop a code of practice on how ILO staff should be dealing with their own domestic workers. This instrument had an extremely wide constituency. These were issues that appealed to advocates of human right, equality rights for men and women and people dealing with advancement of children rights.

VI. Presentation of the statistical update on employment in the informal economy

Marie-Josée Da Silva Ribeiro (EMP/POLICY, ILO) and **Elisa Benes (STATISTICS, ILO)** delivered a presentation on the statistical update on employment in the informal economy by explaining the importance of estimates on informal economy. Due to the paucity of data on informal economy, the estimates could help:

- as the basis for the formulation and evaluation of effective policies to support the transition to formality
- as an advocacy tool for the population groups involved
- depicting global and national employment trends;
- analyzing linkages between growth and employment

In 2002, there was the first international compilation of statistics on employment in the informal economy. National estimates of informal employment were based on indirect residual approach for 25 countries and regional estimates were based on simple unweighted average for countries with data. In 2010, the first international update had been carried out and data on informal sector enterprises and informal employment were available for more than 50 countries. National estimates for low and middle income countries used the available information and regional estimates were based on existing data on informal employment. The regional estimates took into account the structure of employment of countries without direct data.

Marie-Josée Da Silva Ribeiro further explained the two main components of employment in the informal economy: Employment in informal sector enterprises and employment in informal jobs. The two components overlapped but not the same. She stressed that there should be two different aspects of informalization of employment with regard to the two main components and it was important to treat them separately as it was often required different policies.

Elisa Benes updated the latest available statistics concerning informal economy and the method of compilation. She also highlighted the advancement on this topic since 2002. Now, regarding statistics on informal economy, there are internationally agreed standards,

progressive implementation at national level in terms of producing data, more estimates based on direct measurement and more detailed estimation approach. However, some issues, including heterogeneity in national definitions, diversity of employment-related social protection schemes, limited regularity and frequency of LFS in many countries and limited measurement of secondary jobs, still poses challenges in the coming future on the work of this topic.

Conclusion of the workshop: wrapping up and next steps

Azita Berar Awad concluded the Knowledge-sharing workshop.

Four main points by Azita Berar Awad:

- The workshop was not able to address the work done for the C122 promotion campaign currently underway. Ms Berar thus called upon Naoko Otobe (EMP/CEPOL, ILO) to present the various initiatives, both at HQ and field levels.
- The workshop discussed the Global Products developed during the 2010-11 biennium and presented the main results achieved. For the next biennium, two main areas of work emerge (but not exclusive):
 - a. analysing and assessing what works and what doesn't in national employment policies in line with the request of the conclusions of the recurrent discussion on employment at the 2010 ILC;
 - b. a series of events and products leading to the 2012 ILC discussion on youth employment. Ms Berar Awad called upon all employment specialists to build into their activities and upcoming events elements of advocacy or research dissemination on youth employment. Any occasion should be used and an initiative spirit is needed – do not wait to be asked!
- Ms Berar Awad informed everyone that the Employment Policy Department will undergo a programme evaluation in 2012. In that context, she called on all employment specialists to be ready to provide detailed information on the employment policy work conducted and to be ready to showcase good approaches and successful results.
- Ms Berar Awad recognised the usefulness of the annual retreat for knowledge-sharing and networking and that she hopes to be able to continue to have them at least once per biennium. But she also stressed that this is a very expensive event, as well as a time and resource-consuming one. So she called on the regions and field offices to contribute more to it, as the event is also to their benefit, in financial terms to cover mission costs, but also possibly on the logistics: why not have the retreat in a field office next time?